中遠海運國際(香港)有限公司
COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.
Stock Code : 00517

ANNUAL REPORT 2018

DEDICATED TO SUCCESS WITH FORESIGHT

VISION

COSCO SHIPPING International aims to build a world-class, China's leading shipping services industrial cluster and a non-financial business investment platform that meets the investment needs and adapts to the strategies and principal development direction of COSCO SHIPPING Group, with the goal of "larger scale, stronger profitability, superior anti-cyclical capability and globalisation", through deepening our penetrating in Hong Kong, gaining our foothold in the Bay Area, and going global.

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 Mainland China, Hong Kong, Singapore, Japan, Germany and the United States, etc..

MISSION

By virtue of the support of the parent company and leveraging on the capital raising platform as a Hong Kong listed company, and by securing trustworthy and mutual success relationship with customers, investors and business partners, COSCO SHIPPING International will accomplish its vision and sustainable development, so as to provide quality services to customers, offer an ideal career path to employees, create ample return to shareholders, and make contribution to the community.

Contents

Definitions and Glossary 2
Company Information 4
Corporate Structure 6

BE INSISTENT BE INOVATIVE

Financial Highlights 10
Highlights of the Year 2018 12
Awards and Recognitions 13
Chairman's Statement 14
Management Discussion and Analysis 18

FOLLOW THE TREND GRASP NEW OPPORTUNITIES

Profile of Directors and Senior Management 44
Corporate Governance Report 51
Prospects 67
Investor Relations 68
Environmental, Social and Governance Report 72

FINANCIAL SECTION

Directors' Report 101
Independent Auditor's Report 117
Consolidated Statement of Financial Position 121
Consolidated Income Statement 122
Consolidated Statement of Comprehensive Income 123
Consolidated Statement of Changes in Equity 124
Consolidated Statement of Cash Flows 126
Notes to the Financial Statements 127
List of Major Properties 194
Five-Year Financial Summary 195

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 immediate 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 北京中遠海運船舶貿易有限公司 (Beijing COSCO SHIPPING Ship Trading 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;

Definitions and Glossary

"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, 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;
"Nasurfar Changshu"	常熟耐素生物材料科技有限公司 (Nasurfar Biomaterial Technology (Changshu) Co., Ltd.*), an associate of the Company;
"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. Ma Jianhua
Mr. Feng Boming
Mr. Chen Dong

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. Feng Boming
Mr. Liu Gang

RISK MANAGEMENT COMMITTEE

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

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

Company Information

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

2018 Annual General Meeting	: 30th May 2018
Announcement of 2018 Interim Results	: 24th August 2018
Announcement of 2018 Annual Results	: 26th March 2019
2019 Annual General Meeting	: 31st May 2019

DIVIDENDS

2018 Interim Dividend	: 5 HK cents per share
Proposed 2018 Final Dividend	: 9 HK cents per share
Dividends for the year 2018	: 14 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 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% 常熟耐素生物材料科技有限公司 (Nasurfar Biomaterial Technology Changshu Co., Ltd.*) 33%
Trading and Supply of Marine Fuel and Related Products	Sinfeng Marine Services Pte. Ltd. 100% Double Rich Limited 18%

Corporate Structure

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 2018.

* *for identification purposes only*


COSCO SHIPPING

Be INSISTENT
Be INNOVATIVE

The Group pursues its goal to become a leading international shipping service company by adhering to the concept of innovative development in the implementation of business transformation and upgrades, and construction of the two major platforms, as well as making good confidence in seeking development path with high-quality services.

Financial Highlights

	2018 HK$'000	2017 HK$'000	Change
ANNUAL RESULTS HIGHLIGHTS			
For the year ended 31st December			
Revenue	**9,521,575**	8,786,094	+8%
Gross profit	**566,127**	627,083	–10%
Operating profit	**181,593**	218,792	–17%
Profit before income tax	**336,661**	415,562	–19%
Profit attributable to equity holders	**286,140**	356,627	–20%
Basic earnings per share (HK cents)	**18.67**	23.26	–20%
Dividends per share (HK cents)	**14.00**	18.00	–22%
Dividend payout ratio (%)	**75**	77	–2pts

	2018 HK$'000	2017 HK$'000	Change
BALANCE SHEET HIGHLIGHTS			
As at 31st December			
Total assets	**9,256,725**	9,610,700	–4%
Total liabilities	**1,102,025**	1,397,100	–21%
Net assets attributable to shareholders	**7,853,935**	7,914,129	–1%
Net cash	**6,330,010**	6,486,970	–2%
Net assets per share (HK$)	**5.12**	5.16	–1%
Net cash per share (HK$)	**4.13**	4.23	–2%
Return on total assets (%)	**3.03**	3.75	–0.72pt
Return on shareholders' equity (%)	**3.63**	4.57	–0.94pt

	2018	2017
KEY FINANCIAL RATIOS		
For the year ended 31st December		
Gross profit margin	**5.9%**	7.1%
Interest coverage	**103.2 times**	85.7 times
Current ratio	**7.8 times**	6.4 times
Liquidity ratio	**7.5 times**	6.0 times
Total liabilities/total assets	**11.9%**	14.5%
Total borrowings/total assets	**0.5%**	–

Financial Highlights

	2018 HK$'000	2017 HK$'000	Change
SEGMENT REVENUE*			
For the year ended 31st December			
Shipping Services			
Coatings	959,576	888,766	8%
Marine equipment and spare parts	1,100,453	1,199,307	–8%
Ship trading agency	109,625	136,541	–20%
Insurance brokerage	80,513	95,803	–16%
Marine fuel and other products	6,504,137	5,815,463	12%
	8,754,304	8,135,880	8%
General Trading	767,271	650,214	18%
Total	9,521,575	8,786,094	8%

* external customers only

	2018 HK$'000	2017 HK$'000	Change
SEGMENT PROFIT/(LOSS) BEFORE INCOME TAX			
For the year ended 31st December			
Shipping Services			
Coatings	11,045	74,925	–85%
Marine equipment and spare parts	66,153	56,570	17%
Ship trading agency	91,316	95,244	–4%
Insurance brokerage	58,157	68,536	–15%
Marine fuel and other products	(10,492)	15,751	N/A
	216,179	311,026	–30%
General Trading	16,958	3,177	434%
Corporate and others	103,524	101,359	2%
Total	336,661	415,562	–19%

Highlights of the Year 2018

JANUARY

15th

Mr. Wang Yuhang was appointed as the Executive Director and Chairman of the Board of the Company. Mr. Zhu Jianhui, the Executive Director and Vice Chairman of the Board of the Company, was appointed as the Managing Director.

MARCH

10 years+ 商界展關懷 caringcompany

1st

COSCO SHIPPING International was awarded "10 Years Plus Caring Company Logo" in praise and recognition of the Company's contribution and commitment to caring for its employees, the environment and the society over ten consecutive years.

23rd

The Company announced the 2017 annual results. The profit attributable to equity holders of the Company was HK$357 million and the basic and diluted earnings per share was 23.26 HK cents.

FEBRUARY

7th

The Company entered into the Management Services Master Agreement with its parent company COSCO SHIPPING (Hong Kong) to streamline and unify the Company's business management structure, which significantly enhanced the operational efficiency.

MAY

28th

The Company subscribed for 33% equity interest in Nasurfar Changshu by way of capital injection in the sum of RMB89,830,000, which realised the effective expansion of the current industrial chain for coating business.

30th

An annual general meeting was held in Hong Kong with all resolutions passed by the shareholders of the Company.

JUNE

27th

A media luncheon was held at which 18 media organisations such as Hong Kong Office of Xinhua News Agency, China Daily, Wen Wei Po, Ta Kung Pao, Hong Kong Commercial Daily, Phoenix Media and Bloomberg were invited, a total of 20 reporters participated.

AUGUST

24th

The Company announced the 2018 interim results. The profit attributable to equity holders of the Company was HK$184 million and the basic and diluted earnings per share was 12.01 HK cents.

DECEMBER

10th

The Company was honored with Gold Award in the Asset Corporate Awards by the Asset magazine, a well-known financial magazine in Asia, for the fifth consecutive year, demonstrating the recognition of the Company's continuous efforts and outstanding performance in Environmental Protection, Social Responsibility and Governance by the capital market.

Awards and Recognitions

1. Annual Report 2017 won Silver Award in the "Financial Data: Shipping Services" in the 32nd International ARC Awards Competition.

2. 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.

3. Honoured with Gold Award (Environment, Social and Governance) in the Asset Corporate Award 2018 by Asset magazine.

4. Awarded the 9th Hong Kong Outstanding Corporate Citizenship logos in the "Enterprise Category" and the "Volunteer Category" by Hong Kong Productivity Council.

5. Awarded with Gold Award for brilliant participation in the "Sowers Action Challenging 12 Hours Charity Marathon 2018" held by Sowers Action.

6. Honoured with Award of Merit "Model Neighbours" cum Corporate Partners Awards Ceremony held by The Neighbourhood Advice-Action Council in recognition of the Company's contribution to the society.

Chairman's Statement

Internally, the Company achieved a streamlined and efficient corporate structure as well as more precise operational direction, by actively optimizing its governance structure and made integration to enhance efficiency. Externally, the Company closely monitored opportunities for business expansion and actively deepened the synergies among segments for even greater and stronger business.

Mr. Wang Yuhang
Chairman

Chairman's Statement

In 2018, the coatings business faced a sharp rise in raw material prices and a severe competitive environment, which put pressures on the growth of the Group's businesses. The profit attributable to equity holders of COSCO SHIPPING International was HK$286,140,000 (2017: HK$356,627,000), representing a year-on-year decrease of 20%; and the basic earnings per share was 18.67 HK cents (2017: 23.26 HK cents). The Board recommended the payment of a final dividend of 9 HK cents per share (2017: 12 HK cents per share), making the total dividend per share for the year 2018 of 14 HK cents (2017: 18 HK cents) when including the interim dividend and final dividend per share, and representing a dividend payout ratio of 75% (2017: 77%). The Board is of the view that maintaining a stable dividend policy while actively promoting sustainable business development are effective ways to maximize long-term shareholder returns. The Company has been pursuing and will continue to pursue a prudent and proper manner to use its funds for the permanent creation and enhancement of long-term shareholders' value.

VIRTUE OF PLANNING PRUDENTLY FOR THE FUTURE

The year 2018 was an important milestone for the Company to build up its strengths and laid a solid foundation for expedited development in the future.

Internally, the Company achieved a streamlined and efficient corporate structure as well as more precise operational direction, by actively optimizing its governance structure and made integration to enhance efficiency. At the beginning of the year, the Company entered into the management services master agreement with its parent company, COSCO SHIPPING (Hong Kong), pursuant to which, the business management structure between the Company and COSCO SHIPPING (Hong Kong) was streamlined and unified, and accordingly, the decision-making process of the Company had been simplified and a flat management model had been formed with significant improvement in the operational efficiency. Such integration, further highlighted the role of COSCO SHIPPING International as a listed company, and laid the foundation for future business synergies.

Chairman's Statement

Externally, the Company closely monitored opportunities for business expansion and actively deepened the synergies among segments for even greater and stronger business. In May 2018, the Company subscribed for 33% equity interest in Nasurfar Changshu. Nasurfar Changshu was committed to developing a number of product lines principally based on cashew nut shell oil. Its products are of high quality, eco-friendly and high efficiency. With the increasingly stringent regulation on the emission of coating products, the technical advantages of Nasurfar Changshu's products are getting more prominent. Meanwhile, Nasurfar Changshu represents an effective extension along the Company's existing coatings business chain, which is beneficial for the Company to acquire customers with more eco-friendly and advanced technology solutions, while effectively reduce research and development costs.

DEDICATED TO SUCCESS

The Company persists in strategic orientation and focuses on long-run development by pursuing the construction and completion of its two major strategic development directions of "shipping services industrial cluster unified operation platform" and "non-financial business investment platform".

In the construction of the "shipping services industrial cluster unified operational platform", we will further enhance the technical content, operational efficiency and sales efforts of the existing five major shipping business segments, and provide customers with higher efficient and quality service solutions. Besides, in addition to current businesses, we are actively seeking investment opportunities for extension along upstream and downstream industries to further strengthen and enhance the Company's position in the international shipping services industry, with the goal to become a leading international shipping service company.

In the construction of the "non-financial business investment platform", the Company is attempted to participate in the investment in major projects of the overseas non-financial business of COSCO SHIPPING Group so as to optimize resource allocation and provide additional profit growth drivers for the Company.

PURSUE HIGH STANDARD OF CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

As an international enterprise based in Hong Kong, COSCO SHIPPING International has always attached great importance to its exemplary role, and has established a sound corporate governance system and a comprehensive management mechanism to promote its corporate social responsibility. The Company was honored with Gold Award for the fifth consecutive year in the Asset Corporate Awards by the Asset magazine, a well-known financial magazine in Asia, demonstrating the recognition of the Company's continuous efforts and outstanding performance in environmental protection, social responsibility and governance by the capital market.

The Company has been committed to maintaining a high standard of corporate governance and promptly improving the relevant systems in response to latest regulatory requirements, in order to comply with the laws and regulations. During the year, in view of the increasingly complicated economic, political and regulatory environment among the globe, the Company had intensified the prevention and control of various risks by building a unified information system and establishing internal risk control procedures, so as to further improve the risk assessment, prevention and control system.

Chairman's Statement

In fulfilling corporate social responsibility, the Company attached great importance to internal operating issues such as safety production and employee welfare as well as civil responsibilities such as environmental protection and charity. The Company proactively initiated various efforts in relation to its employees and social welfare, while proactively participated in numerous community building and voluntary activities, committing to paying back to community. During the year, COSCO SHIPPING International had been awarded "10 Years Plus Caring Company Logo" by The Hong Kong Council of Social Service as well as the 9th Hong Kong Outstanding Corporate Citizenship Logos in the "Enterprise Category" and the "Volunteer Category" by Hong Kong Productivity Council, in recognition of the Company's contribution and commitment to caring for its employees, the environment and the community. Such awards also served as an impetus for COSCO SHIPPING International's continued performance of its social responsibilities.

STRATEGIC ORIENTED FOR GREATER RETURNS

In 2019, a more complex global economic environment is expected, with exacerbated volatility in financial market and more apparent signs of slowing economy. The International Monetary Fund ("IMF") has adjusted its economic growth forecast for 2019 from 3.9% to 3.7% in the World Economic Outlook. On the other hand, although China's economic growth is experiencing a slowdown, its economic structural reform is progressing smoothly while domestic demand becomes an important growth contributor. China is now enjoying its golden age that provides plentiful opportunities for development and the overall long-term trend remains enthusiasm.

Against such a backdrop, the Group pursues its goal to become a leading international shipping service company by adhering to the concept of innovative development in the implementation of business transformation and upgrades, and construction of the two major platforms, as well as maintaining good confidence in seeking development path with high-quality services. With ample internal resources and strong support from its parent company COSCO SHIPPING Group, the Company is moving towards its two major strategic development directions of building the "shipping services industrial cluster unified operation platform" and "non-financial business investment platform", ultimately achieving sustainable business development and striving to create greater returns for shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to all shareholders and stakeholders of COSCO SHIPPING International for their supports and trusts in the Company. I shall always feel indebted to the highly committed and diligent group of people I have been working with, including my fellow directors, the management team and all the staff, for their invaluable contribution to the Company's success and long-term development.

Wang Yuhang
Chairman

26th March 2019

Management Discussion and Analysis

OVERALL ANALYSIS OF RESULTS

In 2018, the Group continued to leverage on its advantages in terms of professionalism and scale and proactively edged up its marketing effort. This has, to certain extent, alleviated the decline in performance due to unfavourable market factors. In 2018, profit attributable to equity holders of the Company was HK$286,140,000 (2017: HK$356,627,000), representing a decrease of 20% as compared to 2017. The basic earnings per share was 18.67 HK cents (2017: 23.26 HK cents), representing a decrease of 20% as compared to 2017.

FINANCIAL REVIEW

Revenue

The Group's revenue in 2018 increased by 8% to HK$9,521,575,000 (2017: HK$8,786,094,000) as compared to 2017. Revenue from the core business of shipping services increased by 8% to HK$8,754,304,000 (2017: HK$8,135,880,000) and accounted for 92% (2017: 93%) of the Group's revenue. The increase was attributable to the increase in segment revenues of coatings and marine fuel and other products. Revenue of general trading segment increased by 18% to HK$767,271,000 (2017: HK$650,214,000) and accounted for 8% (2017: 7%) of the Group's revenue.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year decreased by 10% to HK$566,127,000 (2017: HK$627,083,000), while overall average gross profit margin dropped to 5.9% (2017: 7.1%). The decrease in overall gross profit was mainly attributable to the increase in segmental revenue of marine fuel and other products which has lower gross profit margin as well as the decrease in gross profit margin of the coatings segment.

Management Fee Income

There was a management fee income of HK$74,665,000 (2017: Nil) arising from the provision of management services by the Company in relation to the day-to-day business operations and management of COSCO SHIPPING (Hong Kong) and its subsidiaries (other than those relating to the Group and Piraeus Port Authority S.A.) according to the Management Services Master Agreement (the "Management Services Master Agreement") dated 7th February 2018.

Other Income and Gains — Net

Other income and gains — net of HK$90,145,000 (2017: HK$94,134,000) for the year primarily included net exchange gains of HK$21,994,000 (2017: HK$56,777,000), a reversal of provision for impairment of other receivables of HK$17,228,000 (2017: Nil) and government subsidy income of HK$11,826,000 (2017: HK$11,531,000) recognised in respect of a specific subsidy granted by the Shanghai Baoshan District Government. Such subsidy was a compensation for the relevant costs and expenses incurred by COSCO Kansai (Shanghai) in relocating the production plant and settling the impacted staff.

Selling, Administrative and General Expenses

In 2018, selling, administrative and general expenses increased by 9% to HK$549,344,000 (2017: HK$502,425,000). The increase in selling expenses was mainly attributable to the significant increase in the segment revenues of coating as compared to 2017. The increase in administrative expenses was attributable to expenses arising from the provision of management services to COSCO SHIPPING (Hong Kong) and its subsidiaries (other than those relating to the Group and Piraeus Port Authority S.A.) according to the Management Services Master Agreement.


Ship Trading Agency Services
Marine Insurance Brokerage Services
SHIPPING SERVICES INDUSTRIAL CLUSTER
Production And Sale Of Coatings
Trading And Supply Of Marine Fuel And Related Products
Supply Of Marine Equipment And Spare Parts

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			✓		

Management Discussion and Analysis

Operating Profit

Due to the factors stated above, the Group's operating profit decreased by 17% to HK$181,593,000 (2017: HK$218,792,000).

Finance Income

Finance income, which primarily represented interest income on the Group's bank deposits, increased by 30% to HK$161,997,000 (2017: HK$124,948,000) as a result of the increase in interest rate of cash deposit as compared to 2017.

Finance Costs

Finance costs, which mainly represented interest expenses on short term borrowings and other finance charges, decreased by 37% to HK$3,293,000 (2017: HK$5,244,000).

Share of Profits of Joint Ventures

The Group's share of profits of joint ventures decreased by 85% to HK$9,925,000 (2017: HK$64,730,000). This item primarily represented the share of profits of Jotun COSCO of HK$7,200,000 (2017: HK$63,864,000) and Nasurfar Changshu of HK$2,022,000 (2017: Nil) which were included in the coatings segment.

Share of (Losses)/Profits of Associates

The Group's share of losses of associates was HK$13,561,000 (2017: share of profits of HK$12,336,000). This item primarily comprised the share of loss of Double Rich of HK$14,442,000 (2017: share of profit of HK$10,457,000) which was included in the marine fuel and other products segment.

Income Tax Expenses

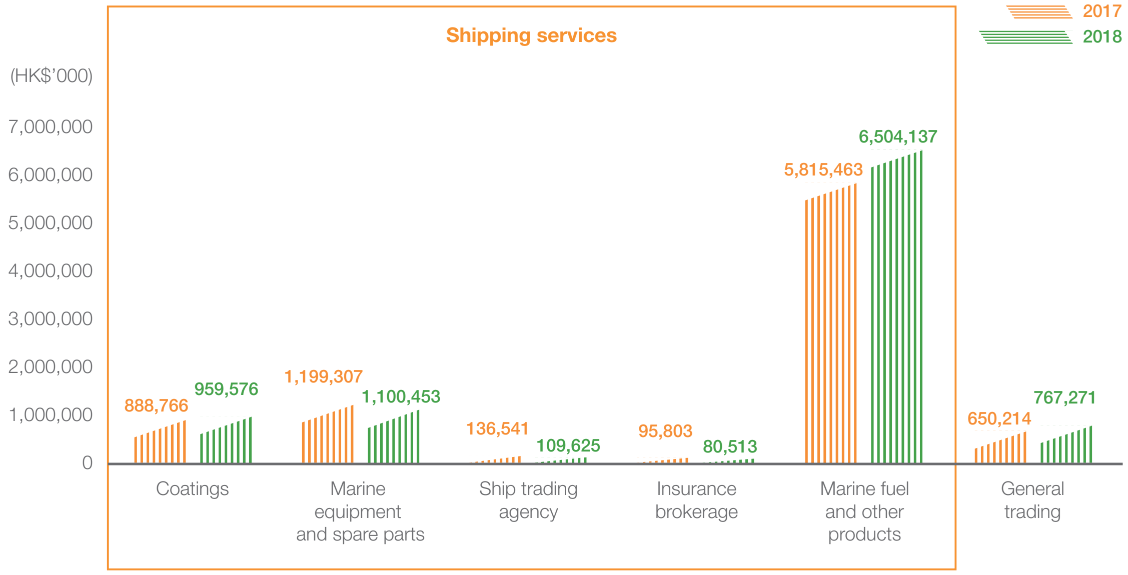
The Group's income tax expenses for the year decreased by 16% to HK$45,916,000 (2017: HK$54,948,000). The ratio of income tax expenses to profit before income tax, excluding the share of profits/(losses) of joint ventures and associates, decreased from 16% in 2017 to 13% as a result of the increase in credit to deferred income tax assets.

Profit Attributable to Equity Holders

Profit attributable to equity holders of the Company during the year decreased by 20% to HK$286,140,000 (2017: HK$356,627,000).

FINANCIAL RESULTS

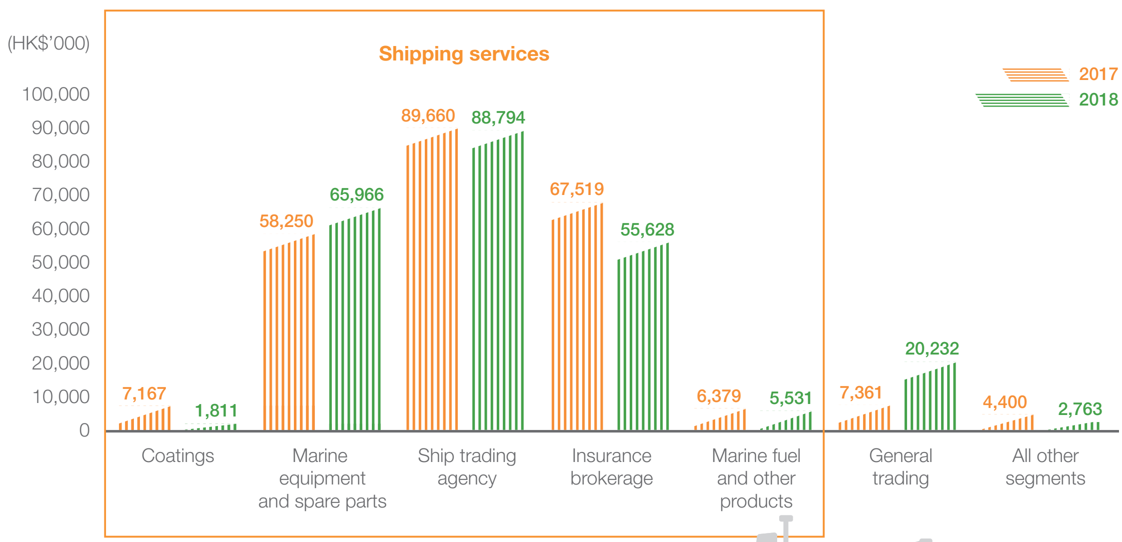
SEGMENT REVENUE*



* external customers only

Revenue from the core shipping services businesses increased by 8% to HK$8,754,304,000 (2017: HK$8,135,880,000) and accounted for 92% (2017: 93%) of the Group's revenue, with the major increases coming from the coatings and marine fuel and other products segments.

SEGMENT OPERATING PROFIT



Segment operating profit from shipping services was HK$217,730,000 (2017: HK$228,975,000), representing a decrease of 5% as compared to 2017. It was mainly due to decrease in segment operating profits from insurance brokerage and coatings as compared to 2017.

Management Discussion and Analysis

FINANCIAL RESULTS (Continued)

For the year ended 31st December	**2018 HK$'000**	2017 HK$'000	Change HK$'000	%	Remark
Shipping services	**217,730**	228,975	(11,245)	(5)	It was mainly attributable to the decrease in operating profit from insurance brokerage and coatings segments as compared to 2017.
General trading	**20,232**	7,361	12,871	175	It was mainly attributable to the reversal of provision for impairment of other receivables of HK$17,228,000 during the year.
All other segments	**2,763**	4,400	(1,637)	(37)	
Corporate expenses, net of income	**(58,948)**	(21,729)	(37,219)	171	
Elimination of segment income from corporate headquarters	**(184)**	(215)	31	(14)	
Operating profit	**181,593**	218,792	(37,199)	(17)	
Finance income-net	**158,704**	119,704	39,000	33	It was mainly attributable to increase in interest rate of cash deposit as compared to 2017.
Share of profits of joint ventures	**9,925**	64,730	(54,805)	(85)	As a result of decline in gross profit of marine coatings, the profit contribution from Jotun COSCO decreased by 89% when compared to 2017.
Share of (losses)/profits of associates	**(13,561)**	12,336	(25,897)	N/A	The share of losses of associates in 2018 was mainly due to inventory impairment provision made by Double Rich.
Profit before income tax	**336,661**	415,562	(78,901)	(19)	
Income tax expenses	**(45,916)**	(54,948)	9,032	(16)	The ratio of income tax expenses to profit before income tax, excluding the share of profits/(losses) of joint ventures and associates, decreased from 16% in 2017 to 13% as a result of increase in credit to deferred income tax assets.
Profit for the year	**290,745**	360,614	(69,869)	(19)	

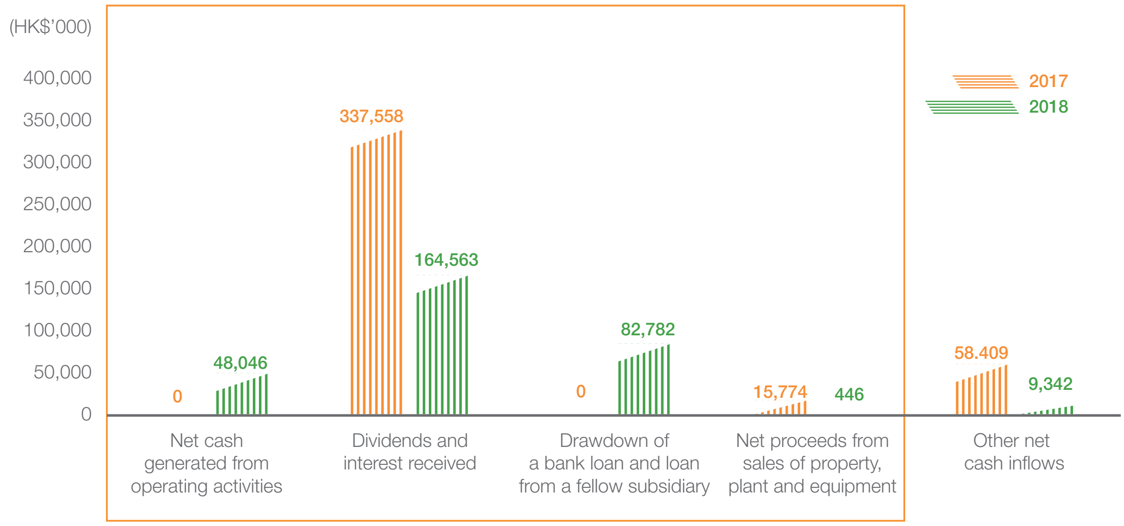
FINANCIAL RESULTS (Continued)

As at 31st December	2018 HK$'000	2017 HK$'000	Change HK$'000	%	Remark
Intangible assets	**103,448**	104,287	(839)	(1)	
Property, plant and equipment, prepaid premium for land leases and investment properties	**439,966**	460,055	(20,089)	(4)	
Investments in joint ventures	**396,709**	298,190	98,519	33	
Investments in associates	**96,651**	122,644	(25,993)	(21)	
Other non-current assets	**130,939**	114,769	16,170	14	
Inventories	**337,187**	450,923	(113,736)	(25)	
Trade receivables — net	**618,560**	667,031	(48,471)	(7)	
Other receivables	**750,245**	861,838	(111,593)	(13)	
Cash (including non-current deposits, restricted bank deposits and current deposits and cash and cash equivalents)	**6,375,662**	6,486,970	(111,308)	(2)	(a), (b)
Other current assets	**7,358**	43,993	(36,635)	(83)	
Total assets	**9,256,725**	9,610,700	(353,975)	(4)	
Deferred income tax liabilities	**64,269**	64,829	(560)	(1)	
Trade payables, contract liabilities and other payables	**972,716**	1,311,362	(338,646)	(26)	
Current income tax liabilities	**19,388**	20,909	(1,521)	(7)	
Short-term borrowings	**45,652**	—	45,652	N/A	
Non-controlling interests	**300,765**	299,471	1,294	0	
Total liabilities and non-controlling interests	**1,402,790**	1,696,571	(293,781)	(17)	
Net assets attributable to equity holders	**7,853,935**	7,914,129	(60,194)	(1)	

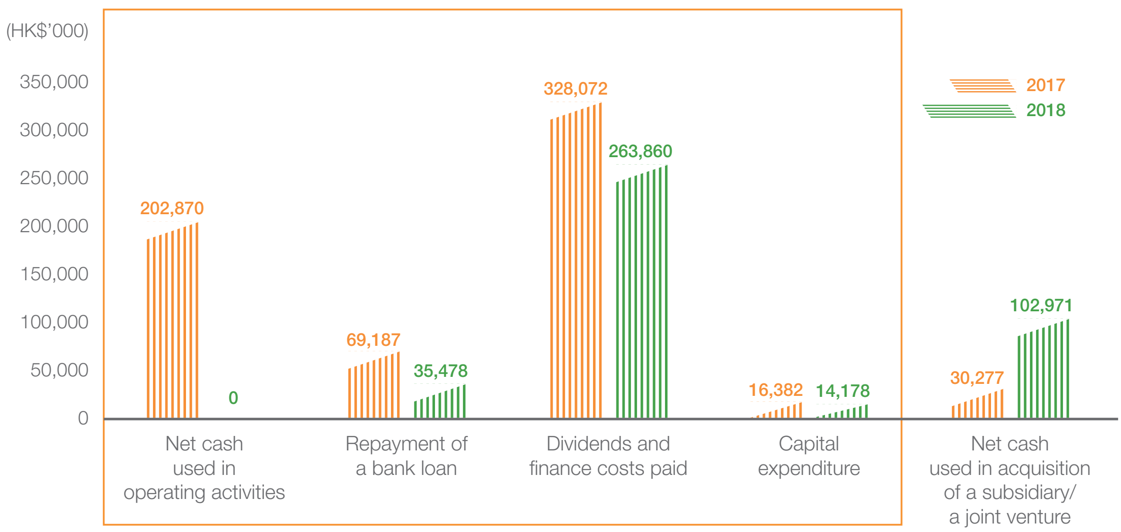
Management Discussion and Analysis

(a) MAJOR SOURCES AND USE OF CASH

CASH INFLOWS



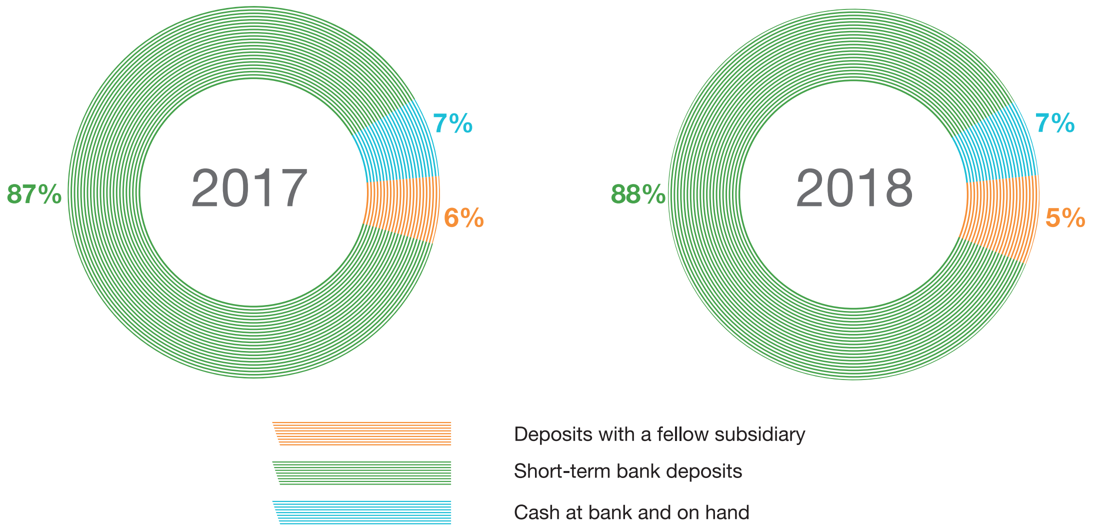
CASH OUTFLOWS



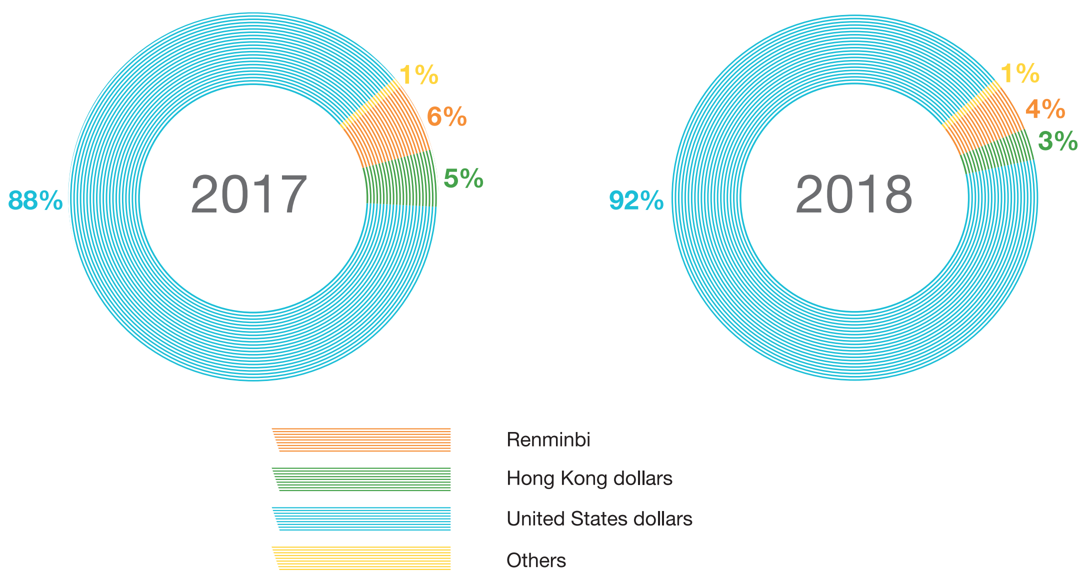
Cash (including non-current deposits, restricted bank deposits and current deposits and cash and cash equivalents) decreased by HK$111,308,000 in aggregate during the year. Sources of cash principally included net cash generated from operating activities of HK$48,046,000, dividends and interest received of HK$164,563,000, drawdown of a bank loan and loan from a fellow subsidiary of HK$82,782,000, net proceeds from sale of property, plant and equipment of HK$446,000 and other net cash inflows of HK$9,342,000. Use of cash principally included repayment of a bank loan of HK$35,478,000, payment of dividends and finance costs totalling HK$263,860,000, capital expenditure of HK$14,178,000 and net cash used in acquisition of a joint venture of HK$102,971,000.

(b) ANALYSIS OF CASH

CLASSIFIED BY NATURE



CLASSIFIED BY CURRENCY



Management Discussion and Analysis

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 low level of borrowings and adequate liquidity. The Board believes this approach can ensure sufficient financial resources available for merger and acquisition opportunities that fits in well with the Group's strategic direction, and is therefore 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 2018, deposits and cash and cash equivalents held by the Group accounted for 79% (2017: 76%) of the Group's total current assets.

As at 31st December 2018, the Group's total assets decreased by 4% to HK$9,256,725,000 (2017: HK$9,610,700,000). Total liabilities decreased by 21% to HK$1,102,025,000 (2017: HK$1,397,100,000). The Group remained cautious about potential credit risks that surrounded the shipping services industry. All business units focused on internal management, receivables management, working capital management and costs control.

Net asset value attributable to shareholders was HK$7,853,935,000 (2017: HK$7,914,129,000). Net asset value per share was HK$5.12 (2017: HK$5.16), decreased by 1% as compared to the end of 2017.

As at 31st December 2018, the Group's total short-term borrowings were HK$45,652,000 (2017: Nil), which were 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 decreased by 2% to HK$6,375,662,000 (2017: HK$6,486,970,000) and non-committed unutilised standby banking facilities increased by 43% to HK$713,381,000 (2017: HK$499,279,000) respectively. The gearing ratio, which represented total borrowings over total assets, was 0.5% (2017: 0%).

Debt Analysis

	31st December 2018		31st December 2017	
	HK$'000	**%**	HK$'000	%
Classified by maturity:				
— repayable within one year	**45,652**	**100**	—	—
Classified by type of loan:				
— unsecured	**45,652**	**100**	—	—
Classified by currency:				
— Renminbi	**45,652**	**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 relatively low. 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$5,706,000 (2017: HK$1,794,000) 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 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, Mainland China 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 trade receivables. 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 2018, the Group had net cash, which represented total cash and deposits net of short-term borrowings, of HK$6,330,010,000 (2017: HK$6,486,970,000). 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, Mainland China, 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 2.5% rate of return on the Group's cash for the year, representing an increase of 60 basis points as compared to 2017. The Group had no financial instruments for interest rate hedging purposes.

Management Discussion and Analysis

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2018, sales to the largest customer and aggregate sales to the five largest customers accounted for 63% and 70% respectively (2017: 43% 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 67% and 74% respectively (2017: 68% and 72% 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 2018, excluding joint ventures and associates, the Group had 876 (2017: 846) employees, of which 196 (2017: 110) were Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, were HK$383,198,000 (2017: HK$318,005,000). 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.

Management Discussion and Analysis

REVIEW OF BUSINESS OPERATIONS

In 2018, the global economic condition was complicated as uncertainties arising from decelerating economic growth, changes in trading environment, trade frictions between China and the United States, geopolitical risks and the prevalence of populism. Globalisation was challenged with huge potential risks. The shipping market remained fluctuated at the bottom while the shipbuilding market was struggling in recovery even though the overall trend had continued to improve.

In view of the unfavourable market conditions, the Group has prioritised the enhancement of profitability, business development and management efficiency as its primary objectives, while pursued its strategic direction of constructing shipping services industrial cluster with the implementation of three measures, namely, integration of internal management, business expansion and reinforcement of existing businesses. Besides, the Group proactively coped with the trend of ship modernisation and specialisation of ship operation as well as further optimised its resource allocation, deepened its reformation and strengthened its consolidation, with an aim to turn challenges into opportunities.

In respect of internal management, the Company has entered into the Management Services Master Agreement with COSCO SHIPPING (Hong Kong), the parent company of the Company, in February 2018 to tackle the issues of organisational overlapping and functional redundancy which significantly improved the operational and decision making efficiency of the Company.

In respect of business expansion, the Company has, in May 2018, entered into the Capital Increase and Subscription Agreement in respect of subscription of 33% equity interest in Nasurfar Changshu. Nasurfar Changshu is principally engaged in the research and development, production and sales of biochemical products and has been developing a number of product lines principally based on cashew nut shell oil. Such subscription enables the Company to extend its industry chain, and will also generate sound synergies with the Company's existing businesses.

In respect of existing businesses, the Company has actively responded to market changes, leveraged on more comprehensive technical solutions and superior value-added services to attract customers, while endeavored to broaden the sources of income and economise on expenditure, and further improved receivables management. The Company also fully exploited the synergies arising from the overall shipping services industrial cluster through implementation of comprehensive and chain-reaction marketing strategies and collaboration among segments.

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$8,754,304,000 (2017: HK$8,135,880,000), representing an increase of 8% as compared to 2017. Profit before income tax from shipping services was HK$216,179,000 (2017: HK$311,026,000), representing a decrease of 30% as compared to 2017, which was mainly due to the significant decrease in the share of profit of Jotun COSCO.

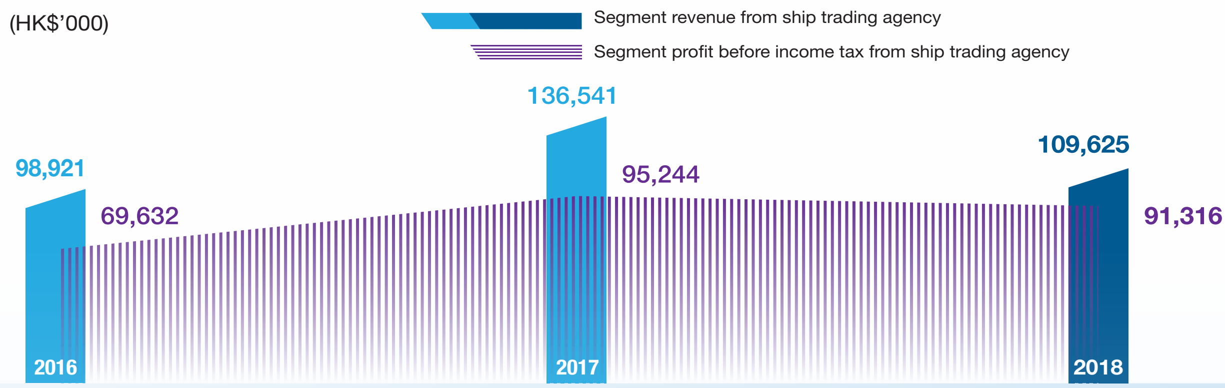
Ship Trading Agency Services

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 decreased by 20% to HK$109,625,000 (2017: HK$136,541,000) as compared to 2017. Segment profit before income tax was HK$91,316,000 (2017: HK$95,244,000), representing a decrease of 4% as compared to 2017. The decrease in segment profit before income tax was mainly due to the decrease in commission income as compared to 2017 resulting from the decrease in the number of the delivered new build vessels. Meanwhile, the trading volume of second-hand vessels significantly declined which resulted in the decrease in the related commission income.

Management Discussion and Analysis



The aggregate number of the delivered new build vessels which had been ordered through COSCO SHIPPING Ship Trading was 33 (2017: 38), totaling 5,535,500 dead weight tonnages (2017: 4,010,000 dead weight tonnages). A total of 40 (2017: 18) new build vessels have been ordered through COSCO SHIPPING Ship Trading during the year, totaling 1,757,700 dead weight tonnages (2017: 2,634,000 dead weight tonnages). For second-hand vessels, the sale and purchase of a total of 24 (2017: 95) second-hand vessels through COSCO SHIPPING Ship Trading were recorded, totaling 650,000 dead weight tonnages (2017: 5,067,000 dead weight tonnages).

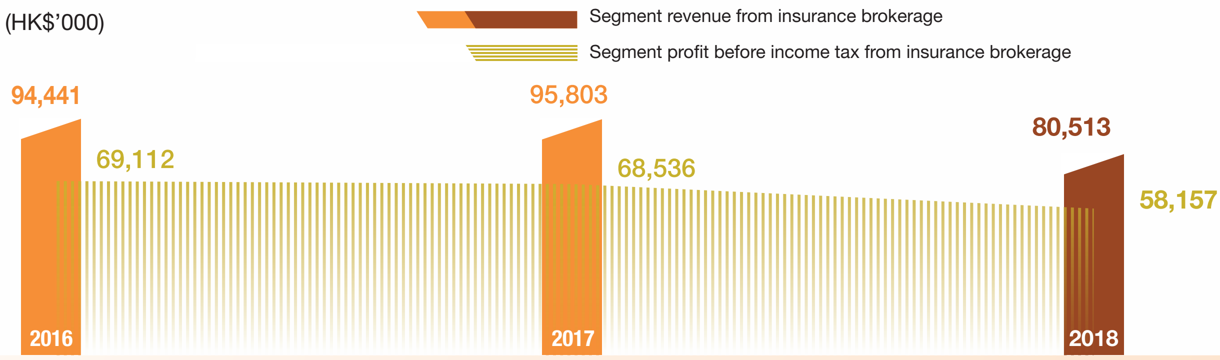
Marine Insurance Brokerage Services

1.2 Marine Insurance Brokerage Services

COSCO SHIPPING Insurance Brokers are primarily engaged in the insurance and reinsurance intermediary services of marine and non-marine insurance, including the provision of professional insurance brokerage services such as risk assessment and analysis, designing insurance and reinsurance programmes, discussing insurance coverage, reviewing insurance policies, claims adjustment and claims handling for domestic and international customers and receive service commissions.

During the year, the continuously intensive competitions of the marine insurance market has given rise to a low insurance premium rate, which brought pressure on the commission rate and revenue. The revenue from insurance brokerage segment was HK$80,513,000 (2017: HK$95,803,000), decreased by 16% as compared to 2017. Segment profit before income tax was HK$58,157,000 (2017: HK$68,536,000), representing a decrease of 15% as compared to 2017.

Management Discussion and Analysis



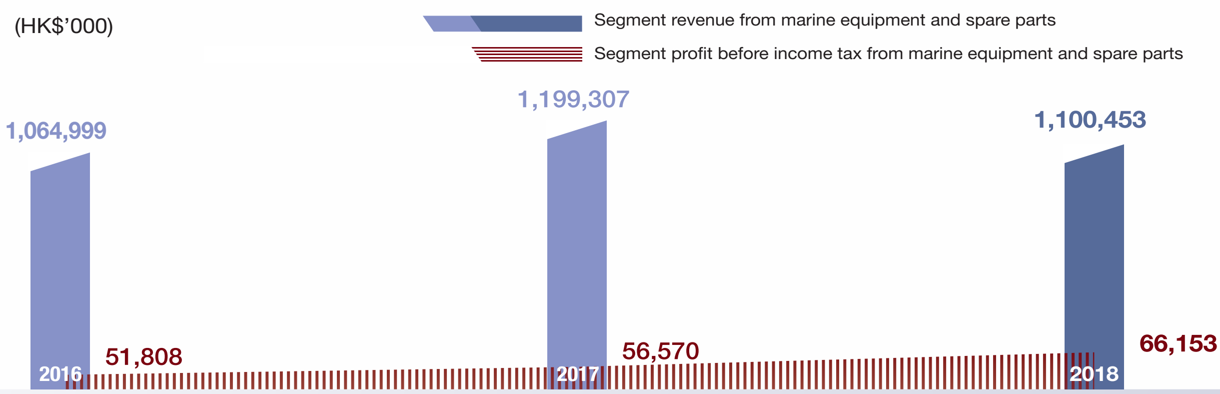
Supply of Marine Equipment and Spare Parts

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$1,100,453,000 (2017: HK$1,199,307,000), representing a decrease of 8% as compared to 2017, which mainly due to the decrease in demand of spare parts resulting from young vessel of the major customers. Segment profit before income tax was HK$66,153,000 (2017: HK$56,570,000), representing an increase of 17% as compared to 2017, which was mainly attributable to the internal potential development, cost saving as well as further efforts on customer exploitation.

Management Discussion and Analysis



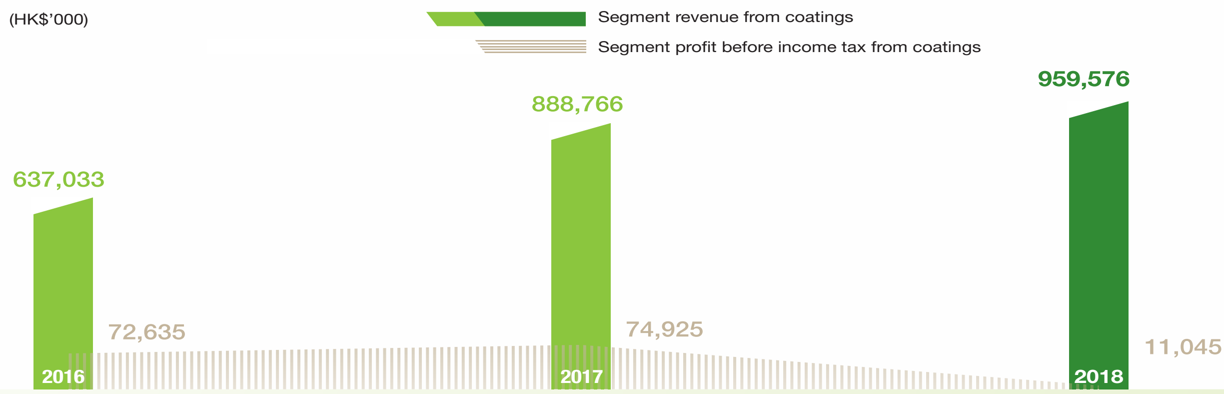
Production and Sale of Coatings

1.4 Production and Sale of Coatings

The coating business of the Company primarily includes the production and sale of container coatings, industrial heavy-duty anti-corrosion coatings and marine coatings. COSCO Kansai (Tianjin), COSCO Kansai (Zhuhai) and COSCO Kansai Paint (Shanghai), 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$959,576,000 (2017: HK$888,766,000), representing an increase of 8% as compared to 2017. The increase was mainly due to strengthened sales effort of COSCO Kansai Companies on industrial heavy-duty anti-corrosion coatings, driving the overall increase in the revenue of the coatings segment. Segment profit before income tax was HK$11,045,000 (2017: HK$74,925,000), representing a decrease of 85% as compared to 2017, which was mainly due to higher cost of water-based coatings and increased costs of other coating raw material, etc..

Management Discussion and Analysis



During the year, the sales volume of container coatings was 19,035 tonnes (2017: 23,259 tonnes), representing a decrease of 18% as compared to 2017. The sales volume of industrial heavy-duty anti-corrosion coatings together with workshop primer amounted to 17,262 tonnes (2017: 17,939 tonnes), representing a decrease of 4% as compared to 2017.

For marine coatings, sales volume of Jotun COSCO's marine coatings amounted to 67,352,000 litres (equivalent to approximately 90,925 tonnes) (2017: 67,087,000 litres (equivalent to approximately 90,567 tonnes)), representing an increase of 0.4% as compared to 2017. Among them, the sales volume of coatings for new build vessels was 44,509,000 litres (2017: 45,483,000 litres), representing a decrease of 2% as compared to 2017; the sales volume of coatings for repair and maintenance was 22,843,000 litres (2017: 21,604,000 litres), representing an increase of 6% as compared to 2017. During the year, the Group's share of profit from Jotun COSCO was HK$7,200,000 (2017: HK$63,864,000), representing a decrease of 89% as compared to 2017. It was mainly attributable to the decline in the gross profit margin as compared with the same period of last year resulting from the significant increase in raw material prices.

Nasurfar Changshu, in which the Company subscribed 33% equity interest in 2018, is principally engaged in the research and development, production and sales of biochemical products, which is beneficial to extend the industry chain of coatings and related products. During the year, the Group's share of profit from Nasurfar Changshu was HK$2,022,000 (2017: Nil).

Management Discussion and Analysis

Trading and Supply of Marine Fuel and Related Products

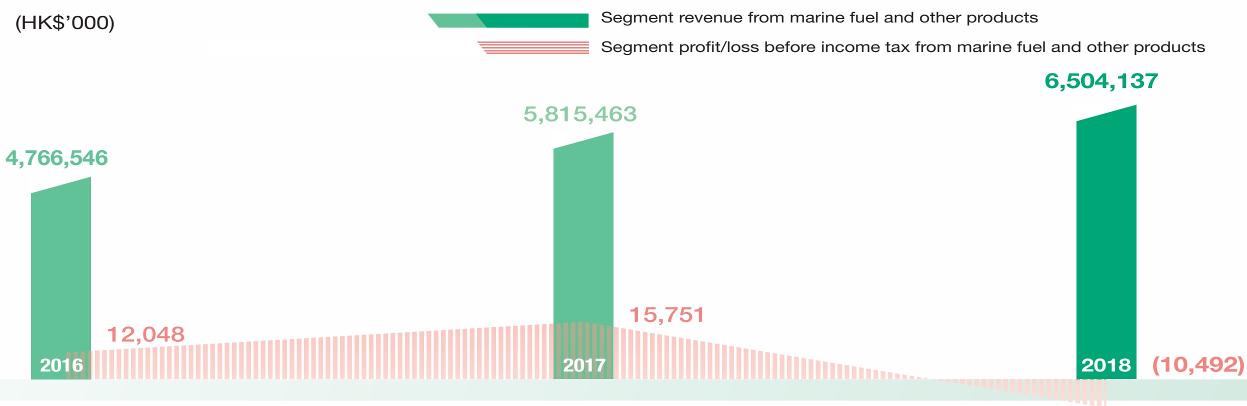
1.5 *Trading and Supply of Marine Fuel and Related Products*

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, total sales volume of marine fuel products was 1,927,346 tonnes (2017: 2,315,346 tonnes), representing a decrease of 17% as compared to 2017. However, the negative effect brought by the decrease in sales volume was offset by a considerable year-on-year increase in selling prices of marine fuel. During the year, revenue from the marine fuel and other products segment was HK$6,504,137,000 (2017: HK$5,815,463,000), representing an increase of 12% as compared to 2017.

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, etc.. Its major customers are ship-owners and ship operators. During the year, the Group’s share of loss from Double Rich was HK$14,442,000 (2017: share of profit of HK$10,457,000) primarily due to the inventory impairment provision made as a result of the slump in oil prices in the fourth quarter of 2018.

Loss before income tax from marine fuel and other products segment was HK$10,492,000 (2017: profit before income tax of HK$15,751,000), which was mainly due to the Group’s share of loss from Double Rich.



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 192,000 tonnes (2017: 154,488 tonnes), representing an increase of 24% as compared to 2017. Revenue from general trading segment was HK$767,271,000 (2017: HK$650,214,000), representing an increase of 18% as compared to 2017. Segment profit before income tax was HK$16,958,000 (2017: HK$3,177,000), representing an increase of 434% as compared to 2017.

FOLLOW the Trend Grasp NEW OPPORTUNITIES

The Company will proactively participate in the national strategic plan of China with focus on the Guangdong-Hong Kong-Macao Greater Bay Area and the China (Hainan) Pilot Free Trade Zone, strive for the implementation of the Company's two major strategies, namely "the unified operational platform for shipping services industrial cluster" and "the non-financial business investment platform", and build up the core competitiveness of shipping services industrial cluster, aiming to be a "world leading shipping services company".

Profile of Directors and Senior Management

DIRECTORS

Mr. Wang Yuhang *(Chairman)*

aged 57, had been the Executive Director and Chairman of the Board of the Company since January 2018. He is also 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 中國遠洋海運集團有限公司 (China COSCO SHIPPING Corporation Limited), 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.

Profile of Directors and Senior Management

Mr. Zhu Jianhui *(Vice Chairman and Managing Director)*

aged 56, 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. Ma Jianhua

aged 56, has been the Non-executive Director since October 2018. He is also Deputy General Manager of the Company and director and vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Ma was the non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Hong Kong and the PRC) until his resignation in July 2018. He was also the deputy head of the human resources and labor department and the research officer of the Ministry of Transport of the PRC, the deputy party secretary and the leader of the discipline inspection team of Shenzhen Maritime Safety Administration, the deputy director of the general office and the deputy secretary of Chongqing municipality of the PRC, the party secretary and the deputy general manager of COSCO Logistics Co., Ltd., the party secretary and the deputy general manager of COSCO Shipbuilding Industry Company Limited, the supervisor, party secretary and deputy general manager of COSCO SHIPPING Holdings Co., Ltd.. Mr. Ma has extensive experience in transportation and logistics management, human resources management and modern corporate governance, etc.. Mr. Ma graduated from the Party School of the Central Committee of the Communist Party of China majoring in economics and management and is a senior engineer.

Profile of Directors and Senior Management

Mr. Feng Boming

aged 49, 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 44, 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.

Profile of Directors and Senior Management

Mr. Liu Gang

aged 59, 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 the Deputy General Manager, 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. Tsui Yiu Wa, Alec

aged 69, 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, Kangda International Environmental Company Limited, DTXS Silk Road Investment Holdings Company Limited, Hua Medicine 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 Power International Development Limited until his resignation in December 2016 and Summit Ascent Holdings Limited until his resignation in September 2018.

Profile of Directors and Senior Management

Mr. Jiang, Simon X.

aged 65, 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. 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 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 and a member of the 11th and 12th Sessions of the National Committee of the Chinese People's Political Consultative Conference, the independent non-executive director of Nokia Corporation (listed on Nasdaq Helsinki and New York Stock Exchange) until his retirement in June 2016 and the independent non-executive director of China Petroleum & Chemical Corporation (listed in Hong Kong and the PRC) until his retirement in May 2018. He has experience in fund management.

Mr. Alexander Reid Hamilton

aged 77, has been the Independent Non-executive Director of the Company since June 2011 and is chairman of Audit Committee, member of Remuneration Committee, Nomination Committee and Corporate Governance Committee of the Company. Mr. Hamilton is also independent non-executive director of Esprit Holdings Limited (listed in Hong Kong) and Shangri-La Asia Limited (listed in Hong Kong). He previously served as the independent non-executive director of CITIC Limited until his retirement in June 2015 and JPMorgan China Region Fund, Inc. (a USA registered closed end fund quoted on the New York Stock Exchange) until his retirement in July 2016. Mr. Hamilton is a member of the Institute of Chartered Accountants of Scotland, a fellow member of the Hong Kong Institute of Certified Public Accountants and Institute of Directors. He was a partner of Price Waterhouse for 16 years and has more than 20 years of audit and accounting experience.

Profile of Directors and Senior Management

The Directors' interests in shares and underlying shares of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as at 31st December 2018 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 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. Ma Jianhua is director and vice 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. 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 2019.

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 2018 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 2018 on a named basis are disclosed in note 25 to the financial statements.

SENIOR MANAGEMENT

Mr. Liu Xianghao

aged 46, has been the Deputy General Manager of the Company since April 2018. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Liu had been the deputy manager of Secretariat of Executive Division, the deputy manager of Secretarial Office of Executive Division, the deputy director and director of Executive Division, the director of Office of Board of Directors/General Manager's Office of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the deputy director and director of General Manager's Office, the director of Office of Board of Directors/General Manager's Office of China COSCO Holdings Company Limited and the executive director and managing director of the Company. Mr. Liu is familiar with the operation of listed companies and has extensive experience in auditing and corporate management. Mr. Liu obtained a Bachelor's degree in Economics from Nankai University and a Master's degree in Business Administration from China Europe International Business School, and is an accountant.

Profile of Directors and Senior Management

Mr. Wang Wei

aged 47, has been the Deputy General Manager of the Company since April 2018. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Wang had been the deputy manager of Executives Management Department of Organisation Division/Human Resources Division, the manager of Executives Management Department of Organisation Division/Human Resources Division and the deputy general manager of Organisation Division/Human Resources Division of 中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company), the deputy general manager of Organisation Division/Human Resources Division, general manager of Organisation Division/Human Resources Division of China COSCO Holdings Company Limited, the director of COSCO (Hong Kong) Group Limited, the director of COSCO Shipping Co., Ltd. and the non-executive director of COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited) and the non-executive director of the Company. Mr. Wang is familiar with the operation of listed companies and has extensive experience in human resources management. Mr. Wang graduated from Renmin University of China, major in Human Resources Management.

Mr. Zhou Liliang

aged 57, has been the Deputy General Manager of the Company since April 2018. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. He had been the deputy division chief of Safety Supervision Bureau of Ministry of Transport of the PRC; the vice consultant, the consultant of the General Office of Ministry of Transport of the PRC; deputy general manager of COSCO International Freight CO., LTD; deputy general manager of China COSCO Logistics Co., Ltd; general manager of COSCO West Asia FZE and general manager of COSRACO L.L.C.. Mr. Zhou Liliang has extensive experience in corporate management, strategic operation and logistics, also in transportation management and traffic infrastructure construction aspects. He obtained a Master's degree in Dalian Maritime University.

Mr. Chan Wai Chuen, Ricky

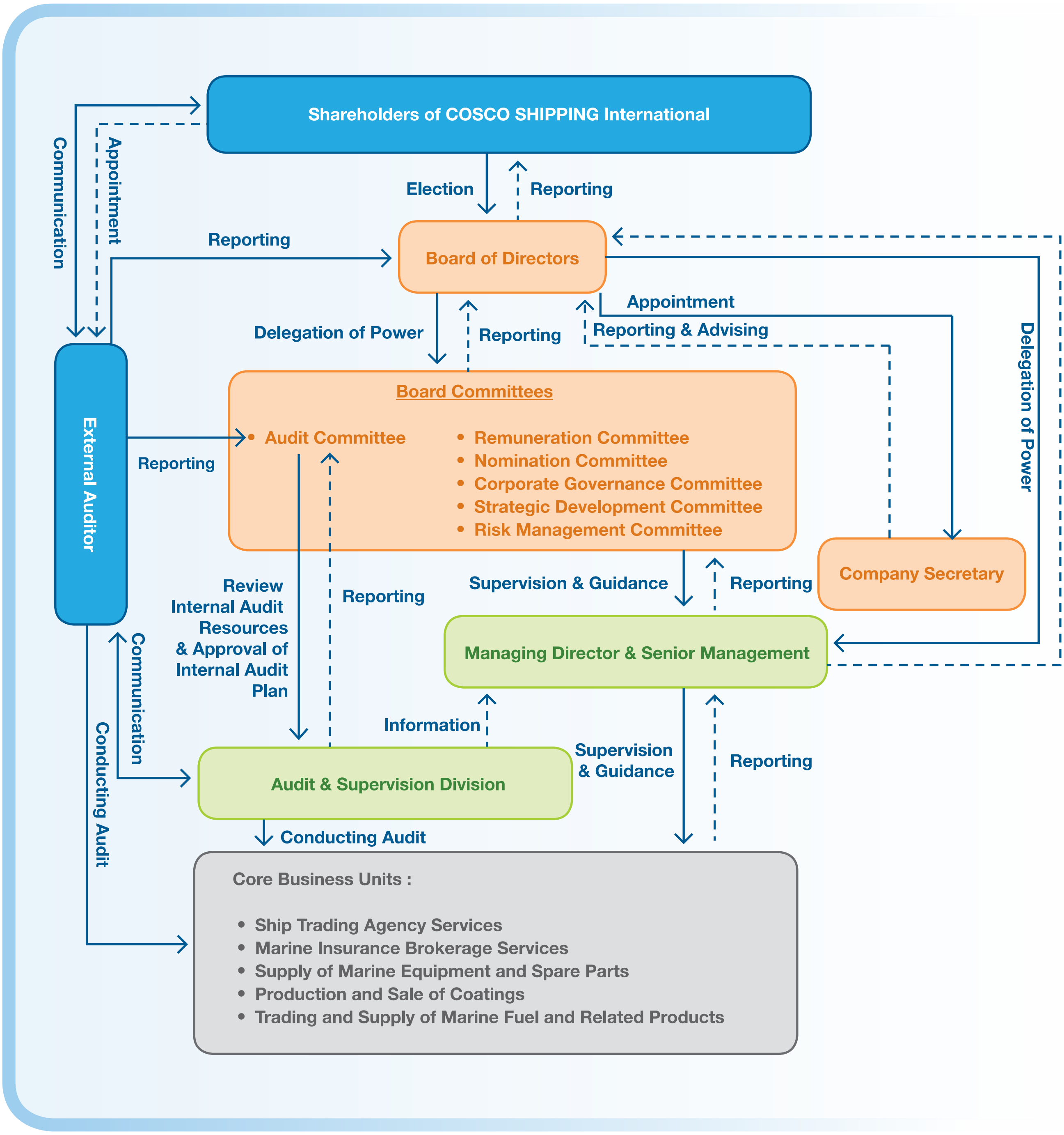
aged 49, has been the Chief Financial Officer of the Company since March 2016. He is the supervisor of various subsidiaries of the Company. Mr. Chan graduated from The City University of Hong Kong in 1993 and was awarded a Bachelor's honour degree in Accountancy. He obtained a Master's degree in Corporate 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 17 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 52, 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 as a whole.



Corporate Governance Report

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 2018, except that Mr. Chen Dong, the Non-executive Director, was unable to attend the annual general meeting of the Company held on 30th May 2018 due to other business engagement, a deviation from the code provision A.6.7 of the CG Code which provides that independent non-executive directors and other non-executive directors should attend general meetings of the company.

THE BOARD

The Board currently comprises nine Directors, namely, Mr. Wang Yuhang (Chairman), Mr. Zhu Jianhui (Vice Chairman and Managing Director) and Mr. Liu Gang as Executive Directors; Mr. Ma Jianhua, Mr. Feng Boming and Mr. Chen Dong 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 role of the Chairman is definitely separated from that of the Managing Director (who is also the Vice Chairman). The Chairman is responsible for formulating the overall strategies and policies of the Company while the Managing Director (who is also the Vice Chairman) is responsible for the day-to-day operation and management of the Company in accordance with the objectives and directions, and internal control policies and procedures laid down by the Board. Division of responsibilities between the Chairman the Managing Director (who is also the Vice Chairman) is clearly defined and set out in writing. Executive Directors are mainly responsible for the day-to-day 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 on 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 day-to-day 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, meetings between the Chairman, Mr. Wang Yuhang and the Non-executive Directors (including Independent Non-executive Directors) without presence of the Executive Directors were held. 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 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 Human Resources Division assists Remuneration Committee to discharge its duties by providing relevant remuneration data and market conditions information for Remuneration Committee's consideration. The remuneration of Executive Directors and the 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 24 to 25 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 calibre 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 2019 annual general meeting of the Company. Mr. Ma Jianhua, being the Non-executive Director, has entered into a letter of appointment with the Company on 30th October 2018 for a term commencing from 30th October 2018 to the conclusion of the 2020 annual general meeting of the Company. Each of Mr. Feng Boming and Mr. Chen Dong, 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

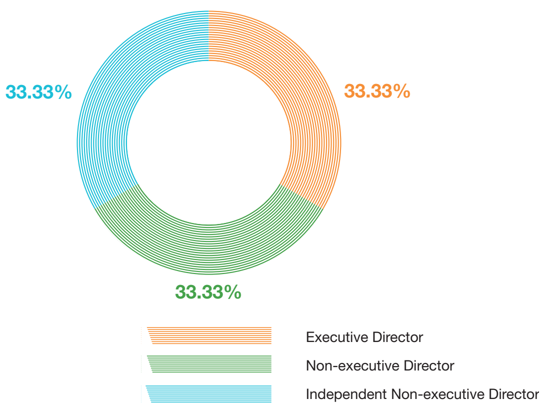
Corporate Governance Report

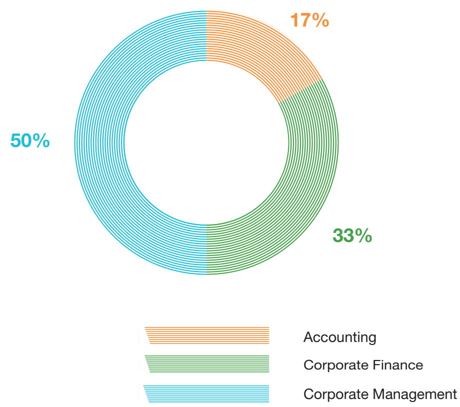
general meeting of the Company. Mr. Ren Yongqiang, being the ex-Non-executive Director, has entered into a letter of appointment with the Company on 15th January 2018 for a term commencing from 15th January 2018 to the conclusion of the 2020 annual general meeting of the Company. Each of Mr. Tsui Yiu 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 30th May 2018 for a term commencing from 30th May 2018 to the conclusion of the 2020 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 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.





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. Wang Yuhang, Zhu Jianhui, Ma Jianhua, Feng Boming, Chen Dong, Liu Gang, Tsui Yiu Wa, Alec, Jiang, Simon X. and Alexander Reid Hamilton, being the Directors and Mr. Ren Yongqiang, being the ex-Director 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") 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 2018, 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 2018. 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.

Corporate Governance Report

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)	1/1	4/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Zhu Jianhui(2)	1/1	4/4	N/A	3/3	2/2	2/2	3/3	1/1
Mr. Liu Gang(3)	1/1	4/4	N/A	1/1	1/1	N/A	3/3	1/1
Non-executive Directors								
Mr. Ma Jianhua(4)	N/A	1/1	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Feng Boming(5)	1/1	3/4	N/A	N/A	N/A	N/A	3/3	N/A
Mr. Chen Dong(6)	0/1	2/4	N/A	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors								
Mr. Tsui Yiu Wa, Alec	1/1	4/4	3/3	4/4	3/3	2/2	N/A	N/A
Mr. Jiang, Simon X.	1/1	4/4	3/3	4/4	3/3	2/2	N/A	N/A
Mr. Alexander Reid Hamilton	1/1	4/4	3/3	4/4	3/3	2/2	N/A	N/A
Ex-Director								
Mr. Ren Yongqiang(7)	1/1	2/3	N/A	N/A	N/A	N/A	N/A	N/A

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 and remained as committee member of each of Strategic Development Committee and Risk Management Committee.

(4) Mr. Ma Jianhua was appointed as Non-executive Director on 30th October 2018.

(5) 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.

(6) 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.

(7) Mr. Ren Yongqiang was appointed as Non-executive Director on 15th January 2018 and resigned as Non-executive Director on 30th October 2018.

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 the Stock Exchange and the Company respectively 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 2018	— reviewing and making recommendations for the Board's approval on 2017 annual results announcement, the audited consolidated financial statements for the year ended 31st December 2017, 2018 interim results announcement, interim report 2018 and the unaudited condensed consolidated financial information for the six months ended 30th June 2018; — reviewing the report of external auditor; — reviewing the effectiveness of the risk management and internal control systems; — reviewing the continuing connected transactions of the Group for the year ended 31st December 2017 and for the period ended 30th June 2018 respectively; — making recommendations to the Board, subject to the Shareholders' approval at the 2018 annual general meeting, the re-appointment of PricewaterhouseCoopers as the external auditor of the Company; — reviewing the internal audit plan for the year 2019 and external audit plan for the year ended 31st December 2018; 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 under 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 2018	— reviewing and making recommendations to the Board on the Directors' fees of Independent Non-executive Directors for the year 2018; — approving the terms of letters of appointment of Mr. Wang Yuhang, the Executive Director and Mr. Ma Jianhua, Mr. Feng Boming and Mr. Chen Dong, the Non-executive Directors and Mr. Ren Yongqiang, the ex-Non-executive Director; — approving the terms of letters of appointment of Mr. Zhu Jianhui and Mr. Liu Gang, the Executive Directors and Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton, the Independent Non-executive Directors; 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 four times with major work performed mentioned above. Attendance of the committee members is set out under 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 2018	— recommending the nomination of Mr. Wang Yuhang as Executive Director and Chairman of the Board, Mr. Zhu Jianhui Executive Director and Vice Chairman of the Board as Managing Director of the Company and Messrs. Ma Jianhua, Feng Boming, Chen Dong and Ren Yongqiang(ex-director) as Non-executive Directors; and — conducting a review of the Board diversity, assessing the independence of Independent Non-executive Directors and the contributions of the Board members and recommending the submission of the proposal on Directors' re-election at the annual general meeting of 2019.

During the year, the Nomination Committee met three times with major work performed mentioned above. Attendance of the committee member is set out under 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 2018	— reviewing the continuous professional development of Directors, the Company's compliance status of the CG Code for the year ended 31st December 2017 and the disclosure of the corporate governance report in the annual report of 2017; and — reviewing the Company's compliance status of the CG Code for the six months ended 30th June 2018.

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

Corporate Governance 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 system(s).
Major work performed during the year 2018	— recommending to the Board for approval of the subscription of 33% equity interest in Nasurfar Changshu; — recommending to the Board for approval of the capital contribution to SZ COSCO Insurance Brokers; and — reviewing and discussing the report on the implementation of strategic development plan for the year 2017 and the strategic development plan for 2018.

During the year, the Strategic Development Committee met three times with major work performed mentioned above. Attendance of the committee member is set out under 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 Group's risk management framework; and — monitoring the implementation of risk control.
Major work performed during the year 2018	— reviewing and discussing the risk management report for 2018 in relation to the analysis on risks identified.

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

INTERNAL CONTROL AND RISK MANAGEMENT

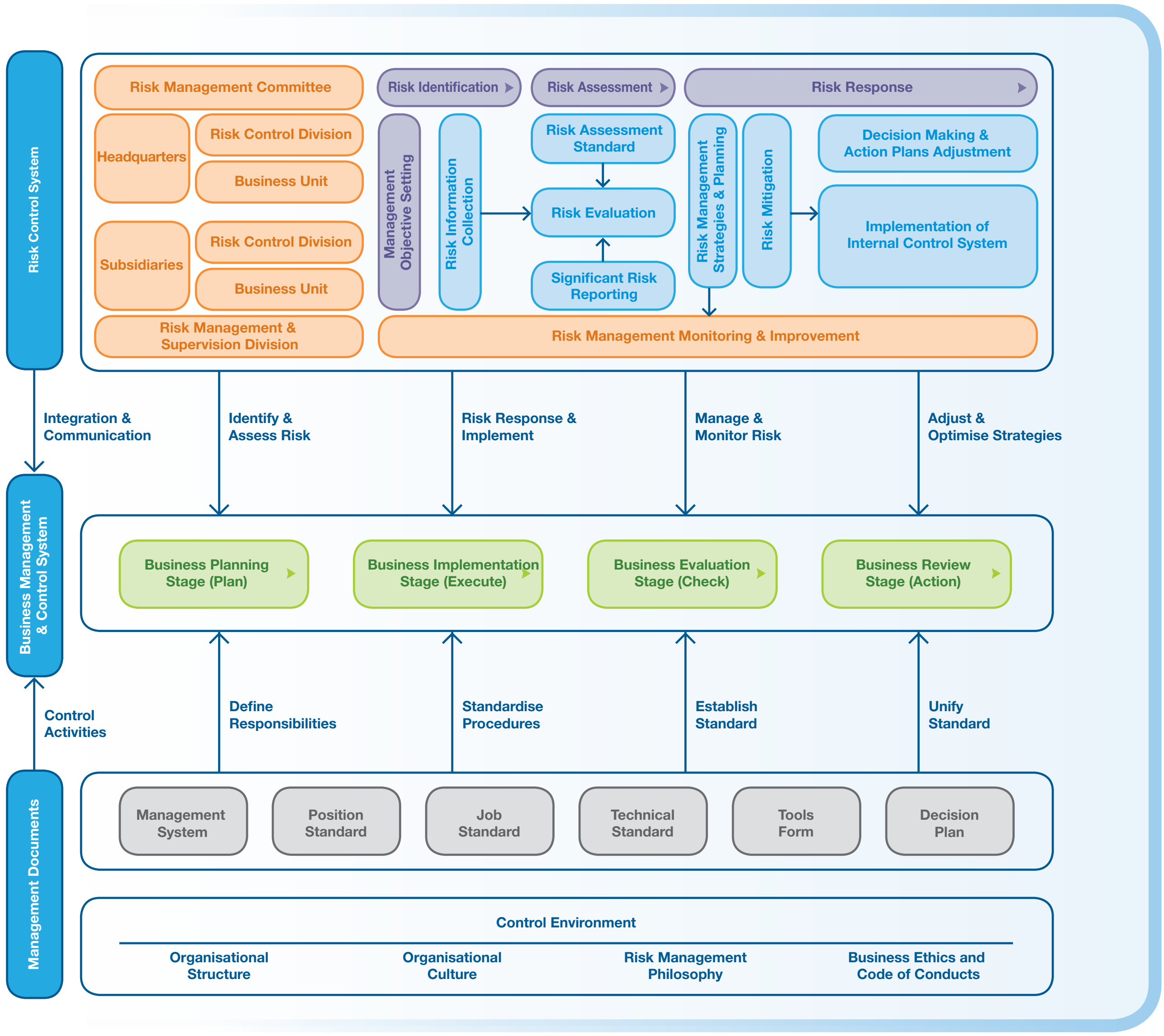
Responsibility

The Board has overall responsibility for ensuring an effective system of risk management and internal control be maintained for reviewing its effectiveness so as 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



Corporate Governance Report

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 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 were regularly communicated and reported to the Risk Management Committee and the Board. 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.

The Board delegates the Risk Management Committee to monitor the implementation of risk management, and continuously reviews the action plans and internal controls on regular basis.

In order to further strengthen COSCO SHIPPING International's risk management system and ensure high-level corporate governance, the Company engaged a professional organisation to further optimise the risk management system of the Company during the year, and to further analysis the identified risks and to propose optimised counter measures.

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. The Group would 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.

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. And the Strategic Development Committee is formulating the strategic development plans and monitoring the implementation of strategies on a regular basis. No violations of investment occurred during the year.

Procurement risk is mainly reflected in the purchase operations of COSCO Kansai Companies, COSCO SHIPPING International Trading and COSCO Yuantong Operation Headquarters. In order to avoid risk occurring in the process of procurement, COSCO Kansai Companies, COSCO SHIPPING International Trading, COSCO Yuantong Operation Headquarters formulated the Procurement Management Systems and Supplier Management Systems in accordance with their respective business operation characteristics to clarify several practices and procedures of the procurement such as procurement method selection, tendering and bidding management, procurement request and approval, procurement execution and tracking, procurement quality, acceptance and accounts payable management, as well as supplier entrance, process management, master data maintenance and regular evaluation, so as to provide a clear guidance for procurement and supplier management. In addition, COSCO SHIPPING International Trading carried out multi-channel procurement, COSCO Yuantong Operational Headquarters provided one-stop procurement and logistic services for its customers and COSCO Kansai Companies adopted bidding procurement, online procurement through electronic procurement platform and online price quotation.

Credit risk on accounts receivable 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, which 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 schedule, and (iv) strengthening credit approval process for new customers, formulating a clear guideline of credit standards and regulations.

In addition, Financial and Accounting Division carries out monthly analysis on the trade receivable balance of each subsidiary of the Company and identifies if there is any recovery issue through regular meetings.

Cybersecurity is an important issue for enterprises. Any problems in the information system will have a great impact on the normal operation of the Company. In order to avoid cyber risk, the Company engaged services provider of COSCO SHIPPING Group to upgrade the information systems and related equipment, carry out information security hazard investigation, arrange dedicated person(s) to conduct online security monitoring of the network. The Group will engage the service provider to carry proper precautions continuously in order to protect the interest of the Company.

Internal Audit and Control Effectiveness

The Company has an internal audit function. It 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 Audit & Supervision Division and its findings. A follow-up review will be performed by Audit & Supervision Division 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.

Corporate Governance Report

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 Audit & Supervision Division 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 Audit & Supervision Division.

During the year, Audit & Supervision Division 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 Audit & Supervision Division 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 Audit & Supervision Division 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 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 twice 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$4,081,000 and HK$1,905,000 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 23 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 30th May 2018 (the "2018 AGM"). Shareholders were given at least 20 clear business days' notice of the 2018 AGM. The Chairman of the Board and the chairmen of relevant committees attended the 2018 AGM. The representative from PricewaterhouseCoopers, the external auditor of the Company attended the 2018 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 2018 AGM. The chairman of the 2018 AGM explained the detailed procedures for conducting a poll at such meetings. At the 2018 AGM, separate resolution for each substantially separate issue was proposed in order to avoid bundling resolutions. The poll voting results of the 2018 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 Public Relations Division.

Corporate Governance Report

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 2018.

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, Public Relations Division 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, 26th March 2019

Prospects

In view of the global economic environment, the International Monetary Fund ("IMF") forecasts that the global economic growth will decelerate from 3.9% to 3.7% in 2019. This is the first time in the recent two years that the IMF revises its global economic forecast with a downward trend, which reflects its worry about global economic slowdown. Changes in the traditional international order and uncertainties in the new international order have raised concerns over reallocation of the global industrial chain. Fluctuation in financial market is expected to continue, and the slowdown in trade will be in a greater extent than that in economy. Global investors will be challenged by asset revaluation.

Meanwhile, increasing downward pressure is expected in China's economy with concern over instability amidst comparably steady economic growth. The forecast of 6.2% economic growth in China in 2019 by IMF fully reflects its concerns about the impact of the external environment on China's economy. However, it should be noted that China is still enjoying its golden era that provides plentiful development opportunities, which will last for a longer period and the long-term positive trend of China's economy will persist. Under such complex circumstances, we therefore need to be highly focused and maintaining confidence to seize the trend of the national economic development and proactively participate in the national strategic development plan.

In view of the industry development, the shipping industry will continue the trend of consolidation and formation of alliances for united operation. In 2019, the shipping market is likely to be sluggish with a slow recovery. In view of supply and demand, despite an unbalanced picture, demand growth surpasses supply which has relatively relieved the conflict in the market, and the situation is obviously better than that during the financial crisis. In light of environmental protection such as "Sulfur Cap" and pressures from market competitions, dismantling of old vessels is expected to accelerate in the shipbuilding market in 2019. However, the trading volume of new vessels will be difficult to rise.

By leveraging on the enormous strength and remarkable brand value of its ultimate holding company, COSCO SHIPPING Group, the Group will proactively participate in the national strategic plan of China with focus on the Guangdong-Hong Kong-Macao Greater Bay Area and the China (Hainan) Pilot Free Trade Zone, strive for the implementation of the Company's two major strategies, namely "unified operational platform for shipping services industrial cluster" and "the non-financial business investment platform", and build up the core competitiveness of shipping services industrial cluster, aiming to be a "world leading shipping services company".

For the ship trading agency services, the Group will put more efforts on implementing innovative business model by proactively enriching services scopes, expanding geographical coverage of business, improving service quality and technological elements. In particular, the Group will enhance its marketing efforts in potential countries and regions for breakthroughs.

For marine insurance brokerage services, the Group will actively explore the demand for reinsurance business and non-marine insurance business to broaden its business scope while modifying its existing businesses and further improving its relationship with existing customers.

For the supply of marine equipment and spare parts, the Group will improve its overall competitiveness and bargaining power with suppliers by continuously optimising the scope of spare part services, enhancing its value-added capabilities, further expanding its supplier network and enhancing its capacity of procurement and logistics united service.

For container coatings, the Group will focus on formula with lower material costs and expansion of supplier channels, so as to further improve the gross profit margin of the products.

For industrial heavy-duty anti-corrosion coatings, the Group will closely monitor the impact arising from the increase in raw material prices and proactively explore a well-diversified supplier chain while maintaining steady growth of business and profitability.

For marine coatings, the Group will make further efforts to promote the transformation and innovation of products and develop more advanced and eco-friendly marine coatings with improved performance, to actively reduce the volatile organic compounds emissions of the products. In addition, the Group will strengthen the promotion of related products so as to further consolidate our market position with a higher market share.

For the trading and supply of marine fuel and related products, the Group will adhere to robust prudent operating approach, conduct risk prevention and control, and solicit business from new customers cautiously.

Investor Relations

INVESTOR RELATIONS MANAGEMENT STRATEGY

COSCO SHIPPING International's investor relations management strategy is to maintain effective bilateral communication between the Company and the investment community. On the one hand, we maintain good communications and active interaction with shareholders, investors and analysts through timely, complete, accurate and genuine disclosure of the Company's valuable information so that they could understand the strategic positioning, operating conditions, results performance and development prospects of the Company, therefore, to reinforce investors' confidence in the Company; on the other hand, we facilitate the delivery of the criticisms and expectations from regulatory authorities, shareholders and capital market to the Board and the management team of the Company in a timely manner, for the sake of improving the corporate governance structure and operating efficiency, and ultimately maximize shareholders' return and corporate value.

The Company attaches great importance to prompt communication with all participants in the capital market. We communicate timely and comprehensively with wide-ranging investors through diversified communication channels. Besides answering enquiries and concerns from investors promptly as a daily routine, the Company proactively initiates regular activities, including roadshows, press conferences, investor conferences, meetings with fund managers, media gathering, etc. In 2018, the Company met with investors and relevant persons for a total of 138 attendances (2017: 198 attendances), of which, institutional investors of 75 attendances, sell-side analysts of 16 attendances, media of 47 attendances.

COMPREHENSIVE INVESTOR RELATIONS MAINTENANCE

In 2018, global capital market was volatile as fluctuations in stocks, bonds, commodities and foreign currencies were tremendous. Risk aversion rose as markets were exposing to major risk factors such as rising financing cost, intensive trading atmosphere and the Brexit. In particular, sluggish recovery in the shipping industry was further gloomed by the trade war between China and the US, shifting investors' attention from the shipping sector. The Company recognised the concerns of investors and has been committed to responding promptly to investors' enquiries and initiating marketing and interactive campaigns, for the purpose of actively promoting our corporate culture which places emphasis on shareholders returns, as well as the investment value and prospects of COSCO SHIPPING International to the potential investors.

The Company performs regular analysis of shareholders structure, measuring the shareholding distribution between institutional and retail shareholders as well as their investment orientations and origins and closely monitoring the changes of their equity interests, in order to identify the Company's position in the capital market and facilitate daily maintenance of investors relations management. According to the Bloomberg Terminal, as at the end of 2018, the top 10 institutional shareholders' shareholding in COSCO SHIPPING International accounted for 5.69% (as at the end of 2017:6.55%) of the total issued share capital of the Company. These institutional shareholders are based in Hong Kong, the United States, Canada, Japan and Luxembourg, all of which focus on long-term value investing and are large investment institutions with high reputation in the industry.

DIVERSIFIED, REAL-TIME AND TRANSPARENT COMMUNICATION CHANNELS

COSCO SHIPPING International is committed to maintaining high standards of corporate governance and transparency through applying high standards of disclosure all along and releasing corporate information timely and accurately. Among which, the annual report is one of important channels for shareholders and investors to understand the development of the Company. By upholding the principles of easy-to-read, complement the corporate culture and economical, the Company spares no effort in preparing its annual report, which allows investors to understand our corporate structure, business scopes, key figures and messages at a glance. Since 2014, in advance of the regulatory requirements, the Company has included Environmental, Social and Governance Report in its annual reports, with an aim to further enhance the transparency of the Company and be responsible to all of our stakeholders.

Investor Relations

As time progresses, the Company adheres to a diversified and real-time communication culture, provides immediate access to the latest updates of the Company to capital market through comprehensive channels, including the Company's website, WeChat, corporate periodicals, etc. During the year, 30 pieces of news release were published on the Company's website and 154 pieces of latest updates of the Company were pushed on WeChat. Besides, the Company has revamped its website this year, providing a even more concise and clearer layout for all stakeholders. The revamped website in particular highlights the unity on management and operation of COSCO SHIPPING (Hong Kong) and the Company, as well as the profile of being a streamlined corporate.

KEY CONCERNS BY SHAREHOLDERS AND INVESTORS IN 2018

- The performance of the five shipping service segments of the Company
- The reasons of holding a large sum of idle cash for a long period of time
- Capital expenditure plan and investment direction
- Future dividend distribution plan and the possibility of share repurchase
- The KPIs and the timeline for the launch of share incentive scheme

SHARE PRICE PERFORMANCE

On the last trading day of 2018, the closing share price of COSCO SHIPPING International was HK$2.69 (2017: HK$3.03) per share, which represented a decrease of 11.2% year-on-year. The number of shares in issue of COSCO SHIPPING International was 1,532,955,429 shares (2017: 1,532,955,429 shares). The market capitalisation of the Company was HK$4,123,650,000 (2017: HK$4,644,855,000). During the year, the highest share price was HK$3.32 and the lowest share price was HK$2.56. The average share price was HK$2.99 (2017: HK$3.29). The daily average trading volume and daily average trading turnover were 605,191 shares (2017: 1,240,703 shares) and HK$1,883,620 (2017: HK$4,086,265), respectively.

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

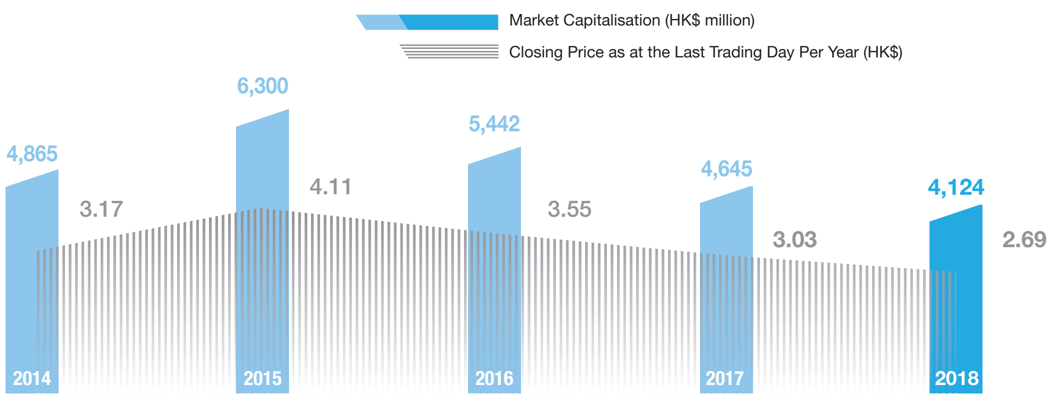
The basic and diluted earnings per share of the Company for 2018 was 18.67 HK cents (2017: 23.26 HK cents). The Board proposed the 2018 final dividend of 9 HK cents (2017: 12 HK cents) per share, together with the interim dividend of 5 HK cents (2017: 6 HK cents) per share paid, annual dividends per share for 2018 were 14 HK cents (2017: 18 HK cents).

The annual dividend payout ratio of 2018 was 75% (2017: 77%).

Investor Relations

COSCO SHIPPING INTERNATIONAL'S SHARE PRICE PERFORMANCE VS. HANG SENG INDEX IN 2018

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



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

	2014	2015	2016	2017	**2018**
Basic earnings per share (HK cents)	23.70	21.91	15.47	23.26	**18.67**
Total annual dividends per share (HK cents)	13.00	16.00	14.50	18.00	**14.00**
Dividend payout ratio[Note 2] (%)	55	73	61	77	**75**

A GLANCE AT FIVE-YEAR FINANCIAL STATISTICS

For the year ended and as at 31st December	2014	2015	2016	2017	**2018**
Total number of shares issued (million)	1,532	1,533	1,533	1,533	**1,533**
Closing price[Note 1] (HK$)	3.17	4.11	3.55	3.03	**2.69**
Market capitalisation[Note 1] (HK$ million)	4,856	6,300	5,442	4,645	**4,124**
Basic earnings per share (HK cents)	23.70	21.91	15.47	23.26	**18.67**
Price/earnings ratio[Note 1] (times)	13.4	18.8	23.0	13.0	**14.4**
Dividends per share (HK cents)	13.0	16.0	14.5	18.0	**14.0**
Dividend payout ratio[Note 2] (%)	55%	73%	61%	77%	**75%**
Net assets value per share (HK$)	5.05	5.04	5.02	5.16	**5.12**
Return on total assets (%)	3.8%	3.5%	2.5%	3.8%	**3.0%**
Return on shareholders' equity (%)	4.7%	4.3%	3.1%	4.6%	**3.6%**
Cash-to-shareholders' equity ratio (%)	79%	80%	86%	82%	**81%**
Current ratio (times)	5.6	6.1	6.4	6.4	**7.8**
Liquidity ratio (times)	5.3	5.9	6.2	6.1	**7.5**
Interest coverage (times)	161.6	115.3	69.9	85.7	**103.2**

Notes:

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

1.1 Scope of Disclosure

This report sets out the impacts of principal activities of COSCO SHIPPING International (Hong Kong) Co., Ltd. ("COSCO SHIPPING International" or the "Company") and its subsidiaries (the "Group") on the environment, social and governance ("ESG"). The disclosure addresses issues related to the Company's sustainability reported in terms of materiality, quantification, balance and consistency, and takes into account of the impact on stakeholders and the disclosure level of related issues.

This report covers the main business segments of the Group, including 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 and other shipping services. The general disclosure of this report includes the above business segments, and the company scope covered by the key performance indicators includes all wholly-owned subsidiaries and presents the data in aggregate. In particular, certain key performance indicators of the production of marine coatings and container coatings have higher materiality. This report will focus on the operations of the headquarters and the business units of the core business of shipping services, especially coating productions.

1.2 Reporting Period

Unless otherwise stated, this report describes the performance and measures of the Group's sustainable development from the period between 1st January 2018 and 31st December 2018.

1.3 Reference to Hong Kong Stock Exchange ESG Reporting Guide

This report aims to review the performance and achievements of COSCO SHIPPING International's implementation of sustainable development strategies in 2018 and is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This report complies with the "comply or explain" provisions and reports on all recommended disclosures of the Guide.

This report covers the quality of the work environment, environmental protection, operational practices and community involvement, such as improving the resource use efficiency, reducing emissions, reducing our environmental impact, strengthening the safety culture, awareness of employee safety and environmental risk. COSCO SHIPPING International actively creates a sustainable operating environment, builds a solid foundation for enhancing long-term shareholder returns, and strives to pay back our communities where we operate, as well as fulfills our corporate social responsibilities.

2. PHILOSOPHY AND POLICIES OF CORPORATE SUSTAINABLE DEVELOPMENT

2.1 Environmental, Social and Governance Management Strategies

The Group has the Corporate Governance Committee that develops and reviews the Group's internal corporate governance policies and practices, as well as reviews the compliance status of Corporate Governance Code of the Group. The details are set out in the corporate governance report in the annual report of the Company.

Meanwhile, the Board can delegate the company's management to discuss environmental, social and governance issues on a regular basis and review the governance codes from time to time to enable the Company to keep abreast of and comply with the latest regulatory requirements. This system monitors the management to design, implement and continuously monitor risk management and internal control systems and to ensure the suitability and effectiveness of the relevant systems. In addition, in order to ensure the timely implementation of the Group's sustainable development measures and to ensure the accuracy and reliability of the data presented in this report, this report has been approved by the Board.

2.2 Our Sustainability Management Policies

COSCO SHIPPING International developed sustainable management strategies and integrated environmental, social and governance-related considerations into our daily operations. We have developed appropriate policies responsive for the particular business models and segments, while the operations for production and in office have also been independently assessed for sustainability risks. COSCO SHIPPING International reviewed and updated our sustainability policies from time to time to cling to the market trend and business development and to adapt to possible changes the regulatory supervision.

In terms of environmental protection policies, the Group strictly complied with the management measures listed in the Environmental Management System Certification established by the International Organization for Standardization ("ISO"). Among them, COSCO Kansai Companies and Jotun COSCO are engaged in the production and sale of coatings and successfully minimize the environmental impact during the production process through efficient waste reduction measures and energy-saving and emission reduction technologies. During the year, the Group developed environmentally-friendly products and achieved breakthroughs in the innovation of water-based container coatings and waterborne heavy-duty anti-corrosion coatings and various series of water-based container coating products to satisfy the regulatory authorities and market demand for the environmentally-friendly coatings.

In terms of corporate operation and occupational safety and health management, the Group obtained and passed the Quality Management System Certification (ISO9001), Occupational Health and Safety Management System Certification (OHSAS18001) and Environmental Management System Certification (ISO14001) recognised by the International Organization for Standardization, and has provided a healthy, safe and stable working environment. We have also established the dedicated Safety Committee to monitor the safety risks of the daily operation of the Company, the management system and work reports of related measures.

3. DETERMINATION OF MATERIALITY

3.1 Stakeholder Engagement

We attach great importance to the opinions of stakeholders on the Group's sustainable development work and regard it as a reference for the formulation of long-term strategic planning. During the year, we continued to interact with stakeholders through comprehensive communication channels (details as below) to value their opinions and respond to their concerns. The participation of stakeholders is very important for the development of the Group's strategic goals, and creating the corporate cultures and fulfilling the corporate social responsibility commitments.

Communication with stakeholders in daily operation are listed as follow:

Stakeholder	Communication channel	Purpose	Frequency
Government authorities	• Questionnaires • Meetings • Site visits • Information submission	• Compliant operation • Governance on the environmental management • employment aids • Tax compliance	• Irregular
Shareholders and investors	• Post-results roadshows • Company visits • Investment Summits • Telephone conferences, emails, WeChat, etc.	• To communicate and report the Company's latest developments and future directions	• Semi-annual/annual • Real-time communication such as meetings, calls and emails
Employees	• Training and educational activities • Employee satisfaction survey • Annual staff meeting • Work meetings	• Reduce employee turnover • Enhance occupational safety and health awareness	• Annual • Weekly meetings, or monthly, quarterly or annual work summary
Business partners, customers and suppliers	• Company visits • Telephone conferences, emails and other electronic means • Social media • Inspection and evaluation	• Maintain efficient supply chain management	• Semi-annual/annual • Irregular meetings
Local communities and Non-Government Organizations ("NGOs")	• Community projects • Collaborative projects	• Create social benefits	• Annual

3.2 Process and Approaches of Stakeholder Engagement

The Company engaged third-party professional consultants to conduct questionnaires and telephone interviews to our internal and external stakeholders (including the Group's employees, management, government agencies, industry associations, suppliers, contractors, shareholders and investors and NGOs) to understand the stakeholder's opinions on the Company's sustainability performance and their expectations, thus helping us to assess the materiality of ESG topics on stakeholders and to determine the scope of disclosures in this report.

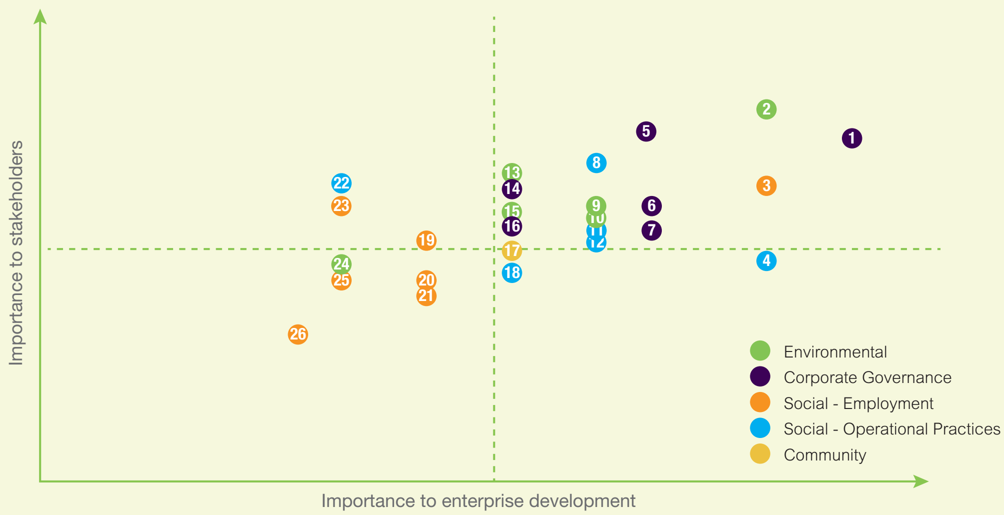
Through the stakeholder engagement, we made more detailed disclosures of our efforts and performance for the material issues in this report, in order to enhance the Group's management level of sustainable development and meet the expectations of various stakeholders for the continuous improvement of sustainable development performance by the Group.

3.3 Materiality Assessment

The content of this report based on a materiality assessment and review of stakeholders' concerns which includes the processes of (a) identifying the ESG topics and the related stakeholders; (b) determining and prioritising the reporting issues; (c) collecting the information and validating the report; and (d) addressing stakeholders' expectation.

We identify 26 ESG topics from the stakeholder engagement, which covers corporate governance, resource management, employee benefits and policies, customer services and product liability, supply chain management, business ethics and social welfare. The following materiality matrix and the list summarize the material issues and their boundaries.

Materiality Matrix of ESG Topics of COSCO SHIPPING International



1. Business compliance
2. Environment compliance
3. Occupational health and safety
4. Product and technology innovation
5. Anti-corruption
6. Supply chain management
7. Sustainable procurement policy
8. Customer service
9. Waste management
10. Environmental and ecological protection
11. Operational efficiency of company assets
12. Continuity and security of service
13. Low carbon operation
14. Economic performance
15. Water resources management
16. Business ethics
17. Serving local economy
18. Differentiation of product and service
19. Equal rights of employees
20. Employee benefits
21. Social welfare
22. Customer privacy protection
23. Labor standards
24. Energy efficiency and energy saving
25. Staff development and training
26. Community communication and participation

4. ENVIRONMENTAL PROTECTION AND MARINE CONSERVATION

In the process of promoting business development, COSCO SHIPPING International attached great importance to its impact on and responsibility to the environment, through green shipping operations to establish environmental sustainability in the long run and promote a green and healthy development of the industry. In particular, our coatings production and trading business have established prudent environmental control measures for proactive energy conservation and emission reduction, optimization of resource use and conservation of marine ecosystem. In the meantime, the Group continuously enhanced its scientific and technological capability for the sake of market exploration into environmentally-friendly products. In respect of the development of corporate culture of sustainable development, the Group further reinforced environmental awareness of employees with different training.

The Group formulated its environmental management system and the related policies and measures with reference to the environmental protection measures certified by ISO14001 of the International Organization for Standardization. In coordination with the identification of environmental factors of our internal risk management and control, overseeing the Company's environmental risks with a top-down approach with an aim to minimise environmental damage and pollution from production activities. The remaining subsidiaries related to trading business also comply with the environmental protection framework established by the Company's headquarters, to formulate their own ordinance, thereby enhancing the environmental benefits of the daily business operation.

The Company strictly complies with the environmental laws and regulations related to its business, including the "Environmental Protection Law of the People's Republic of China", 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 "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", the "Law of the People's Republic of China on Prevention and Control of Pollution by Environmental Noise" and the "Environmental Protection Tax Law of the People's Republic of China", as well as different local rules and standards in respect of prevention and control of environment pollution by discarded dangerous chemicals, standards of air pollutants and integrated wastewater discharge standards. During the reporting year, we were not aware of any violations of relevant standards, rules and regulations.

4.1 Green Operation by Energy Conservation, Carbon Emissions Reduction and Optimization of Resource Use

Through continuous environmental management, we have identified the energy inputs, wastes and emissions from the production and trading operations, established and implemented comprehensive management measures and continued resources investment in strict compliance with the aforesaid laws and regulations, so as to reduce the air emission and waste, and actively promote energy conservation and emission reduction.

Gas Emissions

The air emissions generated during the coating production process include volatile organic compounds ("VOCs"), benzene, toluene and xylene volatiles and particulate matters, which have a negative impact on the air quality, as well as employee and public health. As such, we promoted the replacement of solvent-based coatings with water-based coatings, upgrading production techniques and adopted high-quality raw materials, while using advanced equipment to capture VOC emissions in the production process. For example, the plants of COSCO Kansai Companies adopted confined production system and required all workshop entrances are completely closed. For this purpose, a dedicated forklift induction automatic access control system is installed. The said measure has effectively reduced the emissions of VOCs.

We also strictly monitored the process of processing organic exhaust gas. The VOCs were captured through a centralized pipe network and processed with regenerative thermal oxidizers (RTO) technology to decompose the exhaust gas before emission which achieve a purification degree of 99.5%, so that the emissions can comply with national and local environmental protection indicators. For example, during the reporting year, the plants of COSCO Kansai Companies were equipped with a device which heats and catalyses the combustion of VOCs with the use of natural gas. The device runs 24 hours on every weekday, reducing the time required for the exhaust gas processing and achieve a combustion efficiency of above 97%. Also, the TPM training dedicated to the reinforcement of equipment standardisation so as to enhance employees' awareness of environmental protection. At the same time, the plants are subject to the supervision and inspection by government agencies from time to time to ensure their compliance with legal and regulatory requirements on environmental protection emissions.

In the plant of Jotun COSCO, under the guidance of the "Technical Guidelines for Large-scale Organic Pollution Control in Qingdao Key Industry Association (《青島市重點行業會大型有機物污染治理技術導則》)", we adopted the confined production systems and set up filtering systems to eliminate all unnecessary openings in the equipment and processes generating VOCs such as raw material storage, dispersion systems and toning, and installed curtains, the suction hoods connecting ventiducts and honeycomb ducts of exhaust gases for operating units such as semi-automatic packaging units and unloading systems to properly direct organic exhaust gas to the processing units to avoid evaporation or venting.

Waste Treatment

The activities of coating production of the Group may produce hazardous and non-hazardous wastes. Hence, we attach great importance to relevant waste processing with a responsible attitude. Hazardous wastes include residues from exhaust gas treatment facilities, wastes from manufacturing workshops and R&D laboratories, cleaning solvents, chemical raw materials and their packaging, etc.. We recycle, reuse such wastes at best efforts and improve our production management to minimize waste generation, ensure proper storage of the wastes and entrust qualified third parties to process them subsequently. During the year, both of COSCO Kansai Companies and Jotun COSCO recycled raw material packaging drums for such as solvents and resins in the production process, and refined their production models in order to diminish the usage of raw materials effectively and to reduce hazardous wastes. In addition, the Company hosted specific training workshops to enhance its staff's awareness and knowledge of hazardous wastes and processing procedures, so as to ensure adequate prevention and measures are in place.

Resource Consumption and Greenhouse Gas Emissions

The Group considers resource consumption as an important part of sustainable development. Enhancements in energy and material efficiency not only help the Company to achieve high performance in environmental protection and reduce the emission of greenhouse gases and pollutants, also lower our operational costs and address to the risks related to climate change in the long run.

The two coating manufacturing companies of the Group have been proactively practising energy conservation and environmental protection focusing on the development of energy-saving technology, further intensify their management in key energy-consuming equipments, and engaging in promotion of and training on energy conservation to bolster the energy-saving awareness among employees.

In all of our non-production business segments, we fully advocate energy and water saving as well as paperless office. Employees are strictly required to cooperate to deliver our vision of green and environmentally friendly office. The Company generally controls the temperature of its air conditioners within an appropriate range, with regular inspection on whether any power consumption equipment is operating with no staff presence. Employees are reminded to turn off the equipment if it is not used so as to reduce unnecessary power consumption. In addition, the Group supports green commuting by encouraging its staff to use public transport, executing travel management regulations rigorously, and recording the data on vehicle fuel consumption. On top of strict management, we post energy-saving labels and logos, encourage staff to use both sides of the paper and take other measures to improve the environmental awareness of our staff in daily life. All these efforts further improved the operational performance of the Company. During the reporting period, 72,304 litre of diesel, 50,427 litre of petrol and 42,413 cubic metre of natural gas were consumed by the Group, respectively.

In particular, Jotun COSCO's centralized incineration technology uses natural gas as fuel to avoid emissions from burning coal or oil, while reducing the energy consumption as well as operation and maintenance costs required for dispersed gas supply. In the non-explosion-proof factor areas, mercury-laden lighting equipments were replaced with LED light tubes, thus preventing the waste caused by poor energy efficiency, and the environmental pollution and health hazards from harmful substances.

Water Consumption and Discharge of Sewage

Owing to the nature of its business, the consumption of water and the generation of sewage in manufacturing operations are limited. Nevertheless, we are committed to protecting water resources. During the reporting period, the Group's coating plants purified and reused its sewage to mitigate the consumption of fresh water and reduce sewage generation.

In improving the awareness of water saving, the Company has posted water-saving labels in the staff lounge and conducted seminars from time to time, as constant reminders to the employees on the importance of water conservation.

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

	Unit	2018	2017
Sewage			
Sewage	metric tons	**20,227**	21,013
Waste gas			
Volatile Organic Compounds ("VOCs") and Benzene[Note]	metric tons	**10.88**	4.73
Toluene	metric tons	**0.37**	0.12
Xylene	metric tons	**0.73**	1.70
Particulate matter[Note]	metric tons	**1.71**	20.14
Other exhaust gas emission	metric tons	**0**	2.4
Wastes			
Solid wastes (Hazardous)	metric tons	**1,332**	1,420
Solid wastes (Non-hazardous)	metric tons	**274.9**	363.2
Package materials			
Coating package materials	metric tons	**4,014**	5,036

Note: COSCO Kansai Companies re-examined the calculation method in 2018, and the difference against 2017 mainly contributes to the new method applied the coating plant of COSCO Kansai Paint (Shanghai).

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

	Unit[#]	2018	2017
Scope 1			
Total emissions	metric tons	**419.84**	311.63
Petrol	metric tons	**136.55**	103.65
Diesel	metric tons	**191.58**	207.98
Natural gas[Note 1]	metric tons	**91.71**	N/A
Scope 2[Note 2 & 3]			
Total emissions	metric tons	**5,206**	3,858
Electricity	metric tons	**5,206**	3,858
Scope 3[Note 4]			
Total emissions	metric tons	**625.27**	419.31
Business travel	metric tons	**290.57**	251.85
Paper consumption	metric tons	**334.70**	167.46
Total GHG			
Total GHG emissions (Scopes 1, 2 and 3)	metric tons	**6,251**	4,589
GHG emissions per m^2 of floor area (Scopes 1, 2 and 3)	metric tons/m^2	**0.14**	0.15
GHG emissions per employee (Scopes 1, 2 and 3)	metric tons/ employee	**7.14**	5.42

GHG emissions data are presented in carbon dioxide equivalent.

Notes:

1. In response to the environmental policy, COSCO Kansai Companies began to use natural gas to replace some of the fuel oil used in 2018. Therefore, the natural gas data is only applicable to 2018.
2. In response to the regulatory requirements of environmental authorities, the coating plant of COSCO Kansai (Tianjin) and COSCO Kansai Paint (Shanghai) transformed their terminal facilities for exhaust treatment in 2018, which resulted in an increase in electricity consumption of facilities for exhaust treatment upon such transformation as compared with that of 2017.
3. The office of 北京中遠海運船舶貿易有限公司 (Beijing COSCO SHIPPING Ship Trading Company Limited*) ("Beijing COSCO SHIPPING Ship Trading"), had its power supply controlled by the local property management office who did not provide sub-meters for the units occupied. Hence, the emissions data relating to electricity does not include Beijing COSCO SHIPPING Ship Trading.
4. The emissions data relating to business travel excludes the business travel of management nominated by Japanese shareholder of COSCO Kansai Companies. For those locations that could not be identified, the calculation was made with estimated trip distance and relevant emission factors.

* for identification purposes only

Energy Consumption of the Group

	Unit	2018	2017
Energy consumption[Note 1 & 2]			
Total electricity consumption	KWh	**6,124,244**	4,620,545
Electricity consumption density per m^2 of floor area	KWh/m^2	**136.84**	154.74
Electricity consumption density per employee	KWh/employee	**6,991.15**	5,676.35
Water consumption[Note 3]			
Total water consumption	metric tons	**27,523**	43,303
Water consumption density per m^2 of floor area	metric tons/m^2	**0.73**	1.82

Notes:

1 In response to the regulatory requirements of environmental authorities, COSCO Kansai Companies transformed their terminal facilities for exhaust treatment in 2018, which resulted in an increase in electricity consumption of new treatment processes upon such transformation.

2 The office of Beijing COSCO SHIPPING Ship Trading had its power supply controlled by the local property management office or proprietors who did not provide sub-meters for the units occupied. Hence, the data relating to energy consumption does not include Beijing COSCO SHIPPING Ship Trading.

3 Water supply in members of the Group was controlled by their respective property management offices or proprietors who did not provide sub-meters for the units that the members occupied. Hence, our reporting on water consumption amount and density in 2018 only covers COSCO Kansai Companies and Beijing COSCO SHIPPING Ship Trading.

4.2 Valuing Biodiversity and Marine Environment, Reducing Emission of Hazardous Substances

Shipping industry has been struggling with biofouling, as ships attached with marine life and pollutants consume 40% more fuel and sail at a much slower speed than general cleaned ships. Meanwhile, according to the Performance Standard for Protective Coatings (“PSPC”) by the International Maritime Organization (“IMO”) which came into effect in 2006 and the International Convention on the Control of Harmful Anti-fouling Systems on Ships (the “AFS Convention”) which came into effect in 2008, on top of conform to the anti-corrosion criteria, all ships are required to stop using anti-fouling-and-wearing coatings that contain organotin; and countries have imposed restrictions on the pesticides used in anti-fouling-and-wearing coatings.

In accordance with the requirements stated in the soil pollution prevention responsibility that signed between COSCO Kansai Companies and the government of the People’s Republic of China, COSCO Kansai Companies engaged qualified third parties to assist in preparing the plan for corporate land use survey, and tested the ground-water quality, as part of its effort to pay attention to the impact of its operations on land use and ecosystem. In the future, COSCO Kansai Companies will continue its preservation efforts in the regions where it operates, and try the best to incorporate ecological planning into its business development.

Meanwhile, with an aim to protect marine life and provide customers with better energy-saving and consumption-reducing performance, while leveraging on its own research and development advantages, Jotun COSCO is committed to providing the shipbuilders and ship-owners with the best marine coating solutions.

Furthermore, Jotun COSCO re-launched SeaQuest, a premium series of anti-fouling coatings in 2018, which is considered the world's leading anti-fouling coatings. Containing no pesticide or metal toxins, such coatings resist fouling through new polymer technology and surface physical characteristics, causing zero damage to marine environment while providing 60-month protection against filth. Our hull performance solutions and high-performance anti-fouling paint Sea Quantum continue to present efficient, environmental and energy-saving anti-fouling coating choices for the market. This highlighted our commitment to preserve marine life and ecosystem and comply with relevant regulations.

4.3 Innovating Green Product Technology and Leading the Industry Back to Nature

COSCO Kansai Companies and Jotun COSCO have always been committed to the research and development of green products to drive industrial development. Over the past year, COSCO Kansai Companies introduced bridge coating materials and technologies that demonstrated the environmental value during the renovation period and subsequent maintenance procedures, by reducing the maintenance demand and restricting VOCs and solvent emissions. We are honored to have entered into a supply contract with the other two companies in November 2018, in relation to anti-corrosion coatings for the steel case of the immersed tube tunnel of Shenzhen-Zhongshan Corridor. We also earned the title "Influential Anti-Corrosion Coating Brand of the Year" for the ninth consecutive year at China Coatings Summit Forum (中國塗料高峰論壇) cum China Coatings Brand Conference of HC360.com. These events have further cemented the position of COSCO Kansai Companies in the anti-corrosion coatings market and the firm's environmental concepts which are widely recognized across various sectors.

Jotun COSCO successively rolled out a series of environmental coating products, such as solvent-free coatings, water-based coatings, and removable coatings for temporary protection. In particular, new types of coatings were launched one after another, such as VOC-free epoxy general primer, waterfine topcoat and removable coatings for temporary protection. These products not just effectively shorten the time of coating works and provide better protection for ships, but also mitigate VOC emissions up to 78%, 26% and 14.6% respectively. In addition, we never cease to promote water-based workshop primer with characteristic of zero emissions, simple construction, optimized welding and cutting speed as well as better anti-rust functions, in the hope of achieving more extensive industrial application and minimizing the environmental impact of coating works.

5. HEALTH AND SAFETY

Occupational health and safety serve as the cornerstone for the long-term sustainable development of a company. Only with safe working environment and manufacturing procedures in place can work-related injuries be prevented and normal operation of a company be ensured. As an investment holding company, COSCO SHIPPING International faces with relatively low safety risk during its daily operations. However, COSCO Kansai Companies and Jotun COSCO, with relatively high safety risk, engage in the production of inflammable and explosive coating products in Mainland China. It is an important social responsibility of COSCO SHIPPING International to its shareholders, employees and the community where it operates, to ensure stable and safe production. Therefore, the Group has always regarded the assurance of safety production and compliance management as its priorities, and strictly abide by the relevant laws such as the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Production Safety Law of the PRC (《中華人民共和國安全生產法》), and the Fire Protection Law of the PRC (《中華人民共和國消防法》).

The Group has established safety production and supervision management policies, with the implementation of supervision and accountability system. The document sets out the basic principles of "Two Responsibilities in One Post, Joint Management and Accountability for Delinquency" and "Safety as an Essential Component in the Management of the Industry, Business, as well as Manufacturing and Operation", thus defining occupational safety as the mutual responsibility for every employee. Hence, all divisions are accountable for their respective production safety, and supervised by the headquarters and integrated managed by safety production heads.

5.1 Safety Committee

The Safety Committee of the Group was established in 2006 with the mission of "Safety First, Precaution as Crucial and Consolidated Governance". The Committee is composed of representatives from different departments, supervised by the Company's major responsible officers, whereas the leaders in charge of production safety as the vice director of the Committee, and other leaders of the Company, such as the Head of Safety Committee Office and the General Managers of each subsidiary or department, shall be the member of the Committee. The Committee has three main functions. Firstly, the Committee makes an overall arrangement of the safety-related affairs of the Company and provide guidance for the safe production of the Group. Secondly, the Committee is responsible for the deliberation of annual safety work objectives of the Group, formulation of major measures for safe production, and solving major problems in the safe production. Thirdly, the Committee provides assistance for the Group in fulfilling the key work in safety production assigned by superior departments, the Safe Production Committee and its office.

5.2 Safety Management of Production Enterprises

Coating manufacturing plants may produce VOCs such as methylbenzene, xylene and formaldehyde, which will cause harm to human respiratory system, so we shall strictly manage the potential safety hazards during the production. For this end, we establish the "STOP" principle in the management strategy, and reduce the exposure of chemical substance by replacement, engineering control, management measures and individual protection, in order to reduce the risks of employees to suffer from diseases due to contact with the chemical substance. The Group formulates various measures to guarantee the safety of employees in terms of coating design, plant and warehouse management, production process, monitoring, inspection, and emergency response policies.

Replacement	Engineering Control	Management Measures	Individual Protection
• Use substitute products with less harmful substance or substance with low exposure risk, for instance, the powder is replaced with liquid substance or cream • Use less harm, low-concentration liquid substance	• Give priority to confined operation • The exposure site be equipped with ventilation facilites, and technical requirements shall be added according to the characteristics of substance	• Acquaint employees with hazardous chmicals and its exposure through training to reduce risk of chemicals • Evaluate the level of exposure of chemical substance on a regular basis • Offer personal health examinations for certain emloyees	• Choose and use personal protective equipment ("PPE") according to risk exposure and risk evaluation • Ask employees to comply with PPE protection requirements

5.2.1 Protecting Employees' Health with Green Products

COSCO Kansai Companies have been actively participating in the formulation of technical specifications of water-based container coating, which promotes the industrial progress and development. Three patented water-based container coating products suitable for various construction environments have been successfully developed as the substitute of traditional oil-based coatings. With the integration of the concept of health and safety into the product design through R&D and innovation, in order to reduce employees' contact with poisonous and hazardous volatile organic compounds during the construction process. Since the volatile organic compounds produced in the production and usage of coatings have certain hidden risks to the human health, Jotun COSCO develops the patented product, solvent-free epoxy universal primer, in order to reduce the usage of VOC-contained coatings during the production process. This kind of primer does not include the volatile organic compounds, and the construction period of the ballast tank is reduced from seven days to four days. Meanwhile, the Company adopts water-based coatings in the product R&D, and successfully develops water-based finishing coat, which reduces the VOCs emissions by 26%. When such water-based finishing coat is used together with the water-based primer under R&D, the VOCs emissions can be reduced by 75% compared with the pure solvent solution.

5.2.2 Safety Production

"Safety Production Month" of COSCO Kansai Companies

In order to enhance employees' awareness and knowledge of production safety, COSCO Kansai Companies held diversified activities in the safe production month in Shanghai, Tianjin and Zhuhai plants with the theme of "life utmost and safe development" in 2018, greatly enhanced the capacity of management and control over the safety of hazardous chemicals, navigation safety, fire safety and prevention from work-related accidents, thus improving the Group's safety control capacity.

In 2018, three plants of COSCO Kansai Companies signed the safety responsibility statements with 412 workers, organized and accepted 21 safety checks, and eliminated 92 potential safety hazards. Besides, the plants carried out 13 times of internal safety education and training with 477 employees participated, and organized six emergency drills, which were attended by 330 employees.

Meanwhile, Jotun COSCO formulates the chemical safety technical specification, stating cap amount of employee contact with emissions such as xylene, and the potential health risks caused by the coatings and relevant first aid measures. In addition, the specification also specifies the international transport standards of coatings during the production process such as the International Maritime Dangerous Goods Code (IMDG Code) of the United Nations, International Air Transport Association ("IATA") and International Maritime Organisation ("IMO"), in order to guarantee that sealed containers are used during the transportation of coatings, and such containers are kept upright and fixed. Considering that coatings are inflammable and poisonous liquid, the Company also formulates relevant emergency response measures for fire protection and leakage, so as to prevent potential industrial safety accidents. Moreover, in order to achieve industrial safety, Jotun COSCO further establishes the PPE management system, giving comprehensive governance on the purchase, usage, maintenance and storage of protective equipment.

Environmental, Social and Governance Report

5.2.3 *Inspection and Evaluation of Safety Management during the Production Process*

In order to monitor the achievements of safety measures, the Group formulated and generalized the safety management self-assessment system ("SMSA") for coating manufacturers in 2012 based on the current situations of the subordinate coating manufacturer, in accordance with the safety management standardization specifications of the coating industry such as the Law of the People's Republic of China on Work Safety, Hazardous Chemical Safety Management Regulations, AQ3013 General Norms for Safety Standardization of Hazardous Chemical Enterprises, AQ3040 Guidelines for Work Safety Standardization of Coating Enterprises and AQ5204 Safety Technical Specification of Coating Manufacturers. The system covers the safety management mainly in ten aspects, i.e. organization structure, management of risks and environmental factors, laws, rules and management system, training and education, production facilities, operation safety, product safety and hazard notification, occupational health hazards, accidents and emergency response, inspection and self-assessment. The Group will carry out an inspection on the SMSA once biannually by using the LEC scoring of the hazard analysis of operation conditions, and make risk identification and evaluation through 150 items in the checklist. The full score of the assessment is determined as 150. If the score of assessment falls below 90, it will be deemed as disqualified, 90-105 as qualified, 106-135 as good and 135 and above as excellent. The system assessment may adopt the respective scoring by several persons, and the average score is the score of the assessment. Potential hazards found in the inspection shall be rectified within the stipulated period. In case of any potential problems in the inspection, relevant departments shall take improvement measures within the stipulated period.

SMSA Evaluation of COSCO Kansai Companies

Summary Sheet of SMSA Evaluation of COSCO Kansai Companies in Previous Years

	Tianjin plant		Shanghai plant		Zhuhai plant		
Year	**First half of the year**	**Second half of the year**	**First half of the year**	**Second half of the year**	**First half of the year**	**Second half of the year**	**Average value**
2018	135	136	137	140	137	138	137
Average value for the assessment from 2012 to 2018	135	133	135	132	137	137	135

Work-related fatalities and injury cases during the reporting year of the Company are as follows:

	For the year ended 31st December	
	2018	2017
Work-related fatalities (No. of person)	**Nil**	Nil
Work injury cases (No. of case)	**Nil**	Nil

5.3 Safety Management of Non-Production Enterprise

The businesses of COSCO SHIPPING International, such as ship trading agency services, marine insurance brokerage, agency of marine equipment and spare parts, and trading and supply of marine fuel products, have low safety risk. The Group still initiated the formulation of safety policies and measures equipped its office with proper fire-fighting facilities such as fire extinguishers and filtering self-rescue respirator, required the maintenance service provider to carry out regular inspection and replacement, and designated staff for regular inspections on property safety, in order to ensure the exit passageways clear and unblocked. In addition, we organized fire drills and lectures from time to time. New employees must participate in fire drills, recognize the usage and storage of firefighting tools, and familiarize themselves with escape routes. In terms of indoor working environment, we urged the air-conditioner keeper of the property management company to monitor data on a regular basis, in order to guarantee that the indoor air quality have no impact on employees' health.

5.4 Reporting and Investigation Mechanism of Safety Accidents

The Group has formulated the reporting and investigation mechanism for production safety accidents, and implemented relevant accountability system. It is stipulated by the Company that, upon the occurrence of any safety accidents, relevant personnel should forthwith report to the person in charge of the relevant department, and the representative of the relevant department shall notify the person in charge of the Safety Committee via phone within one hour, and submit a complete report. Upon receipt of the notification, the Safety Committee of the Group shall make verification and preliminary judgement of the event, and report to the leader of the Company in charge of the safety. The Company will establish a specific responsibility team for internal investigation based on the severity of the event, and invite internal and external experts to participate in the investigation, accurately find out the process, reason and losses of the accident, and raise improvement measures and accountability suggestions when necessary. After that, the Company will alert or admonish with relevant personnel of the production safety accidents according to the severity of the accident. In case of any concealment, delayed report, omitted report or failure to make emergency response and improvement, the Company will punish responsible persons in the headquarters and the leader of the unit related to the production safety accidents.

During the reporting period, to the best knowledge of the Group, the Group didn't have any incompliance with relevant standards, rules and regulations with significant impacts. In 2018, there were no work-related fatalities (2017: nil), work injury cases (2017: nil), nor any significant accidents in relation to production safety.

6. CARING FOR EMPLOYEES AND HARMONIOUS DEVELOPMENT

We are convinced that excellent talents are not only an important asset of the Company, but also an indispensable partner in the pursuit of sustainable development. Therefore, the Group has always adopted a "people-oriented" development strategy to take care of employees' needs in recruitment, training, retention, promotion and career development. Upon the management of employee affairs, the Group adheres to the four principles, namely managing in accordance with regulations, establishing a fair and open system, meritocracy and emphasizing the coexistence of rights and obligations. Through the above principles, we are committed to creating a pleasant, fair and meaningful working environment for our employees. At the same time, the Group regards employees' physical and mental health as its responsibility, pays attention to the emotional status of employees and their work-life balance, and promotes enthusiasm in the development of personal interests and potentials.

6.1 Occupational Development and Training

COSCO SHIPPING International has attached importance to the career development of its employees and encouraged continuing education in order to adapt to the everchanging changes in commercial society. The Group understands that employees have different learning needs, and has developed the following four training categories for employees of different qualifications, duties and positions. Firstly, the Group's subsidiaries provide basic orientation training for all the new staff covering our human resources management policy, financial management policy, development strategic plans, logistics management rules, occupational health training, safety management training and special operation training. Secondly, according to the business development of the Company, the human resources department regularly discusses the Company's training needs with various departments to select key training topics, and invites relevant experts or professionals to give large-scale special training. Thirdly, the Company's human resources department is responsible for arranging employees to participate in training organized by the Group or other groups. Fourthly, employees can also take their own initiatives to participate in training programs organized by Hong Kong/overseas professional learning groups, such as short courses, lectures, seminars or conferences, certificates, diplomas and other degree courses. The Company encourages, supports and provides subsidies for such further training programs. In 2018, the Company held a total of 5 training sessions and supported a total of 22 employees for further training courses. In the future, the Company will continue to enhance the quality of its management personnel through systematic training, give employees more opportunities for development and promote the growth of each employee together with COSCO SHIPPING International.

In order to strengthen employees' understanding of the Listing Rules so that the Company can achieve good corporate governance and better conduct its business in compliance with laws, the Company held the "Listed Company Compliance Lecture" on October 2018 and invited lawyers to give lectures. A large number of employees from headquarters of the Company have participated with overwhelming responses.

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

	For the year ended 31st December	
	2018	2017
Total no. of training hours received	**13,911 hours**	15,599 hours
Average no. of training hours per employee/rate of employees trained by employee category		
Senior	**18 hours/81%**	31 hours/80%
Middle-level	**24 hours/55%**	19 hours/41%
General	**16 hours/88%**	14 hours/70%
Average no. of training hours per employee/rate of employees trained by gender category		
Male	**13 hours/84%**	11 hours/65%
Female	**32 hours/76%**	33 hours/75%

6.2 Caring Employees' Physical and Mental Health

6.2.1 Employees Participation

The Group values the opinions of its employees and is committed to growing with its employees. In order to understand the employees and help them to relieve the pressures of work and life, the Group encourages employees to make reasonable proposals to the Company in order to enhance internal activities and improve economic benefits. To this end, the Group established the "Implementation Award Measures for Reasonable Recommendations" to encourage employees to make recommendations in the name of individual or team. After collecting the comments, the Company's recommendation team will review in the special meeting to determine the testing or practical application for the proposal. Once the recommendation is accepted, the team will provide appreciation and reward based on the score of such recommendation by assessing its importance, scope of application and impact at the end of the year. Through this approach, the Group encourages its employees to express their opinions to understand their ideas, thereby improving the Company's operational performance.

6.2.2 Care Employees

COSCO Shipping International concerns the balanced lives of employees. In addition to arranging the annual free medical check-ups, employees are encouraged to participate in corporate activities such as various recreational and sports activities, health talks and interest classes to enhance employee's loyalty to the enterprise and the work morale and productivity, as well as to promote their physical and mental health and enhance the quality of their lives, so as to achieve "balance between work and life".

In order to organize employee activities in an effective way, the Company established the employee association with COSCO SHIPPING (Hong Kong) Group and formulated the constitution to clarify its position and duties and promote effective exchanges between employees. The functions of the association include building a volunteer team, organizing various activities and organizing employee caring and holiday activities.

Hiking Activities with Employees

Employees walk out of the urban areas and embarked on a trip to the mangrove pontoon to get in touch with nature.

Employees participated in the event of hiking on the Lion Rock and took pictures to recall fondness.

Environmental, Social and Governance Report

6.2.3 Employees' Family Life

The Group concerns about the physical and mental healthy development of the employees. In order to increase the support on the employees' work from their family, we organised various mega-events to encourage the participation of the employees' family members, demonstrating that the Group attaches great importance to their family life. Meanwhile, the Group promotes its operating concept of loving the sea through such events. Therefore, the employees can balance their pressures from work and family, while their family can be proud of their work.

For example, in 2018, we held a large-scale children drawing competition, which gained overwhelming response. We received a total of 136 pictures, and a total of 2,010,000 members of public visited the official WeChat page and a total of 280,000 members of public participated in the voting. Themed by the marine conservation and ecological environment protection, we motivated the artistic creativity of the children and thereby promoted the Group's operating aim of marine conservation. For the sake of recognition and corporate promotion, we incorporated the drawings in this annual report and other internal publications.

Come on, let's paint!

Winning works of the children of employees.

6.3 Employment and Labor Standards, Equal Opportunities and Anti-Discrimination

COSCO SHIPPING International is committed to providing a fair and competitive compensation package, in the form of basic salary, incentive bonus, mandatory provident fund and other fringe benefits such as healthcare benefits, education and training allowances. Apart from basic fringe benefits such as paid annual leave and sick leave and medical insurance, we also provide additional leave options such as paid wedding leave and paternity leave to attract and retain quality talents. In response to special needs of our employees, we have "Flexible Working Time Policy" for employees with needs.

The Group abides by the employment regulations of the places where it operates, including the "Employment Ordinance", the "Employees' Compensation Ordinance" and the "Occupational Safety and Health Ordinance" 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" in the PRC. The Group strictly complies with the internal recruitment process including the "Administrative Measures on Recruitment and Employment" and the "Administrative Measures on Labor Contract", to ensure no employment of child labour and forced labour. The Group has its internal procedures to report employees' information regularly in order to review employment practices so as to avoid any non-compliance.

Details of workforce of the Group are as follows:

	For the year ended 31st December	
	2018	2017
TOTAL NUMBER OF EMPLOYEES	**876**	846
By gender		
Male	**652**	662
Female	**224**	184
By region		
Hong Kong	**196**	110
Mainland China	**644**	701
Oversea	**36**	35
By age group		
Below 30	**110**	174
30 to 50	**627**	594
Over 50	**139**	78

Employee turnover rate of the Group (%):

	For the year ended 31st December	
	2018	2017
OVERALL TURNOVER RATE OF EMPLOYEE	**10%**	5%
By gender		
Male	**10%**	4%
Female	**11%**	7%
By region		
Hong Kong	**24%**	19%
Mainland China	**6%**	2%
Oversea	**0%**	9%
By age group		
Below 30	**5%**	3%
30 to 50	**10%**	4%
Over 50	**14%**	10%

7. OUR OPERATING PRACTICES

As a responsible enterprise, the Group believes that only through sustainable operational policies, strategies and methods can create the long-term value for the business and stakeholders. We do our best to understand the needs of our partners, comply with local and international legal trade practices and adopt a sustainable procurement policy of "Clean, Honest and Open Procurement" as well as the Health, Safety, Environment and Quality (HSEQ) policy.

7.1 Green Supply Chain Management

Sustainable Procurement Policy

The Group is committed to promoting sustainable and responsible operational standards. The sustainable procurement policies have been in place in the areas of business and supply chain. When selecting suppliers, the Group not only considers product quality and production efficiency, but also assesses the environmental and social impacts and risks in production and operation. We formulated a series of internal systems including the "Procurement Management Measures", "Tendering Procurement Management Measures", "Non-tendering Procurement Management Measures", "Centralized Procurement Management Measures", "Supplier Management Measures", "Special Affiliated Enterprises Management Measures" and "Procurement, Outsourcing and Supplier Management Supervision Measures", so as to clarify the procurement principles and processes, require suppliers to produce and operate in compliance with applicable laws and regulations, effectively monitor their working environment and quality, control risks and maintain the healthy development of the ecological supply chain. Asphalt is one of the products of COSCO SHIPPING International. We formulated and implemented the "Asphalt Supplier Management System", which requires suppliers to provide relevant approval or acceptance of materials in respect of fire protection and environmental assessment to ensure the safety of asphalt storage and any resulting environmental impact. In terms of marine coatings, as the response to the concerns of stakeholders, in 2018, Jotun COSCO has added the evaluation and selection processes of external suppliers in the Procurement Control Procedures, and will evaluate qualified suppliers every year and strengthen the dynamic management of qualified suppliers.

According to the Procurement Management Measures and the Supplier Management Measures of the Group, as for selecting suppliers, potential suppliers must meet the Group's requirements on the certification and standard systems for health, safety, environmental protection. Only the suppliers that have passed the review conducted by our dedicated review team can be listed in the Group's procurement supplier database. In principle, each purchasing unit should select the majority of the suppliers from such procurement supplier database and its own procurement supplier list. The supplier database is updated regularly every three years. Suppliers who violate the commercial bribery commitment clause are not allowed to enter the Group's qualified supplier database.

7.2 Supplier Evaluation and Supervision Mechanism

We have established a supplier evaluation mechanism to evaluate and review the suppliers every year. The suppliers that do not meet our requirements will be delisted in our procurement database and the contractual relationship will be terminated immediately. Evaluation indicators included fundamental capability, cost competitiveness, delivery fulfilment, quality control, customer service, business innovation, and safety and environmental protection, etc.. Suppliers whose professional qualifications are invalid in causing safety and environmental protection incidents or commit commercial bribery will be scored as zero point.

The Group requires all units to formulate measures that based on the evaluation results, for example, giving priority to business, giving feedback to urge rectification or delisting from the database. In 2018, the Group evaluated a total of 78 services, materials and engineering suppliers. The total purchase amount involving these suppliers amounted to HK$23,550,000, and the procurement being evaluated included office operations, renovation works, catering and cleaning services.

In addition, the Group and its business units have established a supplier rating system, ranked as A, B, C, D and E, representing strategic suppliers, quality suppliers, qualified suppliers, negative suppliers and eliminated suppliers respectively. Such supplier rating is performed on an annual basis and is jointly determined by the supplier purchasing departments and the user departments. We prioritize cooperation opportunities with A-level suppliers, and eliminate the qualified-supplier qualification for E-level suppliers, so as to actively promote stable and mutually beneficial partnerships with excellent, industry representative and innovative suppliers, striving for sustainable development together.

According to the internal systems and policies related to the supervision and administration methods on procurement, outsourcing and supplier, the Group strictly conducts tracking and inspection at all stages of supplier management, thereby achieving scientific management of the business execution process and establishing and improving the corresponding inspection and supervision mechanism. The Group's headquarters in Hong Kong and all units perform their own functions and fulfil their supervisory duties in accordance with the internal policy systems. The supervision and auditing departments of the Group's headquarters in Hong Kong and its subordinate units shall carry out necessary routine supervision and inspection on the implementation of the regulations and rules regarding the supplier management formulated by various departments and units, and propose corresponding rectification opinions. Adhering to the principle of "those in charge shall be responsible", for any unit or individual that violates internal system policies or regulations, their leaders shall be held responsible in addition to any punishment for such violating unit or individual.

The Group continues to promote the localization of suppliers. Under the same terms and conditions, we prioritized a mutually beneficial partnership with local suppliers. With the application of scientific technology in logistic management, we are committed to shortening material delivery time, while controlling warehouse storage and delivery pressure, reducing vehicle emissions and negative impact on the environment.

The number of the Group's suppliers by region:

	For the year ended 31st December	
	2018	2017
Mainland China	**686**	813
Hong Kong	**223**	118
Other Countries	**619**	733

7.3 Management of Product Quality and Responsibility

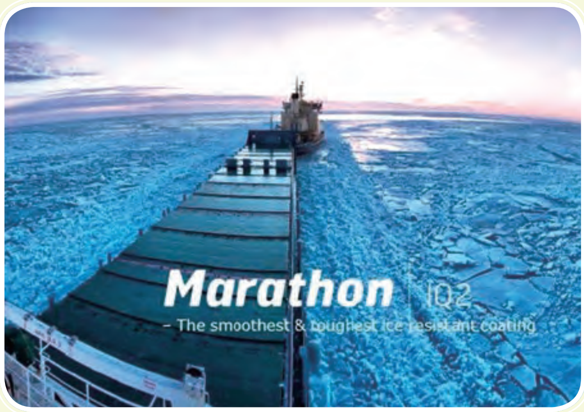
7.3.1 Product Safety and Health

With product safety and health as our top priority, the Group observes the relevant local and international laws and regulations as well as trade practices, in an effort to provide customers with high-quality, healthy and safe products. We abide by our principle as a responsible enterprise, and regard the quality and safety of products as the precondition for the Company's sustainable development of all business within the Group. From sourcing raw material to product recall, return and replacement, we monitor the processes pursuant to local or international standards, together with relevant internal regulations in place to scale up every part of our production and operation processes continuously.

COSCO Kansai Companies and Jotun COSCO, both as dangerous chemical production enterprises, have provided all their products with technical manuals on product safety and safety labels based on unified classification and format under the relevant requirements of the State Administration of Work Safety, and also have strictly complied with the notice of the "Implementation Plan for Reducing Lead Content in Coatings of the Container Industry" (集裝箱行業降低油漆鉛含量實施方案) issued by China Container Industry Association, the "Rules for Classification and Labelling of Chemicals" under the GB30000 national standard series of the People's Republic of China, the "Product Quality Law of the People's Republic of China", the "Regulations of the People's Republic of China on Administration of Chemicals subjected to Supervision and Control", the "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 reporting period, the Group was not aware of any non-compliance with relevant standards, rules and regulations that had a significant impact on the Group.

In addition, relevant subsidiaries which are principally engaged in operating a series of high-performance marine coatings and solutions have established and implemented their internal policy on health, safety, environment and quality (HSEQ) in line with international standard systems, to ensure the execution and improvement of production technical standards, operation safety, as well as product and service quality. During the manufacturing of marine coatings, the company has a detailed control procedure on product monitoring and measurement, to monitor and measure the quality characteristics of coatings from the testing of raw and auxiliary materials, inspection on intermediate products, testing of finished products to product clearing, so that product requirements are satisfied. In particular, the testing sheets on raw and auxiliary materials as well as spot check records on technical processes are kept for a period of five years by the technicians responsible for raw material testing and technical processes respectively. In addition, the company has published its best operation procedures to save fuel and reduce greenhouse gas emissions. Such procedures are designed to guide its staff to be aware of resource conservation in their daily production and operation, so that they can maintain operation safety and protect resources and the environment whilst saving the cost for the company. For instance, at its factory in Qingdao, the company encouraged to turn the paint buckets upside down at night, save resin, and reduce the emission of toxic wastes and relevant treatment charges.

7.3.2 *Green Innovation for Environmental-friendly Products*



For green shipping, Jotun COSCO supports marine conservation.

The Group has a particular advantage on the anti-corrosion business for the construction projects of the bridges. COSCO Kansai Companies managed to launch its R&D product, a new generation of coating products with superior weatherability, anti-corrosion and anti-fouling performance. The company also completed its mission to supply anti-corrosion coatings to the steel structure of the Hong Kong-Zhuhai-Macau Bridge, which was officially open for traffic in 2018, and provided quality management and technical support during its construction.

The Group consistently focuses on technological R&D and innovation. As an industry leader in marine coating products, Jotun COSCO was successful in providing marine coating solutions to "COSCO SHIPPING ARIES (中遠海運白羊座)" and "COSCO SHIPPING TAURUS (中遠海運金牛座)". In particular, Hull Performance Solution, based on the big data of intelligent ship-handling systems and ISO 19030 international standard, is capable of reducing the extra loss of speed during ship operation through high-performance anti-fouling paint, which in turn leads to a drastic decline in fuel loss and fewer greenhouse gas emissions.

The 2018 World Transport Convention lifted its curtain at China National Convention Center in Beijing, where Jotun COSCO showcased the new generation of super wear-resistant topside paint at its booth. The coating product, specially designed for ships which sail in icy areas, has an ultra-solid surface and enhanced wear-resistance function, making it applicable to various harsh polar environments. In addition, its film boasts a highly smooth surface with no attachment of ice fragments, enabling ships to sail with less resistance and fuel consumption in icy regions and produce fewer carbon emissions to polar atmosphere. This product remains the sole coating product that contains no toxic phenol and is suitable for use in icy areas in the market. COSCO SHIPPING International has been dedicating itself to confronting the challenges in ocean engineering protection and driving the sustainable development of the industry.

7.3.3 *Addressing Risks in New Environment*

Technology brings us both convenience and problems. As growing attention to internet risks, to deliver proper risk prevention and control, the shipping insurance company under the Group has widened the scope of its underwriting to include the ransom payment for online blackmails, loss by operation terminals caused by system breakdown, data restoration costs, network security defense costs, etc. We hope that in the event of an online attack, customers can have their loss reduced under our insurance coverage and resume normal operation quickly. Not only that, we hosted training and symposiums for customers in Shenzhen, where we prepared training topics based on customer demand and heated issues on shipping. We also invited a number of experts from China Shipowners Mutual Assurance Association, Association of British Insurers and The Swedish Club to engage in special discussions on safe haven, nickel ore shipping risks and handling of damaged commodities, as well as compensation procedures. The Group will continue to follow the frequently discussed issues in shipping, insurance and laws, focus on the actual demand, and adopt a variety of channels such as regular customer sessions and door-to-door customised training service to enhance communication with such customers and promote sustained and robust development of its business.

In tandem with R&D innovation, the Company attaches great importance to intellectual property rights and have relevant subsidiaries principally engaged in the development of coating products. The protection of intellectual property rights goes beyond coating products to include but is not limited to the manufacturing methods, equipment and facilities for coating products as well as their functions and characteristics. The term of patent protection is determined according to product sales cycle, as the Group sorts out its intellectual property structure on a regular basis.

COSCO Kansai Companies Supplying Anti-Corrosion Coatings to the steel structure of Jiaxing-Shaoxing Sea Bridge.

7.4 Customer Care and Information Protection

The Group strives to provide its customers with high-quality, healthy and safe products and services, and stays highly attentive to customer satisfaction with products and services. With great importance attached to the complaints about the products and services concerned, the Group has established its procedure for handling complaints (including those about services and products). During the reporting period, the Company incurred 205 pieces of its products manufactured and sold being recalled due to safety and health concern. The designated personnel has carried out investigations and take measures to prevent such complaints in the future.

COSCO Kansai Companies have had its “Administrative Procedure for Customer Feedback” in place to bolster the management of its customer complaint system, standardise the process of customer satisfaction survey, and never cease to ramp up its supply service quality to raise customer satisfaction. In addition, COSCO Kansai Companies specified in its “Process for Paint Return” that the management is aware of such product returns to take necessary further measures for rectification and prevention, so as to prevent the re-occurrence of issues concerning disqualified products. During the reporting period, the Company received a total of 1 complaints about its products and services. The companies concerned have made adjustments to the manufacturing methods and products and replaced the goods. All complaints have been properly handled and settled.

Through the customer satisfaction survey, the Company studies customer satisfaction in terms of the quality of service by sales and technical service personnel, delivery, ordering and invoicing, as well as the overall service of the Company, taking customers’ views into account.

The Group observes local and international statutory standards on information confidentiality, to ensure that the information of its business and stakeholders (including customers) will not be leaked. Pursuant to the "Anti-Unfair Competition Law of the People's Republic of China", the "Interim Provisions on the Protection of Trade Secrets of Central Enterprises" promulgated by the State-owned Assets Supervision and Administration Commission of the State Council, and the "Administrative Measures on the Protection of Trade Secrets of China COSCO Shipping Corporation Limited", the Group has put in place its "Administrative Measures on the Protection of Trade Secrets", to strengthen its work on protecting the trade secrets and customer information of COSCO SHIPPING International. Apart from that, the Group has its "Administrative Measures on Inside Information" in place, and manages information in the basic principle of "truth, accuracy, completeness and timeliness". In addition to complying with Personal Data (Privacy) Ordinance (Hong Kong), we specified in our "Staff Management Measures" that prohibited to leak important information such as customer information and strategic cooperation agreements with customers to any external party, unless stipulated otherwise under laws and regulations. Jotun COSCO also observes the new EU law on customer data protection, which came into effect in May 2018. The Company has established the "Binding Corporate Rules (BCR)" which requires all the units and employees to comply with the same system on privacy protection, staff being appointed for protecting global, regional and local information, and a global data protection regime (GDPR) to be established and improved.

7.5 Anti-corruption

7.5.1 Anti-corruption Policy

Highly attentive to commercial ethics and anti-corruption, COSCO SHIPPING International has incorporated business ethics and code of conduct into the Group's risk management framework, with the Board responsible for ensuring that an effective system is maintained in respect of risk management and internal control. The Group abides by 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" and establishing the systems and has been improving its internal policies for the Punishment and Prevention System. In 2018, we updated our "Professional Ethics and Code of Conduct for the Staff of COSCO SHIPPING International (Hong Kong)" and "Whistleblowing Policy for COSCO SHIPPING International (Hong Kong)", the implementation of which will commence in January 2019. We require the staff of our Group to maintain high integrity and moral standards, and meet the due ethical standards in handling various affairs. Staff shall remain honest and fair. No staff shall use their authority to engage in bribery or receive other illegal income, use their authority to secure illegal or improper benefits for themselves, their family members or others, to seize business opportunities from the Company (unless those that the Company is aware of and has confirmed to give up in writing), use the company assets in any form to secure personal interests, engage in other activities which may impair the interests of the Company. Any staff who breach the code of conduct are subject to disciplinary punishment, with possible termination of employment in serious cases. Given any suspicion that the breach involves corruption or other criminal offences, the Company will report to relevant authorities.

In the whistleblowing policy, the Company sets out the scope of compliant which can be reported and the protection terms of whistleblower. Any attempt by any individual to interfere with any compliant or investigation will be deemed to be severe disciplinary breach. Despite the channels for compliants are open, all information regarding compliants are kept strictly confidential as set out in the term for protection of whistleblower.

Environmental, Social and Governance Report

7.5.2 Anti-corruption Trainings

The Group stressed on employees training (including the part-time and contractual) regarding the anti-corruption awareness and provide related training. The Corporate Governance Committee reviewed and monitored the relevant anti-corruption training for directors and senior management of the Group. The Group and its subsidiaries are also actively participated in anti-corruption trainings organized by COSCO SHIPPING Group, in a bid to enhance the anti-corruption awareness and education on integrity.

COSCO SHIPPING International held a specific training seminar on corruption prevention, and invited the senior community relations officer of the Hong Kong Independent Commission Against Corruption to elaborate.

7.5.3 Anti-corruption Supervision

Anti-corruption affairs of the Group are initiated by the Audit and Supervision Division of headquarters of the Company with the cooperation of the anti-corruption in charge of each business unit. According to the internal policies related to managing and supervising procurement, outsourcing and suppliers, departments in charge of procurement, outsourcing and supplier management are responsible for supervision, inspection and assessment, while Audit and Supervision Division is responsible for supervising and inspecting implementation status. All inspection, assessment and supervision are recorded in writing available for inspection. In the principle of “whoever takes charge should be responsible”, if any unit or individual receives benefits or rebates from suppliers, colludes with suppliers, plays, commits fraud and forges business volume, etc., not only such person(s) directly liable, the relevant managers shall be responsible thereof. It's specified in the Measures for Managing Special Affiliated Enterprises that special affiliated enterprises are the focus of Audit and Supervision Division for supervision through various channels such as special examination, efficiency supervision and audit in a regular or irregular manner, guarding against integrity risks. Apart from investigating responsibilities of the persons liable, entity responsibility, supervision responsibility and "One post double duty" responsibility of corresponding organization with benefit transfers are investigated. During the reporting period, the Group 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 2018 (2017: Nil).

In the Measures for Managing Performance Examination of Companies under Direct Management that newly revised in 2018, we set certain restrictive indicators for management transactions, risks and internal control and other staff ethics and anti-corruption requirements, and included them in the business assessment guidelines to achieve a dynamic tracking and evaluation.

8. FULFILLING OUR RESPONSIBILITY AND GIVING BACK TO THE SOCIETY

In the pursuit of "giving back to the community with what they get from the community" philosophy, COSCO SHIPPING International fulfill corporate social responsibility at our best effort. We have formulated Charitable Donation Policy, established a volunteer team and offered volunteer holiday to encourage employees to actively participate in social welfare activities, showcased our care to the society with actions and contributed the development of a better and more harmonious community.

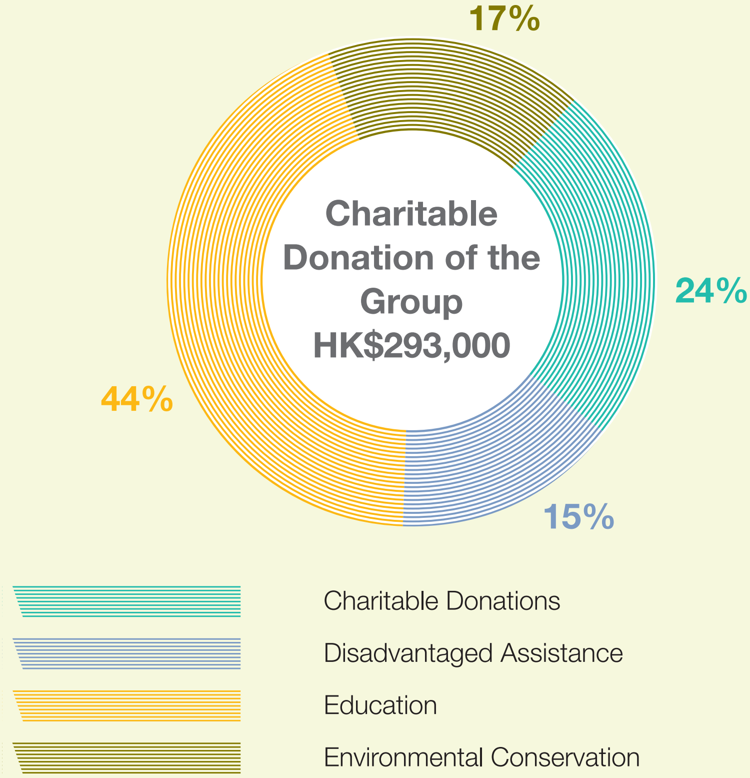
8.1 Formulating Charity Donation Policy

COSCO SHIPPING International formulated a Charity Donation Policy in 2014 to reinforce our commitment to building partnerships in the communities where the Company and its subsidiaries operate. The donation policy provides a guideline for the Group to make reasonable allocation of its capital in NGOs and other charitable bodies, and specifies the charitable methods. According to the policy, the annual charitable donation budget covers the direct donations and indirect expenses to all charitable events and related community services for the year.

8.2 Community Involvement

With the team slogan of "Our Passion to Serve", COSCO SHIPPING International has been participating community volunteer services since 2011. The Group offers volunteer holiday to encourage and praise the staff with a passion for serving the society. The staffs in Hong Kong who has participated in volunteer services organized or referred by the Company for over 2 hours but less than 4 hours are entitled to a half-day paid leave and for those above 4 hours in one day are entitled to one-day paid leave, respectively, demonstrating that the Company strives to promote volunteer culture enterprise-wide.

In 2018, the Group's involvement in the community mainly focused on the areas of charitable donation, environmental conservation, education and provide assistance to the disadvantaged.



Supporting Education in Mountainous Areas

"Sowers Action Challenging 12 Hours" charity marathon is an annual large-scale fund-raising activity organized by Sowers Action, which aims to raise funds for education-aid project from the public, improve the quality of life of poor orphans and children, provide student aid and other education-aid projects, and enable participants to experience the hardships of students in the mountainous regions of China for walking to school in the activity.

Since 2008, COSCO SHIPPING International has sponsored the charity marathon, organized by Sowers Action, a non-profit making charitable organization, for 11 consecutive years, and provide subsidies to employees to encourage them to participate in the charity walk. On 21 October 2018, 62 persons of our employees and their family members, grouping into 16 teams, participated in the charity marathon of "Sowers Action Challenging 12 Hours 2018" for 12 kilometers. In the past 11 years, the Company has been persistently sponsoring the fund-raising activity of Sowers Action Challenging 12 Hours and in total funded 419 employees in fund-raising event, also, directly subsidize students in mountainous areas covering the beneficiary students from Sichuan, Yunnan and Gansu etc..

Caring for the Disadvantaged

Warm Visit to Inherit Deep Love

Since 2011, COSCO SHIPPING International has cooperated with a non-profit organization, "Neighborhood Advice-Action Council", and actively participated in the "Inheriting Love Deep Care Plan" organised by Sham Shui Po District Elderly Community Centre of Neighborhood Advice-Action Council, sending its volunteer team during the winter days and festivals such as Dragon Boat Festival and Mid-Autumn Festival to visit singleton elderly. So far, we have served 2,024 hours in total and visited 519 singleton and household-elderly.

In particular, on 15 September 2018, 43 members of COSCO SHIPPING International volunteer team participated in the volunteer activity of "A Mid-Autumn Festival Visit to Inherit Love" held by "Neighborhood Advice-Action Council" to send mid-autumn festival gifts to 40 elderly persons who lived alone or in household, as well as care of the volunteers to jointly celebrate the festival. On the same day, volunteers also inspected the home safety for the elderly and for taking preventive measures against "Typhoon Mangkhut", a super typhoon increasingly approaching Hong Kong at that time, and promote the volunteer service spirit of "Our Passion to Serve".

Launching a Fund-Raising Activity on the "Poverty Alleviation Day"

17th October marks not only the poverty alleviation day in China but also "International Day for the Eradication of Poverty" of the United Nations. In order to uphold the spirit of COSCO SHIPPING Group for helping the underprivileged and proactively respond to the national call for poverty alleviation, COSCO Kansai Companies and COSCO SHIPPING Insurance Brokers together with companies in four areas launched fund-raising activity on the theme of "Poverty Alleviation by You and Me". Nearly 300 persons participated in onsite donation and many employees travelling on business specially entrusted colleagues to donate on their behalf. The activity was aimed to help the low-income families and people in straitened circumstances in the targeted poverty alleviation plan with practical action, and make a contribution to poverty alleviation. Donations obtained in the activity would be used in the designated areas of five poor countries, including education support and other precise poverty alleviation projects and pair support.

	For the year ended 31st December	
	2018	2017
Community Investment		
Corporate charitable donations & sponsorships (HK$)	**293,000**	285,000
Volunteer Participation		
Participants	**283**	93
Service hours	**1,335**	388
Beneficiaries		
Number of beneficiaries	**158**	132

Advocating Environmental Protection

Protecting Marine Ecosystem

Since joining WWF-Hong Kong and becoming a pure silver member in 2011, COSCO SHIPPING International has been funding the organization's environmental conservation work in Hong Kong.

COSCO SHIPPING International has shown support for WWF-Hong Kong's initiative of "Say No to Shark Fin" by ceasing the consumption of shark fins and known endangered marine species in the menu of large-scale dinners, and has strictly adhered to "Prohibition of Transportation of Shark Fin Policy", so as to show the determination of the Company to boycott the trade of endangered species and protected marine lives.

In order to reinforce our employees' awareness of the marine ecosystem conservation, the Company has arranged environmental guide tour activities for employees that organized by WWF-Hong Kong, such as the visit to the Mai Po Conservation Area, Hoi Ha Wan Marine Life Centre and the Tai Po Yuen Chau Nature Environmental Protection Research Centre in order to learn to protect the precious resources of nature and foster a sense of conservation of marine ecosystem and sustainable living.

Green Printing

During the year, the Company adopted environmentally-friendly paper accredited by a non-profit green body, Forest Stewardship Council ("FSC"), in the bulk printing of the Company's annual reports and other marketing collaterals. This helped curb the illegal logging, reduce the damage to the nature caused by consumption of papers, showcasing the Company's sustainable operation philosophy of undertaking environmental responsibility and bringing benefits to the society.

Promoting Recycling

The Company keeps a long-term partnership with Christian Action, a social organisation, which aims to seek welfare for the poor and the disadvantaged through education, vocational training, recreation, health and social services, entertainment and other projects. Since 2009, the Company would collaborate with Christian Action to organize "Green Collection Day" programme which aims to encourage the employees to donate recycled items to the people in need. This not only helps the discarded items re-gain values, but also helps reduce waste. In 2018, a total of 156 kilograms of clothes, toys and electric appliances 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 of China.

8.3 Awards and Social Recognition

During the year, COSCO SHIPPING International made significant contributions by pursuing its management strategy and maintaining business operation, promoting sustainable development in many aspects, especially marketing, safety management, product technology, energy conservation and emission reduction, professional ethics of the staff and social participation further safeguards and balances the rights and benefits of shareholders, business partners, employees, customers and suppliers etc.. On the way to create a win-win situation for business and sustainable development, we are fortunate to be recognized and confirmed by the communities. In 2018, in terms of sustainable development, we were awarded "10 Years Plus Caring Company Logo" by The Hong Kong Council of Social Service, awarded the Hong Kong Outstanding Corporate Citizenship by Hong Kong Productivity Council, honored with Gold Award in the Asset Corporate Awards by The Asset magazine, and won International ARC Awards Competition, while COSCO Kansai Companies were honored with "Contribution Award for China Coatings Industry Policy and Regulations".

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 2018.

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 36 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 2018 are set out in the consolidated income statement on page 122 of this annual report. The Board has recommended the payment of a final dividend of 9 HK cents (2017: 12 HK cents) per share for the year ended 31st December 2018. Subject to the approval of the shareholders of the Company (the "Shareholders") in the annual general meeting to be held on 31st May 2019 (the "2019 AGM"), approximately HK$137,966,000 will be payable on 28th June 2019 to the Shareholders whose names appear on the register of members of the Company on 12th June 2019. The proposed final dividend together with the interim dividend of 5 HK cents per share, total dividends per share for the year 2018 are 14 HK cents (2017: 18 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 Mainland China 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 2018, 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.

Directors' Report

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group 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 2018 calculated under Companies Act of Bermuda amounted to HK$7,575,440,000 (2017: HK$7,462,500,000).

BORROWINGS

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the borrowings are set out in note 21 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 19 and note 35 to the financial statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 18 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$293,000 (2017: HK$285,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on pages 195 to 196.

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 but remains as Executive 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. Ma Jianhua
(appointed on 30th October 2018)
Mr. Feng Boming
(appointed on 15th January 2018)
Mr. Chen Dong
(appointed on 15th January 2018)
Mr. Ren Yongqiang
(appointed on 15th January 2018 and resigned on 30th October 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. Zhu Jianhui, Mr. Ma Jianhua, Mr. Liu Gang, Mr. Tsui Yiu Wa, Alec and Mr. Alexander Reid Hamilton shall retire from office at the forthcoming annual general meeting of the Company and be eligible for re-election.

Mr. 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. Mr. Ren Yongqiang resigned as Non-executive Director on 30th October 2018 due to change of work designation. Each of Mr. Ye Weilong, Mr. Liu Xianghao, Mr. Wang Wei, Mr. Liu Gang and Mr. Ren Yongqiang confirmed that there was no disagreement with the Board needed to be brought to the attention of the Shareholders.

Directors' Report

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. Each of Mr. Zhu Jianhui and Mr. Liu Gang, being the Executive Director, has entered into a letter of appointment with the Company on 30th May 2018 for a term commencing from 30th May 2018 to the conclusion of the 2020 annual general meeting of the Company. Each of Mr. Feng Boming and Mr. Chen Dong, 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. Mr. Ma Jianhua, being the Non-executive Director, has entered in a letter of appointment with the Company on 30th October 2018 for a term commencing from 30th October 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 30th May 2018 for a term commencing from 30th May 2018 to the conclusion of the 2020 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. Ma Jianhua	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. Liu Gang	Companies controlled by COSCO SHIPPING	Shipping services	director
Ex-Directors			
Mr. Ye Weilong#	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Ren Yongqiang+	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. Ren Yongqiang resigned as Non-executive Director on 30th October 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*

Directors' Report

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, an immediate 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 中遠財務有限責任公司 (COSCO Finance Co. Limited*), a subsidiary of COSCO SHIPPING ("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").

* for identification purposes only

(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").

Directors' Report

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 "Continuing Connected Transactions with COSCO SHIPPING Group") for the financial year ended 31st December 2018 were as follows:

Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement	HK$1,111,883,956
Aggregate amount payable by the Group for transactions contemplated under the Master Purchase Agreement	HK$85,376,002
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	US$49,201,044
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 with highest daily transaction volume of RMB448,562,769
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*	Nil
Aggregate amount payable by the Group to COSCO SHIPPING Group for transactions contemplated under the Management Services Master Agreement	HK$9,342,329
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$26,613,048

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

2. On 7th February 2018, the Company, COSCO SHIPPING (Hong Kong) and COSCO SHIPPING 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 regarding the day to day business operations and management of COSCO SHIPPING (Hong Kong) and its subsidiaries (other than those relating to the Group and Piraeus Port Authority S.A.) ("COSCO SHIPPING (Hong Kong) Group") (collectively the "COSCO SHIPPING HK Management Services Continuing Connected Transactions") for the two financial years ending 31st December 2019. 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

Directors' Report

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.

The amount of the COSCO SHIPPING HK Management Services Continuing Connected Transactions for the financial year ended 31st December 2018 was HK$74,664,512.

The price and the terms of the Continuing Connected Transactions with COSCO SHIPPING Group 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. The price and the terms of the COSCO SHIPPING HK Management Services Continuing Connected Transactions have been determined in accordance with the pricing policies disclosed in the announcement of the Company dated 7th February 2018. As set out in notes 33(a)(i), 33(a)(ii), 33(a)(iii), 33(a)(iv), 33(a)(v), 33(a)(vi), 33(a)(vii), 33(a)(ix), 33(b)(i), 33(b)(ii), 33(b)(iii), 33(b)(iv), 33(b)(vi), 33(b)(vii), 33(b)(ix) and 33(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; (6) the Tenancy Continuing Connected Transactions and (7) the COSCO SHIPPING HK Management Services 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 2018 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 2018 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 2018 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.

RELATED PARTY TRANSACTIONS

Material related party transactions of the Group are set out in note 33 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 2018, 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 contained in Appendix 10 to the Listing Rules (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

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. Feng Boming	COSCO SHIPPING Development Co. Ltd.	Beneficial owner	Personal	29,100 (A shares)	0.0003%
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.

Directors' Report

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 2018.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2018, 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 2018, 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 2019 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 2018.

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 set out in Appendix 14 to the Listing Rules (the "CG Code") during the year ended 31st December 2018 except Mr. Chen Dong, the non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 30th May 2018 due to other business engagement, a deviation from the code provision A.6.7 of the CG Code which provides that independent non-executive directors and other non-executive directors should attend general meetings of the company.

The 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 2018.

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.

Directors' Report

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 2018, 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, 26th March 2019

Independent Auditor's Report

pwc 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 121 to 193, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- 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 31 December 2018, 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

Independent Auditor's Report

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 the inventory valuation and provision as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Inventory valuation and provision *Refer to notes 2(j), 4(b) and 15 to the consolidated financial statements.* At 31 December 2018, the Group had inventories of HK$337.2 million (2017: HK$450.9 million) which are carried at the lower of cost and net realisable value. Management has assessed the valuation of the Group's inventories and an impairment provision of HK$23.1 million (2017: HK$33.2 million) was made as at 31 December 2018. The assessment of the valuation and impairment provision of the Group's inventories involves significant management judgements and estimates as it involves the consideration of a number of factors, including, among others, the Group's future production or sale plans, technology trend and forecast market demands and future utilisation or sales patterns in respect of the Group's inventories held.	Our audit procedures in relation to the inventory valuation and provision included: • Understanding, evaluating and testing key internal controls with particular focus on management's monitoring and review of provision for inventories. • Discussing with management and obtaining an understanding on the Group's future production or sale plans, technology trend and forecast market demands, and the basis of determination of slow-moving inventories. • Obtaining the inventory provisioning policies and assessing its reasonableness by comparing the provision rates provided with the historical utilisation or sales patterns of inventories. • Testing, on a sample basis, the stock aging profile, expiry dates and the market price used in assessing the net realisable values of inventories to the related supporting documents. Based on the procedures performed above, we considered the judgements and estimates made by management in assessing the inventory valuation and provision are supportable by available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2019

Consolidated Statement of Financial Position

As at 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Intangible assets	6	**103,448**	104,287
Property, plant and equipment	7	**303,523**	331,038
Prepaid premium for land leases	8	**29,429**	31,549
Investment properties	9	**107,014**	97,468
Investments in joint ventures	10	**396,709**	298,190
Investments in associates	11	**96,651**	122,644
Financial assets at fair value through other comprehensive income	13	**78,003**	—
Available-for-sale financial assets	13	**—**	60,613
Deferred income tax assets	14(a)	**52,936**	54,156
Non-current deposits	17	**—**	1,563
		1,167,713	1,101,508
Current assets			
Inventories	15	**337,187**	450,923
Trade and other receivables	16	**1,368,805**	1,528,869
Available-for-sale financial assets	13	**—**	38,848
Financial assets at fair value through profit or loss	13	**—**	862
Current income tax recoverable		**7,358**	4,283
Restricted bank deposits	17	**5,706**	1,794
Current deposits and cash and cash equivalents	17	**6,369,956**	6,483,613
		8,089,012	8,509,192
Total assets		**9,256,725**	9,610,700
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**153,296**	153,296
Reserves	19	**7,700,639**	7,760,833
		7,853,935	7,914,129
Non-controlling interests		**300,765**	299,471
Total equity		**8,154,700**	8,213,600
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	14(b)	**64,269**	64,829
Current liabilities			
Trade and other payables	20	**635,588**	1,311,362
Contract liabilities	20	**337,128**	—
Current income tax liabilities		**19,388**	20,909
Short-term borrowings	21	**45,652**	—
		1,037,756	1,332,271
Total liabilities		**1,102,025**	1,397,100
Total equity and liabilities		**9,256,725**	9,610,700

Zhu Jianhui
Director

Liu Gang
Director

The notes on pages 127 to 193 form an integral part of these audited consolidated financial statements.

Consolidated Income Statement

For the year ended 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	5	**9,521,575**	8,786,094
Cost of sales	23	**(8,955,448)**	(8,159,011)
Gross profit		**566,127**	627,083
Management fee income		**74,665**	—
Other income and gains — net	22	**90,145**	94,134
Selling, administrative and general expenses	23	**(549,344)**	(502,425)
Operating profit		**181,593**	218,792
Finance income	26	**161,997**	124,948
Finance costs	26	**(3,293)**	(5,244)
Finance income — net	26	**158,704**	119,704
Share of profits of joint ventures	10	**9,925**	64,730
Share of (losses)/profits of associates	11	**(13,561)**	12,336
Profit before income tax		**336,661**	415,562
Income tax expenses	27	**(45,916)**	(54,948)
Profit for the year		**290,745**	360,614
Profit attributable to:			
Equity holders of the Company		**286,140**	356,627
Non-controlling interests		**4,605**	3,987
		290,745	360,614
Earnings per share attributable to equity holders of the Company during the year			
— basic and diluted, HK cents	28	**18.67**	23.26

The notes on pages 127 to 193 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**290,745**	360,614
Other comprehensive (losses)/income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(62,656)**	106,901
Share of currency translation differences of joint ventures	**(10,272)**	18,438
Share of currency translation differences of associates	**(249)**	(194)
Share of cash flow hedges of an associate, net of tax	**(3,897)**	(749)
Reserves realised in consolidated income statement upon disposal of an associate	**–**	(48)
Fair value gains on available-for-sale financial assets, net	**–**	2,984
Items that will not be reclassified to profit or loss:		
Fair value losses on financial assets at fair value through other comprehensive income, net	**(22,320)**	–
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 (losses)/income for the year	**(99,394)**	130,073
Total comprehensive income for the year	**191,351**	490,687
Total comprehensive income/(losses) attributable to:		
Equity holders of the Company	**200,409**	464,906
Non-controlling interests	**(9,058)**	25,781
	191,351	490,687

The notes on pages 127 to 193 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2018

		Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Note	Share capital HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	HK$'000	HK$'000
Balance at 1st January 2018		153,296	1,153,887	6,606,946	7,914,129	299,471	8,213,600
Change in accounting policy	2(b)	—	(309,524)	309,524	—	—	—
Restated balance at 1st January 2018		153,296	844,363	6,916,470	7,914,129	299,471	8,213,600
Profit for the year		—	—	286,140	286,140	4,605	290,745
Other comprehensive losses							
Currency differences on translation of:							
— subsidiaries	19	—	(47,292)	—	(47,292)	—	(47,292)
— joint ventures	19	—	(1,489)	—	(1,489)	—	(1,489)
— associates	19	—	(212)	—	(212)	—	(212)
— non-controlling interests		—	—	—	—	(13,663)	(13,663)
Share of currency translation differences of:							
— joint ventures	19	—	(10,272)	—	(10,272)	—	(10,272)
— associates	19	—	(249)	—	(249)	—	(249)
Share of cash flow hedges of an associate, net of tax	19	—	(3,897)	—	(3,897)	—	(3,897)
Fair value losses on financial assets at fair value through other comprehensive income, net	19	—	(22,320)	—	(22,320)	—	(22,320)
Total comprehensive (losses)/income for the year ended 31st December 2018		—	(85,731)	286,140	200,409	(9,058)	191,351
Transactions with owners							
Transfer between reserves	19	—	(3,302)	3,302	—	—	—
Additional capital contribution		—	—	—	—	10,352	10,352
Dividends paid	19	—	—	(260,603)	(260,603)	—	(260,603)
Total transactions with owners		—	(3,302)	(257,301)	(260,603)	10,352	(250,251)
Balance at 31st December 2018		153,296	755,330	6,945,309	7,853,935	300,765	8,154,700

The notes on pages 127 to 193 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2018

		Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Note	Share capital HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	HK$'000	HK$'000
Balance at 1st January 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	19	—	82,679	—	82,679	—	82,679
— joint ventures	19	—	1,061	—	1,061	—	1,061
— associates	19	—	1,367	—	1,367	—	1,367
— non-controlling interests		—	—	—	—	21,794	21,794
Share of currency translation differences of:							
— a joint venture	19	—	18,438	—	18,438	—	18,438
— an associate	19	—	(194)	—	(194)	—	(194)
Share of cash flow hedges of an associate, net of tax	19	—	(749)	—	(749)	—	(749)
Reserves realised in consolidated income statement upon disposal of an associate	19	—	(48)	—	(48)	—	(48)
Fair value gains on available-for-sale financial assets, net	19	—	2,984	—	2,984	—	2,984
Gain on revaluation upon reclassification of property, plant and equipment to investment properties	19	—	3,302	—	3,302	—	3,302
Deferred tax relating to the gain on revaluation upon reclassification of property, plant and equipment to investment properties	19	—	(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	19	—	29,933	(29,933)	—	—	—
Dividends paid	19	—	—	(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 127 to 193 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	30(a)	97,062	(143,850)
Income tax paid		(49,016)	(59,020)
Net cash from/(used in) operating activities		48,046	(202,870)
Cash flows from investing activities			
Decrease/(increase) in cash deposits with maturity over three months		112,321	(10,627)
Increase in restricted bank deposits		(4,139)	(1,153)
Advance of loan to a joint venture		—	(23,433)
Interest received		151,110	121,179
Dividends received from investments		2,763	5,470
Dividends received from joint ventures	10	2,616	203,656
Dividends received from associates	11	8,074	7,253
Net proceeds from sale of property, plant and equipment		446	15,774
Purchases of intangible assets	6	(1,275)	(293)
Purchases of property, plant and equipment	7	(12,364)	(16,089)
Additions to investment properties	9	(539)	—
Net proceeds from disposal of an associate		—	427
Net cash used in acquisition of a subsidiary		—	(30,277)
Net cash used in acquisition of a joint venture	10	(102,971)	—
Net cash from investing activities		156,042	271,887
Cash flows from financing activities			
Drawdown of a bank loan		35,478	—
Loan from a fellow subsidiary		47,304	—
Repayment of a bank loan		(35,478)	(69,187)
Finance costs paid		(3,257)	(5,244)
Capital contribution from non-controlling interest of a subsidiary		10,352	—
Dividends paid to the Company's equity holders	35(a)	(260,603)	(252,938)
Dividends paid to non-controlling interests		—	(69,890)
Net cash used in financing activities		(206,204)	(397,259)
Net decrease in cash and cash equivalents		(2,116)	(328,242)
Cash and cash equivalents at the beginning of the year		983,649	1,281,883
Exchange (losses)/gains on cash and cash equivalents		(10,439)	30,008
Cash and cash equivalents at the end of the year	17(g)	971,094	983,649

The notes on pages 127 to 193 form an integral part of these audited consolidated financial statements.

Notes to the 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").

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 26th March 2019.

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 financial assets at fair value through other comprehensive income ("FVOCI") (2017: available-for-sale financial assets and financial assets at fair value through profit or loss ("FVPL")) 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.

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

In 2018, the Group has adopted the following new standards, 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 40	Transfers of Investment Property	1st January 2018
HKFRS 9 (2014)	Financial Instruments	1st January 2018
HKFRS 15	Revenue from Contracts with Customers	1st January 2018
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	1st January 2018
Annual improvements 2014–2016 cycle	Improvements to HKFRS 1 and HKAS 28	1st January 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in note 2(b). The adoption of other amendments to published standards 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, amendments to published standards and new interpretation that are not yet effective

The following new standards, amendments to published standards and new interpretation 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 2018 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
HKFRS 16	Leases	1st January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1st January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1st January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1st January 2019
Annual improvements to HKFRS Standards 2015–2017 cycle	HKFRS 3 and HKFRS 11 and HKAS 12 and HKAS 23	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

HKFRS 16 Leases (effective on 1st January 2019)

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group is reviewing the impact of the new standard on its assets and financial liabilities. Based on preliminary assessment undertaken to date, the Group expects recognition of certain right-of-use assets and financial liabilities arising from these existing operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of HK$50,443,000 (note 32). The Group intends to adopt the modified retrospective approach for the transition arrangement, which means that the cumulative impact on the adoption of HKFRS 16 will be adjusted to retained earnings at 1st January 2019 and the comparatives will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies

This note explains the impacts of the adoption of HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1st January 2018.

Impacts on the financial statements

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that related to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1st January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail below.

Consolidated statement of financial position (extract)	**31st December 2017 As originally presented** HK$'000	**HKFRS 9** HK$'000	**HKFRS 15** HK$'000	**1st January 2018 Restated HK$'000**
Non-current assets				
Available-for-sale financial assets	60,613	(60,613)	—	**—**
Financial assets at FVOCI	—	100,323	—	**100,323**
Current assets				
Available-for-sale financial assets	38,848	(38,848)	—	**—**
Financial assets at FVPL	862	(862)	—	**—**
Current liabilities				
Trade and other payables	1,311,362	—	(486,615)	**824,747**
Contract liabilities	—	—	486,615	**486,615**
Equity				
Reserves	1,153,887	(309,524)	—	**844,363**
Retained earnings	6,606,946	309,524	—	**6,916,470**

The total impact on the Group's retained earnings as at 1st January 2018 is as follows:

	HK$'000
Retained earnings at 1st January 2018— HKAS 39	6,606,946
Adjustment to retained earnings upon adoption of HKFRS 9 on 1st January 2018	309,524
Restated retained earnings at 1st January 2018— HKFRS 9	6,916,470

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies (Continued)

Impacts on the financial statements (Continued)

HKFRS 9 Financial Instruments (Continued)

Classification and measurement

On 1st January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Note	Financial assets at FVPL HK$'000	Available-for-sale financial assets HK$'000	Financial assets at FVOCI HK$'000
Balance at 1st January 2018 — HKAS 39		862	99,461	—
Reclassify non-trading equities from financial assets at FVPL to financial assets at FVOCI	(a)	(862)	—	862
Reclassify non-trading equities from available-for-sale financial assets to financial assets at FVOCI	(b)	—	(99,461)	99,461
Restated balance at 1st January 2018 — HKFRS 9		—	—	100,323

The impact of these changes on the Group's equity is as follows:

	Note	Effect on investment revaluation reserve HK$'000	Effect on retained earnings HK$'000
Balance at 1st January 2018 — HKAS 39		74,289	6,606,946
Reclassify investments from available-for-sale financial assets to financial assets at FVOCI	(b)	(309,524)	309,524
Total impact		(309,524)	309,524
Restated balance at 1st January 2018— HKFRS 9		(235,235)	6,916,470

Notes:

(a) Equity investment previously classified as financial assets at FVPL
On 1st January 2018, the Group assessed the business model for managing equity investment previously classified as financial assets at FVPL as long-term strategic investments. As a result, assets with a fair value of HK$862,000 were reclassified from financial assets at FVPL to financial assets at FVOCI on 1st January 2018.

(b) Equity investments previously classified as available-for-sale financial assets
The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale financial assets, because these investments are held as long-term strategic investments. As a result, assets with a fair value of HK$99,461,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and cumulative impairment losses of HK$309,524,000 were reclassified from retained earnings to the investment revaluation reserve on 1st January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies (Continued)

Impacts on the financial statements (Continued)

HKFRS 9 Financial Instruments (Continued)

Impairment of financial assets

The Group was required to revise its impairment methodology to a new expected credit loss model under HKFRS 9 mainly for the trade receivables for sales of goods and services.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all the Group's trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Management concluded that the impact of the change in impairment methodology on the Group's retained earnings is immaterial.

HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1st January 2018 which resulted in changes in accounting policies. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Management assessed that the impact of adoption of HKFRS 15 is immaterial and no adjustment was made to the consolidated financial statements at the date of initial application (1st January 2018) except for the reclassification of advances from customers with the amount of HK$486,615,000 to contract liabilities.

Accounting policies applied to the Group from 1st January 2018 for HKFRS 9 and HKFRS 15 are disclosed in note 2(k) and note 2(w) respectively.

(c) 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)

(c) 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.

(d) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Joint arrangements (Continued)

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.

(e) Associates

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates (Continued)

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.

(f) Intangible assets

(i) Goodwill

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

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

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

(ii) Computer software

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (Continued)

(ii) Computer software (Continued)

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.

(g) Properties

(i) Investment properties

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

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

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

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

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

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Properties (Continued)

(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.

(h) Property, plant and equipment

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

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

(j) 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.

(k) Financial assets

From 1st January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income, and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For investments in equity instruments that are not held for trading, gains and losses is recorded in other comprehensive income since the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial assets (Continued)

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1st January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Accounting policies applied until 31st December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31st December 2017 the Group classifies its investments in the following categories: financial assets at FVPL, 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.

(l) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value 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 the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

At the inception of the hedging, the group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedges items. The group documents its risk management objective and strategy for undertaking its hedge transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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; it is classified 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.

Cash flow hedge that quantity for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within "Other income and gains — net".

When option contracts are used to hedge forecast transactions, the group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ("aligned time value") are recognised within other comprehensive income in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ("aligned forward element") is recognised within other comprehensive income in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example through cost of sales).

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Trade and other receivables

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

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

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits with banks and a fellow subsidiary. 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currency translation (Continued)

(ii) Transactions and balances (Continued)

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

The Group pays contributions to publicly or privately administered defined contribution plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are expensed as incurred. The assets of the plans 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.

(w) Revenue and income recognition

(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 control of the products, which generally coincides with the time the goods are delivered to customers according to the sales agreements and titles have passed.

Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term of 30 to 90 days, which is consistent with market practice.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue and income recognition (Continued)

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

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contract liabilities are recognised when payment from customers is received prior to revenue recognition.

(ii) Commission income from ship trading agency and insurance brokerage

The Group provides ship trading agency services and insurance brokerage services. Revenue from providing services is recognised in the accounting period in which the services are rendered. Customers of some contracts concurrently receive and consume the benefits of the services.

Estimates of revenues, costs or extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(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

Dividends are received from financial assets at FVOCI (2017: financial assets at FVPL and available-for-sale financial assets). Dividends are recognised in profit or loss when the right to receive payment is established.

(v) Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI (2017: available-for-sale financial assets and loans and receivables) calculated using the effective interest method is recognised in profit or loss as part of finance income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(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 consolidated 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 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.

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

At 31st December 2018, 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$46,635,000 (2017: HK$44,201,000) 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 and contract liabilities.

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 Renminbi

At 31st December 2018, 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$1,462,000 (2017: HK$4,129,000) 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, contract liabilities 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$31,395,000 (2017: HK$31,705,000).

(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 2018 and 2017, 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 financial assets at FVOCI (2017: available-for-sale financial assets and financial assets at FVPL), 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**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
5% increase/decrease in market price	**–**	43	**3,763**	4,885

(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 95% of the Group's bank balances as at 31st December 2018 were placed with state-owned and listed banks. Management considers these balances are subject to low credit risk.

The Group's trade and other receivables are subject to the expected credit loss model.

Trade and other receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, all trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the historical credit losses experienced in the past. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

As at 31 December 2018, the Group's provision for impairment of trade receivables amounted to HK$14,566,000 (2017: HK$26,913,000). During the year, a net reversal of provision for impairment of trade receivables and other receivables amounted to HK$6,372,000 and HK$17,228,000 respectively.

(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 2018	
Trade and other payables	**635,588**
Short-term borrowings	**45,652**
At 31st December 2017	
Trade and other payables*	1,311,362

* Upon the adoption of HKFRS 15, an amount of HK$486,615,000 previously classified as trade and other payables was reclassified to contract liabilities from 1st January 2018.

(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 2017, is to maintain a low gearing ratio. The gearing ratios at 31st December 2018 and 2017 were as follows:

	2018 **HK$'000**	2017 HK$'000
Total borrowings	**45,652**	—
Total assets	**9,256,725**	9,610,700
Gearing ratio	**0.5%**	—

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 2018.

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Financial assets at FVOCI				
— equity securities	**75,262**	**—**	**2,741**	**78,003**
Investment properties				
— commercial — Hong Kong	**—**	**—**	**29,800**	**29,800**
— commercial — Overseas	**—**	**—**	**32,567**	**32,567**
— residential — PRC	**—**	**—**	**44,647**	**44,647**
Total assets	**75,262**	**—**	**109,755**	**185,017**

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 FVPL				
— 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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

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 2018 and 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 2018 was from HK$3,662 to HK$9,659 per square foot (2017: from HK$3,276 to HK$9,560 per square foot). There is a positive correlation between the fair value price per square foot 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 Level 2 and Level 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

Allowances for bad debt and doubtful debts are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting periods. Details are disclosed in note 3(a)(ii).

(b) Allowances for inventory

Management of the Group estimates net realisable value of inventories at each reporting date, and makes allowances for obsolete and slow-moving inventory items.

In prior years, management performed an aging analysis at the end of each reporting period to identify obsolete and slow-moving inventory items that are no longer suitable for use in production. Management estimated net realisable value of such inventories based on the latest invoice prices and current market conditions. The estimation was carried out on a product-to-product basis at each reporting date and an allowance is made for these inventory items.

With effect from 1st January 2018, management analysed its inventory, on a product-by-product basis, to identify obsolete and slow-moving inventory items based on factors including the Group's future production or sale plans, technology trend and forecast market demands and future utilisation or sales patterns in respect of the Group's inventories held. Taking into account stock aging profile, expiry dates and latest market prices of each inventory items, a provision for impairment of inventory is recorded.

The above represents a change in accounting estimates and is accounted for prospectively in the current year. This change resulted in an increase in the carrying amount of inventories as at 31st December 2018 by HK$15,931,000 and a corresponding increase in reversal of provision for impairment of inventories, net of provision and profit before tax for the year then ended by HK$15,931,000.

(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.

Notes to the Financial Statements

5 REVENUE AND SEGMENT INFORMATION

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

	2018 HK$'000	2017 HK$'000
Sale of coatings	**959,576**	888,766
Sale of marine equipment and spare parts	**1,100,453**	1,199,307
Commission income from ship trading agency	**109,625**	136,541
Commission income from insurance brokerage	**80,513**	95,803
Sale of marine fuel and other products	**6,504,137**	5,815,463
Sale of asphalt and other products	**767,271**	650,214
	9,521,575	8,786,094

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 investments in joint ventures, Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO") and Nasurfar Biomaterial Technology (Changshu) Co., Ltd. ("Nasurfar Changshu")
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

Others mainly comprise the Group's financial assets at FVOCI (2017: available-for-sale financial assets and financial assets at FVPL).

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 2018									
	Shipping services						General trading	Others	Inter-segment elimination	Total
	Coatings HK$'000	Marine equipment and spare parts HK$'000	Ship trading agency HK$'000	Insurance brokerage HK$'000	Marine fuel and other products HK$'000	Total HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit or loss items:										
Segment revenue	959,576	1,109,448	110,023	80,733	6,559,397	8,819,177	774,659	–	(72,261)	9,521,575
Inter-segment revenue	–	(8,995)	(398)	(220)	(55,260)	(64,873)	(7,388)	–	72,261	–
Revenue from external customers	959,576	1,100,453	109,625	80,513	6,504,137	8,754,304	767,271	–	–	9,521,575
Timing of revenue recognition:										
At a point in time	959,576	1,100,453	–	–	6,504,137	8,564,166	767,271	–	–	9,331,437
Over time	–	–	109,625	80,513	–	190,138	–	–	–	190,138
	959,576	1,100,453	109,625	80,513	6,504,137	8,754,304	767,271	–	–	9,521,575
Segment operating profit	1,811	65,966	88,794	55,628	5,531	217,730	20,232	2,763	–	240,725
Finance income	1,303	976	2,030	2,640	993	7,942	855	–	(631)	8,166
Finance costs	(1,291)	(987)	(87)	(111)	(2,574)	(5,050)	(4,936)	–	631	(9,355)
Share of profits of joint ventures	9,222	198	505	–	–	9,925	–	–	–	9,925
Share of profits/(losses) of associates	–	–	74	–	(14,442)	(14,368)	807	–	–	(13,561)
Segment profit/(loss) before income tax	11,045	66,153	91,316	58,157	(10,492)	216,179	16,958	2,763	–	235,900
Income tax expenses	(5,492)	(9,832)	(13,684)	(10,500)	(473)	(39,981)	(4,502)	–	–	(44,483)
Segment profit/(loss) after income tax	5,553	56,321	77,632	47,657	(10,965)	176,198	12,456	2,763	–	191,417
Balance sheet items:										
Total segment assets	1,375,325	1,174,468	190,335	259,157	240,923	3,240,208	630,994	75,263	(245,482)	3,700,983
Total segment assets include:										
– Joint ventures	383,696	10,362	2,651	–	–	396,709	–	–	–	396,709
– Associates	–	–	2,164	–	87,540	89,704	6,947	–	–	96,651
Total segment liabilities	264,840	552,058	60,398	124,657	95,078	1,097,031	395,385	–	(245,482)	1,246,934
Other items:										
Depreciation and amortisation, net of amount capitalised	15,949	3,393	327	351	–	20,020	2,392	–	–	22,412
Reversal of provision for impairment of inventories, net	(8,826)	–	–	–	–	(8,826)	–	–	–	(8,826)
Reversal of provision for impairment of trade receivables, net	(5,784)	(588)	–	–	–	(6,372)	–	–	–	(6,372)
Reversal of provision for impairment of other receivables	–	–	–	–	–	–	(17,228)	–	–	(17,228)
Government subsidy income	(15,938)	–	–	–	–	(15,938)	–	–	–	(15,938)
Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets)	11,214	455	35	210	–	11,914	131	–	–	12,045

Notes to the Financial Statements

5 REVENUE AND SEGMENT INFORMATION (Continued)

	Year ended and as at 31st December 2017									
	Shipping services						General trading	Others	Inter-segment elimination	Total
	Coatings HK$'000	Marine equipment and spare parts HK$'000	Ship trading agency HK$'000	Insurance brokerage HK$'000	Marine fuel and other products HK$'000	Total HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit or 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
Provision for impairment of inventories, net	6,618	—	—	—	—	6,618	—	—	—	6,618
Provision/(reversal of provision) for impairment of trade receivables, net	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)

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

	2018 HK$'000	2017 HK$'000
Profit before income tax for reportable segments	233,137	314,203
Profit before income tax for others	2,763	4,400
Profit before income tax for all segments	235,900	318,603
Elimination of segment income from corporate headquarters	(184)	(215)
Elimination of segment finance costs to corporate headquarters	6,078	4,087
Corporate finance income	153,831	114,836
Corporate finance costs	(16)	(20)
Corporate expenses, net of income	(58,948)	(21,729)
Profit before income tax for the Group	336,661	415,562
Income tax expenses for all segments	(44,483)	(54,210)
Corporate income tax expenses	(1,433)	(738)
Profit after income tax for the Group	290,745	360,614

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

	2018 HK$'000	2017 HK$'000
Total assets for reportable segments	3,871,202	4,120,025
Total assets for others	75,263	98,563
Elimination of inter-segment receivables	(245,482)	(197,506)
	3,700,983	4,021,082
Corporate assets (mainly deposits and cash and cash equivalents)	5,965,619	5,745,085
Elimination of corporate headquarters' receivables from segments	(409,877)	(155,467)
Total assets for the Group	9,256,725	9,610,700

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:

	2018 HK$'000	2017 HK$'000
Total liabilities for reportable segments	**1,492,416**	1,677,218
Elimination of inter-segment payables	**(245,482)**	(197,506)
	1,246,934	1,479,712
Corporate liabilities	**264,968**	72,855
Elimination of segment payables to corporate headquarters	**(409,877)**	(155,467)
Total liabilities for the Group	**1,102,025**	1,397,100

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$822,725,000 (2017: HK$1,086,530,000) and HK$8,698,850,000 (2017: HK$7,699,564,000) respectively.

The total of non-current assets, other than financial assets at FVOCI (2017: available-for-sale financial assets) and deferred income tax assets, located in Hong Kong and places other than Hong Kong are HK$547,243,000 (2017: HK$562,771,000) and HK$489,531,000 (2017: HK$423,968,000) respectively.

Revenue of HK$6,020,715,000 (2017: HK$3,790,689,000) is derived from an external customer of the marine fuel and other products segment.

6 INTANGIBLE ASSETS

	Goodwill HK$'000	**Computer software HK$'000**	**Total HK$'000**
Cost:			
At 1st January 2018	**107,323**	**13,418**	**120,741**
Additions	**—**	**1,275**	**1,275**
Currency translation differences	**(800)**	**(347)**	**(1,147)**
At 31st December 2018	**106,523**	**14,346**	**120,869**
Accumulated amortisation and impairment:			
At 1st January 2018	**5,984**	**10,470**	**16,454**
Currency translation differences	**—**	**(274)**	**(274)**
Amortisation (note 23)	**—**	**1,241**	**1,241**
At 31st December 2018	**5,984**	**11,437**	**17,421**
Net book amount	**100,539**	**2,909**	**103,448**

	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	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 23)	—	1,075	1,075
At 31st December 2017	5,984	10,470	16,454
Net book amount	101,339	2,948	104,287

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:

	2018 HK$'000	2017 HK$'000
Agency service in respect of shipbuilding, ship trading and bareboat charter business ("Ship trade business")	**47,373**	47,941
Provision of insurance brokerage services ("Insurance business")	**35,046**	35,046
Trading of marine equipment and spare parts ("Supply business")	**18,120**	18,352
	100,539	101,339

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% (2017: 3%). Management determined forecast profitability based on past performance and its expectation for market development. Future cash flows are discounted at 9% (2017: 10%) 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 2017						
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	—	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 23(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
Year ended 31st December 2018						
Opening net book amount	**254,848**	**68,992**	**2,076**	**3,850**	**1,272**	**331,038**
Additions	**22**	**2,158**	**253**	**1,211**	**8,720**	**12,364**
Currency translation differences	**(10,681)**	**(2,690)**	**(21)**	**(101)**	**(363)**	**(13,856)**
Depreciation (note 23(a))	**(10,024)**	**(12,773)**	**(870)**	**(2,256)**	**—**	**(25,923)**
Disposals	**—**	**(73)**	**—**	**(27)**	**—**	**(100)**
Closing net book amount	**234,165**	**55,614**	**1,438**	**2,677**	**9,629**	**303,523**
At 31st December 2018						
Cost	**296,589**	**131,594**	**17,872**	**36,579**	**9,629**	**492,263**
Accumulated depreciation	**(62,424)**	**(75,980)**	**(16,434)**	**(33,902)**	**—**	**(188,740)**
Net book amount	**234,165**	**55,614**	**1,438**	**2,677**	**9,629**	**303,523**

Notes to the Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2018 HK$'000	2017 HK$'000
Leasehold properties held in Hong Kong		
— on leases of over 50 years	**3,511**	3,546
— on leases of between 10 and 50 years	**978**	1,116
Leasehold properties held outside Hong Kong		
— on leases of between 10 and 50 years	**223,896**	243,483
— on leases of less than 10 years	**5,780**	6,703
	234,165	254,848

8 PREPAID PREMIUM FOR LAND LEASES

	2018 HK$'000	2017 HK$'000
At 1st January	**31,549**	30,138
Currency translation differences	**(1,426)**	2,088
Amortisation (note 23)	**(694)**	(677)
At 31st December	**29,429**	31,549

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

	2018 HK$'000	2017 HK$'000
Held outside Hong Kong		
— on leases of between 10 and 50 years	**29,429**	31,549

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 2018	**27,500**	**29,749**	**40,219**	**97,468**
Additions	**—**	**—**	**539**	**539**
Currency translation differences	**—**	**(708)**	**(2,093)**	**(2,801)**
Fair value gains (note 22)	**2,300**	**3,526**	**5,982**	**11,808**
Closing balance as at 31st December 2018	**29,800**	**32,567**	**44,647**	**107,014**
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 19)	—	3,302	—	3,302
Fair value gains (note 22)	3,000	—	5,293	8,293
Closing balance as at 31st December 2017	27,500	29,749	40,219	97,468

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

	2018 HK$'000	2017 HK$'000
Held in Hong Kong		
— on leases of over 50 years	**29,800**	27,500
Held outside Hong Kong		
— on leases of between 10 and 50 years	**44,647**	40,219
— on freehold land	**32,567**	29,749
	107,014	97,468

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 2018 and 2017.

9 INVESTMENT PROPERTIES (Continued)

Valuation processes of the Group (Continued)

The overseas investment property was revalued by Pioneer Property Consultants LLP, 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 2018. The property was revalued on the basis of their open market value by the management at 31st December 2017.

For all investment properties, their current use equates to the highest and best use.

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

	2018 HK$'000	2017 HK$'000
At 1st January	298,190	417,617
Currency translation differences (note 19)	(1,489)	1,061
Acquisition of a joint venture (note)	102,971	—
Share of profits	9,925	64,730
Share of other comprehensive (losses)/income (note 19)	(10,272)	18,438
Dividends received	(2,616)	(203,656)
At 31st December	396,709	298,190

10 INVESTMENTS IN JOINT VENTURES (Continued)

Note:

On 6th August 2018, the Company completed its acquisition of 33% of equity interest in Nasurfar Biomaterial Technology (Changshu) Co., Ltd, a company incorporated in the PRC, at a consideration of RMB89,830,000 (approximately HK$102,971,000).

Particulars of the joint ventures of the Group as at 31st December 2018 are set out in note 37 to the financial statements.

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

	2018 HK$'000	2017 HK$'000
Non-current assets	**420,778**	435,784
Current assets		
Cash and cash equivalents	**200,426**	163,760
Other current assets	**1,033,389**	1,107,354
Total current assets	**1,233,815**	1,271,114
Current liabilities		
Financial liabilities (excluding trade and other payables and provisions)	**466,705**	474,287
Other current liabilities	**637,597**	671,549
Total current liabilities	**1,104,302**	1,145,836
Non-current liability		
Deferred income tax liabilities	**5,364**	8,659
Net assets	**544,927**	552,403

Summarised statement of comprehensive income

	2018 HK$'000	2017 HK$'000
Revenue	**2,159,858**	2,070,590
Depreciation and amortisation	**37,012**	34,987
Interest income	**54**	641
Interest expense	**34,123**	12,363
(Loss)/Profit before income tax	**(13,588)**	140,744
Income tax credit/(charge)	**27,989**	(13,015)
Profit for the year	**14,401**	127,729
Other comprehensive (losses)/income	**(21,877)**	36,876
Total comprehensive (losses)/income	**(7,476)**	164,605

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.

	2018 HK$'000	2017 HK$'000
Opening net assets at 1st January	**552,403**	787,798
Profit for the year	**14,401**	127,729
Dividends	**—**	(400,000)
Other comprehensive (losses)/income		
— Currency translation differences	**(21,877)**	36,876
Closing net assets at 31st December	**544,927**	552,403
Interest in joint venture (50%)	**272,463**	276,201
Goodwill	**7,097**	7,097
Carrying amount	**279,560**	283,298

The aggregate carrying amount of individually immaterial joint ventures is HK$117,149,000 (2017: HK$14,892,000). The aggregate amounts of the Group's share of its immaterial joint ventures' profit for the year and total comprehensive income are HK$2,725,000 (2017: HK$866,000) and HK$667,000 (2017: HK$866,000) respectively.

11 INVESTMENTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
At 1st January	**122,644**	117,564
Currency translation differences (note 19)	**(212)**	1,367
Share of (losses)/profits	**(13,561)**	12,336
Share of other comprehensive losses (note 19)	**(4,146)**	(943)
Dividends received	**(8,074)**	(7,253)
Disposal	**—**	(427)
At 31st December	**96,651**	122,644

No summarised financial information for associates has been set out, as there were no individually material associates in 2018 and 2017.

Particulars of the associates of the Group as at 31st December 2018 are set out in note 37 to the financial statements.

12 FINANCIAL INSTRUMENTS BY CATEGORY

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

	Loans and receivables HK$'000	Financial Assets at FVPL HK$'000	Financial Assets at FVOCI (2017: Available-for-sale financial assets) HK$'000	Total HK$'000
Assets as per consolidated statement of financial position				
At 31st December 2018				
Financial assets at FVOCI (note 13)	**—**	**—**	**78,003**	**78,003**
Trade and other receivables excluding prepayments (note 16)	**1,363,449**	**—**	**—**	**1,363,449**
Restricted bank deposits, deposits and cash and cash equivalents (note 17)	**6,375,662**	**—**	**—**	**6,375,662**
Total	**7,739,111**	**—**	**78,003**	**7,817,114**
At 31st December 2017				
Available-for-sale financial assets (note 13)	—	—	99,461	99,461
Trade and other receivables excluding prepayments (note 16)	1,522,925	—	—	1,522,925
Financial assets at FVPL (note 13)	—	862	—	862
Restricted bank deposits, deposits and cash and cash equivalents (note 17)	6,486,970	—	—	6,486,970
Total	8,009,895	862	99,461	8,110,218

Notes to the Financial Statements

12 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Financial liabilities at amortised cost HK$'000
Liabilities as per consolidated statement of financial position	
At 31st December 2018	
Trade and other payables excluding non-financial liabilities (note 20)	**635,588**
Contract liabilities (note 20)	**337,128**
Short-term borrowings (note 21)	**45,652**
Total	**1,018,368**
At 31st December 2017	
Trade and other payables excluding non-financial liabilities (note 20)	1,311,362

13 FINANCIAL ASSETS

	2018			2017		
	Unlisted HK$'000	**Listed** HK$'000	**Total** HK$'000	Unlisted HK$'000	Listed HK$'000	Total HK$'000
Financial assets at FVOCI	**2,741**	**75,262**	**78,003**	—	—	—
Available-for-sale financial assets	**—**	**—**	**—**	1,759	97,702	99,461
Financial assets at FVPL	**—**	**—**	**—**	—	862	862
	2,741	**75,262**	**78,003**	1,759	98,564	100,323

Financial assets are denominated in the following currencies:

	2018			2017		
	Renminbi HK$'000	**Hong Kong dollars** HK$'000	**Total** HK$'000	Renminbi HK$'000	Hong Kong dollars HK$'000	Total HK$'000
Financial assets at FVOCI	**2,741**	**75,262**	**78,003**	—	—	—
Available-for-sale financial assets	**—**	**—**	**—**	1,759	97,702	99,461
Financial assets at FVPL	**—**	**—**	**—**	—	862	862
	2,741	**75,262**	**78,003**	1,759	98,564	100,323

Note 2(b) explains the change of accounting policy and the reclassification of certain equity investments from available-for-sale financial assets and financial assets at FVPL to financial assets at FVOCI.

14 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 during the year is as follows:

	2018 HK$'000	2017 HK$'000
At 1st January	(10,673)	(15,625)
Currency translation differences	616	(1,077)
Acquisition of a subsidiary	—	475
Transferred to current income tax liabilities	823	13,817
Charged to the consolidated income statement, net (note 27)	(2,099)	(7,702)
Charged to the property revaluation reserve (note 19)	—	(561)
At 31st December	(11,333)	(10,673)

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 2018, the Group has unrecognised tax losses of HK$74,320,000 (2017: HK$116,727,000) to carry forward against future taxable income, of which HK$1,636,000 (2017: 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:

	2018 HK$'000	2017 HK$'000
Deferred income tax assets:		
— to be recovered after more than 12 months	35,137	35,742
— to be recovered within 12 months	17,799	18,414
	52,936	54,156
Deferred income tax liabilities:		
— to be settled after more than 12 months	(40,140)	(39,537)
— to be settled within 12 months	(24,129)	(25,292)
	(64,269)	(64,829)
	(11,333)	(10,673)

14 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 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
At 1st January 2018	**25,940**	**16,727**	**10,980**	**509**	**54,156**
Currency translation differences	**(1,172)**	**(460)**	**(874)**	**(4)**	**(2,510)**
(Charged)/credited to the consolidated income statement	**(617)**	**(8,806)**	**10,584**	**129**	**1,290**
At 31st December 2018	**24,151**	**7,461**	**20,690**	**634**	**52,936**

(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 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)
At 1st January 2018	**(1,254)**	**(20,194)**	**(43,381)**	**(64,829)**
Currency translation differences	**20**	**973**	**2,133**	**3,126**
Transfer to current income tax liabilities		**—**	**823**	**823**
Charged to the consolidated income statement	**(581)**	**(1,460)**	**(1,348)**	**(3,389)**
At 31st December 2018	**(1,815)**	**(20,681)**	**(41,773)**	**(64,269)**

15 INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	68,050	78,213
Work in progress	4,549	4,014
Finished goods	264,588	368,696
	337,187	450,923

The cost of inventories recognised as expense and included in cost of sales amounted to HK$8,955,448,000 (2017: HK$8,159,011,000) (note 23).

As at 31st December 2018, inventories of HK$34,849,000 (2017: HK$52,686,000) were carried at net realisable value.

16 TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables		
— third parties	309,544	386,267
— fellow subsidiaries (note (f))	268,230	237,752
— related companies (note (f))	52,775	68,830
— joint ventures (note (f))	2,163	207
— non-controlling interests (note (f))	414	888
	633,126	693,944
Less: provision for impairment (note (b))	14,566	26,913
Trade receivables — net	618,560	667,031
Bills receivable		
— third parties	151,484	143,875
— related companies (note (f))	28,351	87,754
Prepayments	5,356	5,944
Deposits and other receivables		
— third parties (note (c))	530,379	585,674
— fellow subsidiaries (note (f))	2,789	14,337
— related companies (note (f))	94	355
— joint ventures (note (f))	2,153	302
Amounts due from immediate holding company (note (f))	4,993	—
Amounts due from fellow subsidiaries (note (f))	930	146
Loan to a joint venture (note (e))	23,716	23,451
	1,368,805	1,528,869

16 TRADE AND OTHER RECEIVABLES (Continued)

Notes:

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

	2018 HK$'000	2017 HK$'000
Current–90 days	**357,476**	506,386
91–180 days	**179,739**	100,338
Over 180 days	**81,345**	60,307
	618,560	667,031

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.

(b) 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$14,566,000 of the receivable balance was impaired as at 31st December 2018 (2017: HK$26,913,000).

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

	2018 HK$'000	2017 HK$'000
At 1st January	**26,913**	28,870
Currency translation differences	**(567)**	1,582
(Reversal of provision)/provision for impairment, net	**(6,372)**	595
Amount written off	**(5,408)**	(4,134)
At 31st December	**14,566**	26,913

(c) During the year ended 31st December 2018, other receivables of HK$17,228,000 (2017: nil) were recovered and the related provision was written back.

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

	2018 HK$'000	2017 HK$'000
Renminbi	**768,855**	957,517
Hong Kong dollars	**46,710**	171,814
United States dollars	**237,663**	207,242
Others	**315,577**	192,296
	1,368,805	1,528,869

16 TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(e) Loan to a joint venture as at 31st December 2018 and 2017 was unsecured, interest bearing at 1.4% above London Interbank Offer Rate ("LIBOR") and with repayment term less than 12 months.

(f) Balances with immediate holding company, 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.

(g) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. As at 31st December 2018 and 2017, the Group does not hold any collateral as security.

17 RESTRICTED BANK DEPOSITS, DEPOSITS AND CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Non-current deposits (note (a))	–	1,563
Restricted bank deposits (note (b))	5,706	1,794
Current deposits with a fellow subsidiary (note (c))	290,012	410,175
Short-term bank deposits	5,635,790	5,628,456
Cash at bank and on hand	444,154	444,982
Current deposits and cash and cash equivalents	6,369,956	6,483,613
Total deposits and cash and cash equivalents	6,375,662	6,486,970

Notes:

(a) Deposit of HK$1,563,000 as at 31st December 2017 was placed with a financial institution in Japan and was interest-bearing at prevailing market rates.

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

(c) Deposits 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:

	2018 HK$'000	2017 HK$'000
Renminbi	250,787	357,311
Hong Kong dollars	182,395	313,744
United States dollars	5,876,366	5,728,773
Others	66,114	87,142
	6,375,662	6,486,970

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

Notes: (Continued)

(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.

(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:

	2018 HK$'000	2017 HK$'000
Total deposits and cash and cash equivalents	6,375,662	6,486,970
Less: restricted bank deposits	(5,706)	(1,794)
cash deposits with maturity more than three months from date of placement	(5,398,862)	(5,501,527)
Cash and cash equivalents	971,094	983,649

18 SHARE CAPITAL

	2018		2017	
	Number of shares	HK$'000	Number of shares	HK$'000
Issued and fully paid:				
At 1st January and 31st December	1,532,955,429	153,296	1,532,955,429	153,296

19 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 2018	167,023	133,764	676,218	91,959	10,634	74,289	–	6,606,946	7,760,833
Change in accounting policy	–	–	–	–	–	(309,524)	–	309,524	–
Restated balance at 1st January 2018	167,023	133,764	676,218	91,959	10,634	(235,235)	–	6,916,470	7,760,833
Transfer from statutory reserves (note (b))	–	(3,302)	–	–	–	–	–	3,302	–
Currency differences on translation of:									
— subsidiaries	–	–	–	(47,292)	–	–	–	–	(47,292)
— joint ventures (note 10)	–	–	–	(1,489)	–	–	–	–	(1,489)
— associates (note 11)	–	–	–	(212)	–	–	–	–	(212)
Share of currency translation differences of joint ventures (note 10)	–	–	–	(10,272)	–	–	–	–	(10,272)
Share of currency translation differences of associates (note 11)	–	–	–	(249)	–	–	–	–	(249)
Share of cash flow hedges of an associate, net of tax (note 11)	–	–	–	–	–	–	(3,897)	–	(3,897)
Fair value losses on financial assets at FVOCI, net	–	–	–	–	–	(22,320)	–	–	(22,320)
Profit for the year (note (a))	–	–	–	–	–	–	–	286,140	286,140
Dividends paid	–	–	–	–	–	–	–	(260,603)	(260,603)
Balance at 31st December 2018	167,023	130,462	676,218	32,445	10,634	(257,555)	(3,897)	6,945,309	7,700,639
Representing:									
Reserves	167,023	130,462	676,218	32,445	10,634	(257,555)	(3,897)	6,807,343	7,562,673
2018 proposed final dividend	–	–	–	–	–	–	–	137,966	137,966
	167,023	130,462	676,218	32,445	10,634	(257,555)	(3,897)	6,945,309	7,700,639

Notes to the Financial Statements

19 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 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	—	—	—	—	—	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 14)	—	—	—	—	(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

Notes:

(a) Profit for the year of HK$286,140,000 (2017: HK$356,627,000) includes net profits of HK$9,925,000 (2017: HK$64,730,000) attributable to joint ventures and net losses of HK$13,561,000 (2017: net profits of HK$12,336,000) 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.

20 TRADE PAYABLES, CONTRACT LIABILITIES AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables		
— third parties	233,925	362,109
— fellow subsidiaries (note (b))	42,715	43,075
— joint ventures (note (b))	1,140	1,757
— associates (note (b))	79	—
	277,859	406,941
Bills payable		
— third parties	10,249	84,527
Other payables (2017: advances from customers and other payables)		
— third parties	284,917	699,105
— fellow subsidiaries (note (b))	9,525	48,715
— related companies (note (b))	643	21,575
— joint ventures (note (b))	—	72
— a holding company (note (b))	79	145
— non-controlling interests (note (b))	1,876	873
Accrued liabilities	36,826	36,972
Amounts due to fellow subsidiaries (note (b))	8,774	7,607
Dividend payable to non-controlling interests	4,840	4,830
	635,588	1,311,362
Contract liabilities — sales of goods* (note (d))		
— third parties	206,636	—
— fellow subsidiaries (note (b))	109,738	—
— related companies (note (b))	20,586	—
— associates (note (b))	168	—
	337,128	—
	972,716	1,311,362

* Upon the adoption of HKFRS 15, an amount of HK$486,615,000 previously classified as trade and other payables was reclassified to contract liabilities from 1st January 2018.

Notes:

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

	2018 HK$'000	2017 HK$'000
Current–90 days	220,065	345,913
91–180 days	44,567	46,161
Over 180 days	13,227	14,867
	277,859	406,941

Notes to the Financial Statements

20 TRADE PAYABLES, CONTRACT LIABILITIES AND OTHER PAYABLES (Continued)

Notes: (Continued)

(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.

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

	2018 HK$'000	2017 HK$'000
Renminbi	201,761	568,691
Hong Kong dollars	110,437	167,172
United States dollars	272,366	487,162
Others	51,024	88,337
	635,588	1,311,362

(d) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2018 HK$'000	2017 HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	415,242	—

21 SHORT-TERM BORROWINGS

	2018 HK$'000	2017 HK$'000
Unsecured loan from a fellow subsidiary (note (a))	45,652	—

Notes:

(a) Unsecured loan from a fellow subsidiary bears interest at 2.505% per annum and is repayable on 18th May 2019.

(b) The carrying amount of short-term borrowings approximated its fair value and was denominated in Renminbi.

(c) The effective interest rates of short-term borrowings during the year ended 31st December 2018 and 2017 are as follows:

	2018	2017
Renminbi	3.55%	3.26%

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

22 OTHER INCOME AND GAINS — NET

	2018 HK$'000	2017 HK$'000
Other income/(expenses) – net		
— Rental income	**2,920**	2,272
— Direct operating expenses for generating rental income	**(93)**	(96)
— Dividend income from listed and unlisted investments	**2,763**	5,470
	5,590	7,646
Other gains/(losses) – net		
— Net gains on disposal of property, plant and equipment*	**346**	15,516
— Net gains on disposal of an associate	**—**	48
— Fair value gains on investment properties (note 9)	**11,808**	8,293
— Fair value losses on derivative financial instruments	**—**	(1,046)
— Fair value losses on financial assets at FVPL	**—**	(23)
— Reversal of provision/(provision) for impairment of trade receivables, net	**6,372**	(595)
— Reversal of provision/(provision) for impairment of inventories, net	**8,826**	(6,618)
— Reversal of provision for impairment of other receivables	**17,228**	—
— Net exchange gains	**21,994**	56,777
— Government subsidy income#	**15,938**	11,531
— Others	**2,043**	2,605
	84,555	86,488
	90,145	94,134

* 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 included HK$11,826,000 (2017: HK$11,531,000) 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. The remaining amount represented other government subsidy income.

Notes to the Financial Statements

23 EXPENSES BY NATURE

	2018 HK$'000	2017 HK$'000
Cost of sales		
Cost of inventories sold (note 15)	8,955,448	8,159,011
Selling, administrative and general expenses		
Selling expenses	158,141	167,852
Depreciation of property, plant and equipment (note 23(a))	737	2,138
Amortisation of intangible assets (note 6)	1,241	1,075
Amortisation of prepaid premium for land leases (note 8)	694	677
Operating lease rental expenses (note 23(b))	35,647	34,943
Administrative staff costs	267,328	202,885
Auditors' remuneration	5,110	6,151
Others	80,446	86,704
	549,344	502,425

(a) Depreciation of property, plant and equipment

	2018 HK$'000	2017 HK$'000
Charge for the year (note 7)	25,923	26,656
Charged to cost of sales	(20,380)	(20,691)
Charged to selling expenses	(172)	(390)
Capitalised in inventories	(4,634)	(3,437)
	737	2,138

(b) Operating lease rental expenses

	2018 HK$'000	2017 HK$'000
Land and buildings	35,647	34,943

24 EMPLOYEE BENEFIT EXPENSES

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

	2018 HK$'000	2017 HK$'000
Wages, salaries and other short-term benefits, including directors' emoluments (note 25(a))	**355,794**	292,166
Retirement benefits costs — defined contribution plans (note)	**26,654**	24,315
Termination benefits	**750**	1,524
	383,198	318,005
Included in:		
Cost of sales	**37,673**	36,211
Selling, administrative and general expenses	**345,525**	281,794
	383,198	318,005

Note:

There were no forfeited contributions (2017: Nil) utilised during the year and no forfeited contributions were available at the year-end to reduce future contributions (2017: Nil). There were no contributions (2017: Nil) payable to the funds at the year-end.

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2017: two) directors whose emoluments are reflected in the note 25(a). The emoluments of the remaining three (2017: three) individuals during the year are as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, allowances and benefits-in-kind	**4,343**	4,933
Discretionary bonuses	**177**	420
Retirement benefits costs — defined contribution plan	**—**	36
	4,520	5,389

The emoluments of the individuals fell within the following bands:

	Number of individuals	
Emolument band	**2018**	2017
HK$1,000,001 — HK$1,500,000	**2**	1
HK$1,500,001 — HK$2,000,000	**1**	2

(b) Emoluments of senior management

Other than the emoluments of directors disclosed in note 25(a), the emoluments of senior management fell within the following bands:

	Number of individuals	
Emolument band	**2018**	2017
Below HK$1,000,000	**3**	2
HK$1,000,001 — HK$1,500,000	**1**	1
HK$1,500,001 — HK$2,000,000	**1**	2

Notes to the Financial Statements

25 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 2018 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	**—**	**3,846**	**3,846**
Mr. Tsui Yiu Wa, Alec	**300**	**—**	**300**
Mr. Jiang, Simon X.	**300**	**—**	**300**
Mr. Alexander Reid Hamilton	**300**	**—**	**300**
	900	**10,046**	**10,946**

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

(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.

26 FINANCE INCOME — NET

	2018 HK$'000	2017 HK$'000
Interest income from:		
— a fellow subsidiary	**3,978**	8,235
— a joint venture	**858**	342
— bank deposits	**157,161**	116,371
Total finance income	**161,997**	124,948
Interest expenses on:		
— a loan from a fellow subsidiary	**(750)**	(1,404)
— a bank loan	**(1,219)**	—
Other finance charges	**(1,324)**	(3,840)
Total finance costs	**(3,293)**	(5,244)
Finance income — net	**158,704**	119,704

27 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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% (2017: 25%) except for a subsidiary, which was taxed at a reduced rate of 15% (2017: 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% (2017: 17% to 43%) during the year.

	2018 HK$'000	2017 HK$'000
Current income tax		
— current year		
— Hong Kong profits tax	**24,286**	28,096
— PRC enterprise income tax	**18,274**	17,964
— other overseas taxation	**2,258**	1,940
— (over-provision)/under-provision in prior years		
— Hong Kong profits tax	**(474)**	(995)
— PRC enterprise income tax	**(652)**	272
— other overseas taxation	**125**	(31)
Deferred income tax charge — net (note 14)	**2,099**	7,702
Income tax expenses	**45,916**	54,948

27 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:

	2018 HK$'000	2017 HK$'000
Profit before income tax (excluding share of profits/(losses) of joint ventures and associates)	340,297	338,496
Calculated at a tax rate of 16.5% (2017: 16.5%)	56,149	55,852
Effect of different tax rates in the PRC and other overseas countries	5,310	5,055
Income not subject to income tax	(33,583)	(30,896)
Expenses not deductible for tax purposes	11,836	12,754
Tax losses not recognised	2,127	3,267
Utilisation of previously unrecognised tax losses	(482)	(50)
Over-provision in prior years, net	(131)	(754)
Reversal of prior year tax loss recognised	1,213	5,771
Withholding tax		
— interest income	927	406
— dividend income	165	24
— others	1,120	1,076
Land appreciation tax on PRC investment properties	1,411	2,595
Special tax credit	(146)	(152)
Income tax expenses	45,916	54,948

For the year ended 31st December 2018, the Group's share of tax credit of joint ventures of HK$11,821,000 (2017: taxation of HK$6,729,000) and taxation of associates of HK$785,000 (2017: HK$1,184,000), are included in the consolidated income statement as share of profits of joint ventures and share of (losses)/profits of associates respectively.

28 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity holders of the Company of HK$286,140,000 (2017: HK$356,627,000) and the number of shares in issue during the year of 1,532,955,429 shares (2017: 1,532,955,429 shares).

There was no potential dilutive ordinary shares in existence during both years.

29 DIVIDENDS

	2018 HK$'000	2017 HK$'000
Interim dividend paid of HK$0.05 (2017: HK$0.06) per ordinary share	76,648	91,977
Final dividend proposed of HK$0.09 (2017: HK$0.12) per ordinary share	137,966	183,955
	214,614	275,932

At the board meeting held on 26th March 2019, the directors of the Company proposed a final dividend of HK$0.09 per ordinary share for the year ended 31st December 2018. These proposed dividends have not been recognised as a liability in the financial statements for the year ended 31st December 2018, but will be recognised in shareholders' equity in the year ending 31st December 2019.

30 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2018 HK$'000	2017 HK$'000
Operating profit	181,593	218,792
Amortisation of intangible assets	1,241	1,075
Depreciation of property, plant and equipment, net of amount capitalised	21,289	23,219
Net gains on disposal of property, plant and equipment	(346)	(15,516)
Net gains on disposal of an associate	—	(48)
Amortisation of prepaid premium for land leases	694	677
Fair value gains on investment properties	(11,808)	(8,293)
Fair value losses on financial assets at FVPL	—	23
Fair value losses on derivative financial instruments	—	1,697
(Reversal of provision)/provision for impairment of inventories, net	(8,826)	6,618
Write-off of inventories	21	—
(Reversal of provision)/provision for impairment of trade receivables, net	(6,372)	595
Reversal of provision for impairment of other receivables	(17,228)	—
Dividend income	(2,763)	(5,470)
Operating profit before working capital changes	157,495	223,369
Decrease/(increase) in inventories	109,928	(186,823)
Decrease/(increase) in trade and other receivables	164,100	(148,195)
Increase in amount due from an immediate holding company	(4,993)	—
(Increase)/decrease in amounts due from fellow subsidiaries	(784)	15
Decrease in trade and other payables	(666,979)	(29,748)
Increase in contract liabilities	337,128	—
Increase/(decrease) in amounts due to fellow subsidiaries	1,167	(2,468)
Cash generated from/(used in) operations	97,062	(143,850)

30 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 2017	—
Currency translation differences	(1,652)
Drawdown of loan from a fellow subsidiary	47,304
As of 31st December 2018	45,652

31 FINANCIAL GUARANTEE CONTRACTS

As at 31st December 2018, 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	2018 HK$'000	2017 HK$'000
General banking facilities of an associate	2019	168,408	168,063

As at 31st December 2018, 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.

32 COMMITMENTS

(a) The Group had capital commitments for capital expenditure as follows:

	2018 HK$'000	2017 HK$'000
Contracted but not provided	3,393	12,886

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

	2018 HK$'000	2017 HK$'000
Contracted but not provided	151	601

32 COMMITMENTS (Continued)

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

	2018 HK$'000	2017 HK$'000
Within one year	27,764	32,109
In the second to fifth years inclusive	21,345	28,434
Over five years	1,334	6,153
	50,443	66,696

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

(d) The aggregate future minimum rental receivables under non-cancellable operating leases are as follows:

	2018 HK$'000	2017 HK$'000
Within one year	1,935	2,410
In the second to fifth years inclusive	583	2,494
	2,518	4,904

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

33 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 2018. 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 2018 and 2017, 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:

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

	Note	2018 HK$'000	2017 HK$'000
Sale of coatings to:	(i)		
— fellow subsidiaries		178,545	151,177
— related companies		192,424	256,445
— non-controlling interests		1,897	2,136
Sale of marine equipment and spare parts to:	(ii)		
— fellow subsidiaries		731,791	869,525
— related companies		28,862	7,522
— joint ventures		1,402	2,986
Commission income in relation to the provision of ship trading agency services to:	(iii)		
— fellow subsidiaries		83,888	127,492
— related companies		11,940	3,150
— a joint venture		10,409	3,957
Commission income in relation to the provision of insurance brokerage services to:	(iv)		
— fellow subsidiaries		51,592	55,713
— related companies		1,257	2,755
— holding companies		2,505	3,061
— a joint venture		11	3
— an associate		43	33
Sale of marine fuel to:	(v)		
— fellow subsidiaries		270,383	163,961
— a related company		1,271	—
Sale of ship supplies and other products to:	(vi)		
— fellow subsidiaries		13,208	11,724
— related companies		—	208
Interest income from a fellow subsidiary (note 26)	(vii)	3,978	8,235
Interest income from a joint venture (note 26)	(viii)	858	342
Management fee income in relation to the provision of management services to:	(ix)		
— fellow subsidiaries		23,566	—
— a holding company		51,099	—

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Sale of goods and provision of services to holding companies, 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 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 and a related company 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 repayable on 8th June 2019.

(ix) Management fee income is derived from provision of management services to fellow subsidiaries and a holding company and was conducted on terms as set out in the agreements governing these transactions.

Notes to the Financial Statements

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

	Note	2018 HK$'000	2017 HK$'000
Rental expenses paid to fellow subsidiaries	(i)	26,776	28,910
Commission expenses in relation to the sale of coatings paid to:	(ii)		
— fellow subsidiaries		5,342	2,541
— related companies		—	430
Commission expenses in relation to the provision of ship trading agency services paid to:	(iii)		
— fellow subsidiaries		—	21
— a joint venture		1,194	2,748
— an associate		67	86
Commission expenses in relation to the sale of marine equipment paid to a related company	(iv)	1,828	3,409
Purchase of marine equipment from a related company	(iv)	30,510	71,479
Purchase of raw materials from non-controlling interests	(v)	2,188	3,974
Transportation costs paid to fellow subsidiaries	(vi)	46,435	40,272
Purchase of marine fuel from:	(vii)		
— fellow subsidiaries		24,732	152,624
— related companies		—	523
— an associate		89,152	36,719
Technology usage fee paid to non-controlling interests	(viii)	1,918	2,210
Service fees paid to fellow subsidiaries	(ix)	9,342	8,228
Interest expenses to a fellow subsidiary (note 26)	(x)	750	1,404

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 (2017: 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.

33 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, related companies and an associate was conducted on terms as set out in the agreements governing these transactions.

(viii) Technology usage fee paid to non-controlling interests was made based on a certain percentage of the net sales amount in accordance with terms as set out in the agreements governing these transactions.

(ix) Service fees were paid to 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 2.505% per annum.

(c) On 30th April 2012, the Group executed corporate guarantee of US$21,500,000 (equivalent to approximately HK$168,408,000) in favour of a bank as security for general banking facilities of US$108,000,000 (equivalent to approximately HK$845,955,000) granted by the bank to Double Rich. The guarantee remains effective as at 31st December 2018.

34 EVENT AFTER THE BALANCE SHEET DATE

As disclosed in the Company's announcement dated 4th January 2019, the directors of the Company had noticed from media reports that Coastal Oil Singapore Pte Ltd ("Coastal Oil Singapore") has filed for liquidation as part of a creditors' voluntary winding up operation on 13th December 2018. Coastal Oil Singapore is a major supplier of Sinfeng Marine Services Pte. Ltd. ("Sinfeng"), which is an indirect wholly-owned subsidiary of the Company. In addition, a number of third party commercial banks (collectively, the "Banks") have alleged to Sinfeng that Coastal Oil Singapore has assigned to the Banks receivables due and/or which would fall due from Sinfeng to Coastal Oil Singapore (collectively, the "Alleged Debts"). Pursuant to the alleged assignment of the Alleged Debts by Coastal Oil Singapore to the Banks, the Banks have demanded for repayment of the Alleged Debts by Sinfeng.

As at the date of this report, Sinfeng is still in the process of conducting an investigation and seeking professional advice in respect of the aforesaid matters. Management is of the view that this event would not have a material impact to the Group's financial statements for the year ended 31st December 2018.

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Intangible assets		**635**	276
Property, plant and equipment		**1,563**	1,790
Investments in subsidiaries		**1,323,095**	1,325,741
Investment in joint ventures		**246,659**	143,688
		1,571,952	1,471,495
Current assets			
Amounts due from immediate holding company		**4,993**	—
Amounts due from subsidiaries		**903,373**	927,795
Other receivables		**66,573**	53,426
Current deposits and cash and cash equivalents		**5,612,555**	5,534,385
		6,587,494	6,515,606
Total assets		**8,159,446**	7,987,101
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**153,296**	153,296
Other reserves	(a)	**843,241**	843,241
Retained earnings	(a)	**6,899,222**	6,786,282
Total equity		**7,895,759**	7,782,819
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		**191,702**	171,346
Other payables		**71,352**	32,791
Current income tax liabilities		**633**	145
Total liabilities		**263,687**	204,282
Total equity and liabilities		**8,159,446**	7,987,101

The statement of financial position of the Company was approved by the Board of Directors on 26th March 2019 and was signed on its behalf.

Zhu Jianhui
Director

Liu Gang
Director

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Statement of financial position of the Company (Continued)

Note:

(a) Reserve movement of the Company

	Other reserves HK$'000	Retained earnings HK$'000
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
At 1st January 2018	**843,241**	**6,786,282**
Profit for the year	**—**	**373,543**
Dividends paid	**—**	**(260,603)**
At 31st December 2018	**843,241**	**6,899,222**

Notes to the Financial Statements

36 PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries of the Group as at 31st December 2018 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2018	2017
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#	Hong Kong, limited liability company	HK$5,000,000 ordinary share capital	Provision of insurance brokerages and related services	100%	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%	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%
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	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	US$10,000,000	Production and sale of coatings	64.71%	64.71%
COSCO Kansai Paint (Shanghai) Co., Ltd.#	PRC, foreign equity joint venture	US$25,600,000	Production and sale of coatings	63.07%	63.07%
Beijing COSCO SHIPPING Ship Trading Company Limited (formerly known as 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	RMB50,000,000	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

37 JOINT VENTURES AND ASSOCIATES

Particulars of joint ventures and associates of the Group as at 31st December 2018 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2018	2017
(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%
Nasurfar Biomaterial Technology (Changshu) Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	RMB182,907,725	Research and development, production and sales of biochemical products	33%	–
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.	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.	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%
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 2018

	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 2018 to 31st December 2020	63.07
(2)	Economic Zone, Gaolan Port, Zhuhai, the PRC	Industrial	Site area 67,881.68 sq.m.	From 18th April 2006 to 17th April 2056	64.71
(3)	No. 2, Industry Park, Jinshan District, Shanghai, the PRC	Industrial	Site area 61,097.30 sq.m.	From 5th July 2013 to 4th July 2063	63.07
(4)	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	Commercial	Saleable area 782 sq.m.	Freehold	100

Five-Year Financial Summary

CONSOLIDATED INCOME STATEMENT

	Year ended 31st December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**9,521,575**	8,786,094	7,430,297	5,999,646	7,588,213
Operating profit	**181,593**	218,792	113,412	194,708	245,846
Finance income — net	**158,704**	119,704	86,546	111,368	140,013
Share of profits of joint ventures	**9,925**	64,730	89,930	110,171	65,218
Share of (losses)/profits of associates	**(13,561)**	12,336	10,202	11,577	17,016
Profit before income tax	**336,661**	415,562	300,090	427,824	468,093
Income tax expenses	**(45,916)**	(54,948)	(63,590)	(65,760)	(73,331)
Profit for the year	**290,745**	360,614	236,500	362,064	394,762
Profit/(loss) attributable to:					
Equity holders of the Company	**286,140**	356,627	237,205	335,763	358,970
Non-controlling interests	**4,605**	3,987	(705)	26,301	35,792
	290,745	360,614	236,500	362,064	394,762

Five-Year Financial Summary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31st December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Non-current assets					
Intangible assets	**103,448**	104,287	101,951	103,185	105,478
Property, plant and equipment	**303,523**	331,038	343,912	392,516	262,181
Prepaid premium for land leases	**29,429**	31,549	30,138	32,876	35,100
Investment properties	**107,014**	97,468	56,954	49,416	44,847
Investments in joint ventures	**396,709**	298,190	417,617	525,343	493,107
Investments in associates	**96,651**	122,644	117,564	107,615	82,520
Financial assets at fair value through other comprehensive income	**78,003**	—	—	—	—
Available-for-sale financial assets	**—**	60,613	63,091	58,754	70,524
Deferred income tax assets	**52,936**	54,156	53,724	49,245	69,445
Non-current deposits	**—**	1,563	11,179	35,805	25,348
	1,167,713	1,101,508	1,196,130	1,354,755	1,188,550
Current assets	**8,089,012**	8,509,192	8,192,014	8,112,560	8,476,784
Total assets	**9,256,725**	9,610,700	9,388,144	9,467,315	9,665,334
CAPITAL AND RESERVES					
Share capital	**153,296**	153,296	153,296	153,296	153,181
Reserves	**7,700,639**	7,760,833	7,548,865	7,575,859	7,585,856
Total shareholders' equity	**7,853,935**	7,914,129	7,702,161	7,729,155	7,739,037
Non-controlling interests	**300,765**	299,471	343,580	370,469	369,451
Total equity	**8,154,700**	8,213,600	8,045,741	8,099,624	8,108,488
LIABILITIES					
Non-current liability					
Deferred income tax liabilities	**64,269**	64,829	69,349	44,655	39,027
Current liabilities					
Short-term borrowings	**45,652**	—	67,076	36,062	26,061
Other current liabilities	**992,104**	1,332,271	1,205,978	1,286,974	1,491,758
	1,037,756	1,332,271	1,273,054	1,323,036	1,517,819
Total liabilities	**1,102,025**	1,397,100	1,342,403	1,367,691	1,556,846
Total equity and liabilities	**9,256,725**	9,610,700	9,388,144	9,467,315	9,665,334

Design And Produced By: EDICO Financial Press Services Limited

www.coscointl.com

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

47th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong
香港皇后大道中 183 號中遠大廈 47 樓

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