# SITC International Holdings Company Limited
# 海豐國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 1308


**2019**
ANNUAL REPORT


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# Contents

# Corporate Profile

SITC International Holdings Company Limited (the "**Company**" or "**SITC**" or "**we**") is an Asia's leading shipping logistics company that provides integrated transportation and logistics solutions. As at 31 December 2019, we ranked the 17th among international container shipping companies in terms of shipping capacity. We focus exclusively on servicing the intra-Asia trade market, which is the largest in the world and one of the fastest growing market in terms of shipping volume, according to Drewry Maritime Services (Asia) Pte Ltd, an independent industry consultant.

The following map illustrates the intra-Asia container shipping routes (including trade lanes operated through joint services and container slot exchange arrangements) and shipping logistics service network of the Group as of 31 December 2019:


Our business can be segregated into two main business segments: container shipping and logistics segment and dry bulk and others segment. Our container shipping and logistics segment principally covers integrated logistics services such as the provision of container transportation, freight forwarding, shipping agency, depot and warehousing, etc. Our dry bulk and others segment principally covers the provision of dry bulk vessel leasing, land leasing and air-freight forwarding services.

# Corporate Information

## DIRECTORS

### Executive Directors
YANG Shaopeng *(Chairman)*
YANG Xianxiang *(Vice-Chairman and Chief Executive Officer)*
LIU Kecheng
XUE Peng *(Sole Company Secretary)*
XUE Mingyuan
LAI Zhiyong

### Independent Non-Executive Directors
TSUI Yung Kwok
YEUNG Kwok On
LO Wing Yan, William
NGAI Wai Fung

## BOARD COMMITTEES

### Audit Committee
TSUI Yung Kwok *(Chairman)*
LO Wing Yan, William
NGAI Wai Fung

### Remuneration Committee
YEUNG Kwok On *(Chairman)*
YANG Shaopeng
YANG Xianxiang
TSUI Yung Kwok
NGAI Wai Fung

### Nomination Committee
YANG Shaopeng *(Chairman)*
YANG Xianxiang
YEUNG Kwok On
LO Wing Yan, William
NGAI Wai Fung

### Disclosure Committee
YANG Xianxiang *(Chairman)*
LIU Kecheng
XUE Peng
XUE Mingyuan
LAI Zhiyong

### Sustainable Development Committee
YANG Xianxiang *(Chairman)*
LIU Kecheng
XUE Peng
XUE Mingyuan
LAI Zhiyong

### Risk Management Committee
NGAI Wai Fung *(Chairman)*
YANG Xianxiang
XUE Peng
TSUI Yung Kwok
LO Wing Yan, William

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## CORPORATE HEADQUARTER

21/F, World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

## AUTHORIZED REPRESENTATIVES

LIU Kecheng
XUE Peng

## COMPANY SECRETARIES

XUE Peng *(FCS, FCIS(PE))*

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor,
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

# Corporate Information

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

## PLACE OF LISTING

The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")

## NAME OF STOCK

SITC International Holdings Company Limited ("**SITC**")

## STOCK CODE

01308

## PRINCIPAL BANKERS (by alphabetical order)

ANZ Bank
Bank of China
Bank of China (Hong Kong) Limited
China Merchants Bank
Citibank, N.A
Standard Chartered Bank (Hong Kong) Limited
Sumitomo Mitsui Banking Corporation
The Hongkong and Shanghai Banking Corporation Limited

## AUDITORS

Ernst & Young

## LEGAL ADVISORS

### As to Hong Kong law:

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

### As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## WEBSITE

www.sitc.com

# Financial and Operating Highlights

| | | 2019 | 2018 | Change |
|---|---|---|---|---|
| **Results** | | | | |
| Turnover | US$'000 | **1,553,718** | 1,449,088 | 7.2% |
| Profit attributable to shareholders of the Company | US$'000 | **219,977** | 197,514 | 11.4% |
| Basic earnings per share | US cents | **8.29** | 7.44 | 11.4% |
| Profit margin | % | **14.3** | 13.7 | 0.6 pt. |
| Net cash flows from operating activities | US$'000 | **329,673** | 238,477 | 38.2% |
| **Financial Position** | | | | |
| Equity attributable to shareholders of the Company | US$'000 | **1,010,243** | 1,037,032 | (2.6)% |
| Net current assets | US$'000 | **122,230** | 233,159 | (47.6)% |
| Interest bearing bank borrowings | US$'000 | **282,012** | 313,665 | (10.1)% |
| **Financial Ratio** | | | | |
| Return on equity (note 1) | % | **21.5** | 19.7 | 1.8 pt. |
| Return on assets (note 2) | % | **13.4** | 12.6 | 0.8 pt. |
| Assets turnover ratio (note 3) | times | **0.94** | 0.92 | 0.02 |
| Gearing ratio (note 4) | % | **18** | 11 | 7 pt. |
| **Operating Statistics** | | | | |
| Number of container vessels operated as at year end | vessels | **82** | 79 | 3 |
| Container shipping volume - Container shipping and supporting logistics | TEU | **2,483,278** | 2,399,169 | 84,109 |

Note 1

Return on equity is calculated by using the profit for the year and the average balance of total equity as at beginning of year and end of year.

Note 2

Return on assets is calculated by using the profit of the year and the average balance of total assets as at beginning of year and end of year.

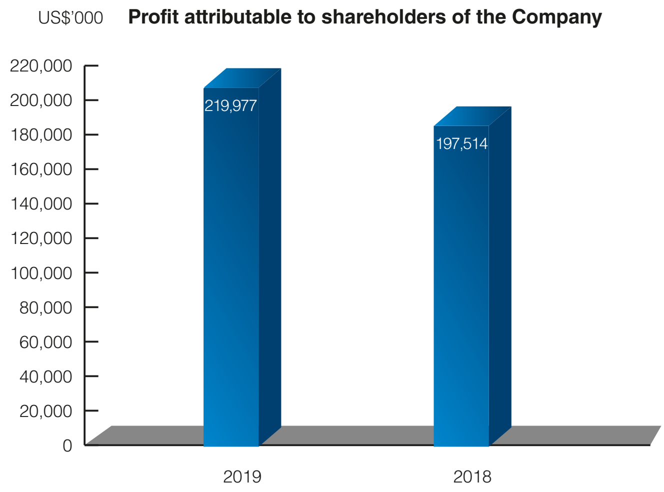
Note 3

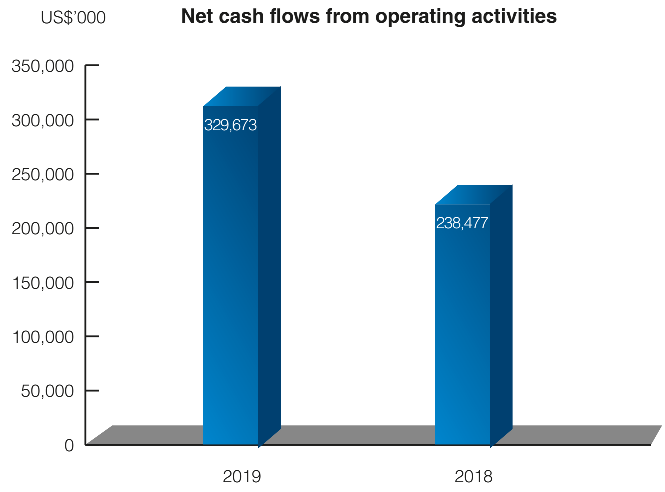
Assets turnover ratio is calculated by using the turnover and the average balance of total assets as at beginning of year and end of year.

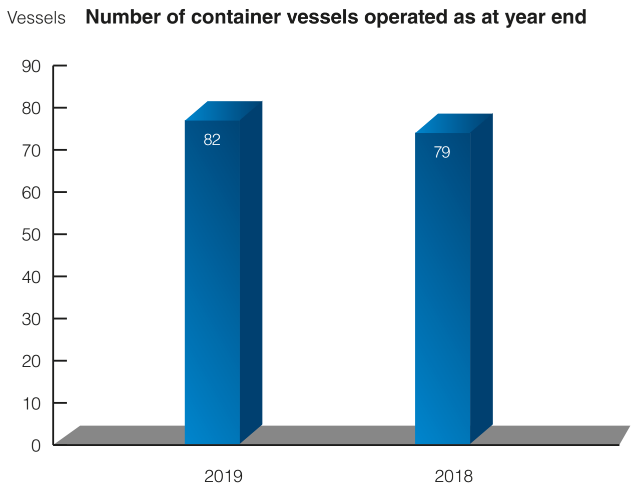
Note 4

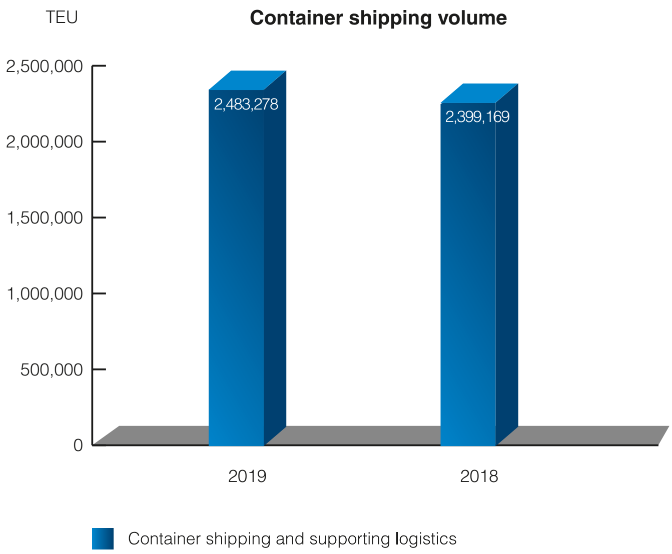
Gearing ratio is calculated by using net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank borrowings, lease liabilities, trade and other payables, accruals, amounts due to related companies, less cash and cash equivalents. Adjusted capital includes equity attributable to owners of the parent less the hedging reserve. The Group's gearing ratio was 11% as at 31 December 2018 before adoption of HKFRS 16. Upon adoption of HKFRS 16 with an increase in lease liabilities, the Group's gearing ratio was both 18% as at 1 January 2019 and 31 December 2019.

# Financial and Operating Highlights



# Major Milestones in 2019

On 18 January 2019, the Naming & Delivery Ceremony of M/V "SITC SUBIC" was successfully held at Busan, Korea, by SITC International Holdings Co., Ltd. ("SITC") and Dae Sun Shipbuilding & Engineering Co., Ltd ("Dae Sun").

On 23 January 2019, the inaugural vessel "LANTAU BEACH" successfully docked at berth No. 6, Tien Sa Port, Da Nang, marking the official launch of SITC's Da Nang-Japan express direct route.

At 09:10 on 9 February 2019, "Min Fu Ding" fishing vessel No. 06999 caught fire on the bridge in the sea area east of Nanji Island, with 11 people on board in distress and requiring urgent assistance. The Wenzhou Maritime Search and Rescue Centre designated the "SITC LIAONING"of the Company to guard near the incident waters and serve as the on-site rescue command vessel. Following the rescue, the Wenzhou Maritime Search and Rescue Centre extended sincere greetings and heartfelt gratitude to Song Biao, the captain of the "SITC LIAONING" vessel, as well as all the crew members, and recognised their efforts and contribution to the rescue.

On the morning of 25 February 2019, the Naming & Delivery Ceremony of M/V "SITC TAICANG" was successfully held at Busan, Korea, by SITC and Dae Sun.

On 1 April 2019, SITC officially became a member of the Hong Kong Shipowners Association. In the future, SITC will actively participate in the exchanges and cooperation in the local shipping industry, provide advice and suggestions on the work and development of the association, and jointly promote the healthy and orderly development of the industry.

On 2 April 2019, SITC and Xiamen Container Terminal Group signed a strategic cooperation memorandum, pursuant to which both parties will take the opportunity to further carry out close exchanges and cooperation, striving to become a cooperation model among ports and shipping companies.

On the morning of 23 April 2019, the Naming & Delivery Ceremony of M/V "SITC SHIDAO" was successfully held at Busan, Korea, by SITC and Dae Sun.

On 24 April 2019, the 1st China (East Frontier) Shipping Industry Week" and the awarding ceremony of the 16th China Freight Industry Award • Innovation Award and the 70 Persons in the Shipping Industry in Celebration of China's 70th Anniversary were held in Tianjin. On the ceremony, SITC Container Lines Company Limited won 2019 Carrier Innovation Award and SITC Logistics Co., Ltd. received 2019 Freight Forwarding and Logistics Innovation Award, while Mr. Yang Shaopeng, Chairman of SITC, was selected as one of the 70 Persons in the Shipping Industry in Celebration of China's 70th Anniversary.

In May 2019, SITC Shipping Management (Shanghai) Co., Ltd. was awarded the 2018 Award for Outstanding Performance in PSC Inspection by the Hong Kong Marine Department in recognition of its outstanding performance in the PSC inspection. SITC Shipping Management (Shanghai) Co., Ltd. Was the winner of this award for two consecutive years.

During 16-19 May 2019, the 2nd Western China International Fair for Investment and Trade was held at Chongqing International Expo Centre, in which SITC Chongqing and SITC Logistics Sichuan-Chongqing Office participated.

On 11 June 2019, China Railway Container Transport Co., Ltd. and SITC International Holdings Co., Ltd. signed a strategic cooperation agreement in Beijing, pursuant to which both parties conducted in-depth exchanges on the joint development of multi-modal transport business, and put forward constructive suggestions on how to better leverage their respective advantages in railway transportation and international shipping.

# Major Milestones in 2019

On 17 June 2019, the railway containers loaded from inland points to Nansha by rail transport were successfully loaded on SITC liners to be exported by sea, marking the official launch of SITC's project of "transporting railway containers by sea" and representing an important achievement following the signing of the strategic cooperation agreement on sea-rail transport between SITC and China Railway Group on 11 June 2019.

On 24 June 2019, SITC Tianjin's first batch of containers imported from Japan to Caofeidian Port was successfully unloaded, marking the successful completion of SITC's first batch of inner feeder business imported to Caofeidian.

In June 2019, the Hong Kong Professional Insurance Brokers Association ("PIBA") conducted an annual review of SITC Insurance Brokers (HK) Co., Ltd. ("SITC Insurance Brokers"), and SITC Insurance Brokers successfully passed the PIBA annual review and obtained the annual qualifications certificate for the year 2019-2020. This was the ninth year in which the Company successfully passed such review.

On 15 July 2019, the railway containers which were loaded in Kunming and transported by the international eastbound corridor railway were successfully loaded on SITC's container liners at Nansha Port to be exported by sea, marking the official launch of SITC's business of transporting international eastbound corridor railway containers by sea under its sea-rail transport model, and representing an important achievement of SITC's strategic cooperation with China Railway Group in response to China's "Belt and Road" national strategy.

On 7 August 2019, SITC's container liner arrived at Bintulu International Container Terminal (BICT), marking the completion of its inaugural voyage of China-East Malaysia container express route.

On the morning of 2 September 2019, SITC's first batch of railway containers in the new western land-and-sea corridor was successfully loaded and transported south to Qinzhou for shipment to Southeast Asian countries.

On 6 September 2019, the first "Belt and Road" Land-and-Sea Linkage (Qingdao) Summit was held at the International Convention Centre of Qingdao World Expo City, at which the "Belt and Road" Land-and-Sea Linkage Development Alliance was formed, and SITC became a member upon invitation. Mr. Yang, our CEO, took the stage as the vice chairman to participate in the launching ceremony.

On 7 September 2019, representatives of SITC participated in the first "Silk Road Maritime International Cooperation Forum" unveiled in Xiamen, Fujian with the theme of "Sharing Prosperity Through Cooperation and Connectivity". At the forum, SITC signed a strategic cooperation project of "Two Ports, One Route" with XiaMen Port Holding Group Co., Ltd., and Qingdao Port Group Co., Ltd. under Shandong Port Group, respectively; a port and shipping business development cooperation project with Xiamen Container Terminal Group Co., Ltd.; and a China-Europe train (Vietnam-Xiamen-Russia) multimodal transport strategic cooperation project with Xiamen C&D Bonded Logistics Co., Ltd, SWIFT RUS LLC and overseas customers.

On the morning of 12 October 2019, the Naming & Delivery Ceremony of M/V "SITC CEBU" was successfully held by SITC and Yangtze River Shipbuilding.

In October 2019, SITC donated the “SITC Exchange Centre” to Shanghai Maritime University and became a member of the Education Development Foundation of Shanghai Maritime University.

On the morning of 19 October 2019, SITC Xiamen Branch launched the inaugural ceremony of the CPX5 Shihu Port (Shishi, Quangzhou) – Manila route at the Shihu Port. On the afternoon of the same day, the launch conference of the Shihu Port – Manila route was held.

On 28 October 2019, the Kawasaki Port delegation led by Mr. Santo Fumio, the chairman of Kawasaki Port Strategy Promotion Council visited Zhangjiang Office Building of SITC Shanghai. Kawasaki Port Bureau forwarded a letter of thanks from Mr. Norihiko Fukuda, Mayor of Kawasaki City for SITC’s contribution to the development of Kawasaki Port.

On November 1, 2019, SITC Logistics Philippines was officially established in Manila. The company focuses on Manila and is engaged in the development of integrated logistics business in Luzon Island, VISAYA region and Mindanao Island.

On 8 November 2019, SITC’s first run of transporting railway containers by sea in its international multi-modal transport transit business was successfully completed.

On 20 November 2019, the Naming & Delivery Ceremony of M/V “SITC BATANGAS” was successfully held by SITC and Yangtze River Shipbuilding.

On 2 December 2019, the ceremony for the first anniversary of the launch of the SITC Sendai direct route and the inaugural voyage of the SITC SENDAI were successfully held in Sendai Port. Since its launch of the Shanghai-Sendai and Taicang-Sendai direct routes in December 2018, SITC was widely accepted and recognised by an increasing number of customers for its stable schedule and high-quality service.

On 11 December 2019, the 16th China Freight Industry Awards Ceremony was held in Dongguan. At the ceremony, SITC won many awards, including the “Top 10 Enterprise Comprehensive Service of Container Liner”, the “China’s Freight Forwarding Brand Top 50”, the “Best Window Service of Container liner” and the “Best Innovative Multi-modal Transport Service Provider”.

On the afternoon of 18 December 2019, the grand signing ceremony of establishment of SITC LOGISTICS (PTY) LTD, a South African joint venture to engage in logistics, by Hisense Group, SITC and Israel-based EXIT. The establishment of the joint venture by Hisense and SITC marked a new milestone for the long-term close cooperation between both parties, represented an important practice for both parties to jointly expand overseas business by actively responding to the “Belt and Road” national strategy, and laid a new foundation for their further development and cooperation in the future.

On 25 December 2019, the graduation ceremony of the Second Class of Orientation Training Course for SITC Mini-MBA Degree in Shipping Management was successfully held at Shanghai Maritime University. SITC and Shanghai Maritime University will continue to carry forward the school-enterprise cooperation projects to contribute to the development of the shipping industry and the cultivation of logistics talents.

# Chairman's Statement

With continuous business expansion, SITC will continue to optimize its unique business model and expand its intra-Asia service network. At the same time, the Group will optimize its own fleet structure by capturing vessel price dynamics, so as to keep pace with the development of the business and secure a long-term cost-competitive position. With the continuous enhancement on the Group's organization process, information technology systems and operational efficiency, the Company will strive for the goal in becoming a world-class integrated logistics service solutions provider.

Dear Shareholders,

On behalf of the Board (the "**Board**") of Directors (the "**Directors**") of SITC International Holdings Company Limited ("**SITC**" or the "**Company**", together with its subsidiaries referred to as the "**Group**"), I hereby present to you the Group's annual results for the year ended 31 December 2019.

The year ended 31 December 2019 witnessed the slowdown in world economic growth, China-US trade disputes, fluctuations in the global container shipping and logistics market, and the intensified competition in the industry, all of which posed an impact on the improvement of demand and supply dynamics in the Asian region.

SITC is a leading shipping logistics company dedicated to serving the intra-Asia trade market. The Group leverages on the comprehensive coverage of its shipping and logistics supply chain, unique business model, high quality customer base and its high-density, high frequency container shipping route and logistics network covering major ports in Asia to derive full benefits of the growth in the trade and economies of China and other Asian countries. Despite the intense competition in the sea freight market as well as significant volatile in currency rate fuel costs, the Group's operation still performed well during the year under review, with turnover reaching approximately US$1,553.7 million, representing an increase of approximately 7.2% as compared with 2018. Meanwhile, gross profit reached approximately US$298.2 million, representing an increase of approximately 18.1% as compared with 2018. Profit before income tax amounted to approximately US$230.5 million, representing an increase of approximately 11.0% from 2018. Profit attributable to owners of the parent amounted to approximately US$220.0 million and earnings per share was approximately US8.29 cents. For the year ended 31 December 2019, the Board resolved to recommend the payment of a final dividend of HK27 cents per share.

Over the past years, SITC continued to record increase in container shipping volume and outperform many of our peers by actively capitalizing on the intra-Asia economic development. The total container shipping volume for the year increased by approximately 3.5% to 2,483,278 TEU, with average freight rate of US$536.6/TEU (excluding slot exchange fee rate), up 2.8% year on year. SITC maintained stable growth in intra-Asia shipping market share in 2019.

The Group leveraged on its strong operating cash flow to expand its operations amidst the unfavorable industrial trend, and pursued development opportunities at low costs. SITC has actively pursued expansion of its fleet. In 2019, a total of 5 new vessels were delivered. Our total fleet capacity at the end of 2019 reached 117,578 TEU. The Group considers that the new vessel orders placed at a time of low vessel price help the Group expand its self-owned fleet and secure a long-term cost advantage for SITC. As at 31 December 2019, the Group had 57 self-owned container vessels and 25 chartered container vessels. Meanwhile, the Group owned 6 dry bulk vessels with a gross tonnage of 438,595 DWT.

In respect of the container shipping and logistics business, the Group continued to implement various extension and upgrade to certain container shipping route services networks. As of 31 December 2019, the Group operated 68 trade lanes, including 9 trade lanes through joint services and 26 trade lanes through container slot exchange arrangements, The Group also operated (including through joint ventures) approximately 1,169,142 $m^2$ of depot and 91,700 $m^2$ of warehousing space.

Looking ahead, in view of the world's weak economic growth, mounting uncertain tiesand the shift of supply chain and trade landscapes towards regionalisation, Clarkson predicts that the cargo transportation demand along Asian lanes will increase by 3.4%. As affected by vessel replacement and subject to the sulphur cap imposed by the International Maritime Organisation, the number of vessels to be dismantled will also increase. Therefore, this will help improve the supply and demand dynamics in the shipping and logistics market in Asia. Meanwhile, the Company will pay close attention to and evaluates the impact of the recent outbreak of COVID-19 on the business environment. With the successive work resumption of factories in the countries and regions affected by the outbreak, inventories will need to be replenished, and economic activities are expected to pick up quickly following the downturn. The Company will continue to implement its expansion plan prudently when opportunities arise.

Finally, I would like to extend my heartfelt gratitude to our shareholders for their concern and support to the Group. I would like to express my appreciation to all the Directors of the Company, members of senior management and staff of the Group for their hard work during the past year. I believe that SITC is progressing towards its goal of becoming a world-class shipping logistics enterprise and will deliver more outstanding results in the future.

**YANG Shaopeng**
*Chairman*
27 March 2020

# Management Discussion and Analysis

## OVERVIEW

SITC is one of Asia's leading shipping logistics companies that provides integrated transportation and logistics solutions.

The Company has two business segments, including (i) "container shipping and logistics" segment; and (ii) "dry bulk and others" segment.

### Business Review

**(i) Container shipping and logistics business**

During the year ended 31 December 2019, the Group's container shipping and logistics business continued to provide container transportation and integrated logistics services that focused exclusively on the intra-Asia market, as the Group believes that the intra-Asia market will continue to experience stable and healthy growth.

As of 31 December 2019, the Group operated 68 trade lanes, including 9 trade lanes through joint services and 26 trade lanes through container slot exchange arrangements. These trade lanes and land-based integrated logistics business network covered 69 major ports and cities in the Mainland China, Japan, Korea, Taiwan, Hong Kong, Vietnam, Thailand, the Philippines, Cambodia, Indonesia, Singapore, Malaysia and Brunei. As of 31 December 2019, the Group operated a fleet of 82 vessels with a total capacity of 117,578 TEU, comprised of 57 self-owned (76,705 TEU) and 25 chartered vessels (40,873 TEU), with an average age of 10.0 years. In addition, the Group also operated (including through joint ventures) approximately 1,169,142 $m^2$ of depot and 91,700 $m^2$ of warehousing space.

Revenue generated by the Group's container shipping and logistics business for the year ended 31 December 2019 increased by approximately 7.2% from US$1,425.2 million for the year ended 31 December 2018 to US$1,527.3 million for the year ended 31 December 2019. The increase was a result of a combined effect, from container shipping and supporting logistics business, where (i) container shipping volume achieved an increase of 3.5% growth from 2,399,169 TEUs in 2018 to 2,483,278 TEUs in 2019 and (ii) average freight rate (excluding slot exchange fee income) increased by approximately 2.8% from US$522.1/TEU in 2018 to US$536.6/TEU in 2019.

**(ii) Dry bulk and others business**

During the year ended 31 December 2019, the Group's dry bulk and others business focused on the provision of dry bulk vessel leasing, land leasing and air freight forwarding services. As at 31 December 2019, the Group has 6 dry bulk vessels with a total tonnage of 438,595 tons and an average age of 7.1 years. Revenue generated from dry bulk and others business increased by approximately 10.5% from US$23.9 million for the year ended 31 December 2018 to US$26.4 million for the year ended 31 December 2019. The increase was mainly a result of the increase in the daily charter rate of dry bulk vessels.

With continuous business expansion, the Group will continue to optimize its unique business model and expand its intra-Asia service network. At the same time, the Group will optimize its own fleet structure by capturing vessel price dynamics, so as to keep pace with the development of the business and secure a long-term cost-competitive position. With the continuous enhancement on the Group's organization process, information technology systems and operational efficiency, the Company will strive for the goal in becoming a world-class integrated logistics service solutions provider.

### Market Review

The year ended 31 December 2019 witnessed the slowdown in world economic growth, China-US trade disputes, fluctuations in the global container shipping and logistics market, and the intensified competition in the industry, all of which posed an impact on the improvement of demand and supply dynamics in the Asian region. In addition, the change in costs, such as bunkers and vessel charter, also caused material impact on the profitability of the industry. Through effective management of shipping capacity and stabilization of freight rates, the Company adopted a strategy of efficient operation and low-cost expansion and continued to deliver steady growth in its results.

Looking ahead, in view of the world's weak economic growth, mounting uncertainties and the shift of supply chain and trade landscapes towards regionalisation, Clarkson predicts that the cargo transportation demand along Asian lanes will increase by 3.4%. As affected by vessel replacement and subject to the sulphur cap imposed by the International Maritime Organisation, the number of vessels to be dismantled will also increase. Therefore, this will help improve the supply and demand dynamics in the shipping and logistics market in Asia. Meanwhile, the Company will pay close attention to and evaluates the impact of the recent outbreak of COVID-19 on the business environment. With the successive work resumption of factories in the countries/regions affected by the outbreak, inventories will need to be replenished, and economic activities are expected to pick up quickly following the downturn. The Company will continue to implement its expansion plan prudently when opportunities arise.

## Financial Overview

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **Container shipping and logistics** | | **Dry bulk and others** | | **Total** | |
| | **US$'000** | US$'000 | **US$'000** | US$'000 | **US$'000** | US$'000 |
| **Revenue** | **1,527,346** | 1,425,219 | **26,372** | 23,869 | **1,553,718** | 1,449,088 |
| Cost of sales | **(1,238,096)** | (1,180,516) | **(17,470)** | (15,973) | **(1,255,566)** | (1,196,489) |
| **Gross profit** | **289,250** | 244,703 | **8,902** | 7,896 | **298,152** | 252,599 |
| Other income and gains (excluding bank interest income and other investment income) | **8,237** | 10,465 | **–** | 7,248 | **8,237** | 17,713 |
| Administrative expenses | **(80,101)** | (76,328) | **(145)** | (121) | **(80,246)** | (76,449) |
| Share of profits and losses of: | | | | | | |
| Joint ventures | **8,975** | 10,140 | **(390)** | (179) | **8,585** | 9,961 |
| Associates | **442** | 171 | **–** | – | **442** | 171 |
| Other expenses and losses | **(4,344)** | (1,005) | **–** | (3) | **(4,344)** | (1,008) |
| Segment results | **222,459** | 188,146 | **8,367** | 14,841 | **230,826** | 202,987 |
| Finance costs | | | | | **(14,482)** | (9,368) |
| Bank interest income and other investment income | | | | | **14,169** | 14,077 |
| Profit before tax | | | | | **230,513** | 207,696 |
| Income tax | | | | | **(8,998)** | (8,599) |
| **Profit for the year** | | | | | **221,515** | 199,097 |
| **Profit attributable to:** | | | | | | |
| Owners of the parents | | | | | **219,977** | 197,514 |
| Non-controlling interests | | | | | **1,538** | 1,583 |
| | | | | | **221,515** | 199,097 |

# Management Discussion and Analysis

## Revenue

The Group's total revenue increased by approximately 7.2% from approximately US$1,449.1 million for the year ended 31 December 2018 to approximately US$1,553.7 million for the year ended 31 December 2019. The increase was primarily attributable to the increase from container shipping and supporting logistics business in both average freight rate and container shipping volume.

## Cost of Sales

The Group's cost of sales increased by approximately 4.9% from approximately US$1,196.5 million for the year ended 31 December 2018 to approximately US$1,255.6 million for the year ended 31 December 2019. The increase was primarily attributable to the increase from container shipping and supporting logistics business in equipment and cargos transportation costs and voyage costs, due to growth in container shipping volume.

## Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased from approximately US$252.6 million for the year ended 31 December 2018 to approximately US$298.2 million for the year ended 31 December 2019. The Group's gross profit margin increased from approximately 17.4% for the year ended 31 December 2018 to approximately 19.2% for the year ended 31 December 2019.

## Other Income and Gains (excluding bank interest income and other investment income)

For the year ended 31 December 2019, other income and gains (excluding bank interest income and other investment income) decreased by approximately US$9.5 million from approximately US$17.7 million for the year ended 31 December 2018 to US$8.2 million for the year ended 31 December 2019. The decrease was mainly attributable to (i) a reversal of impairment losses for dry bulk vessels in prior years of approximately US$5.9 million in 2018 (2019: Nil); and (ii) a year-on-year decrease of approximately US$4.2 million for gains on disposal of fixed assets, including containers and others.

## Administrative Expenses

The Group's administrative expenses increased from approximately US$76.4 million for the year ended 31 December 2018 to approximately US$80.2 million for the year ended 31 December 2019, representing an increase of approximately 5.0%. The increase was primarily attributable to the overall increase in staff cost.

## Share of profits and losses of joint ventures

The Group's share of profits and losses of joint ventures decreased by approximately 14.0% from approximately US$10.0 million in 2018 to approximately US$8.6 million in 2019. The decrease was mainly attributable to the decline in the profits from part of the jointly controlled depots.

## Share of profits and losses of associates

The Group's share of profits and losses of associates was approximately US$0.4 million and US$0.2 million for 2019 and 2018, respectively. There was no material change in the amount.

## Other Expenses and Losses

The Group's other expenses and losses were approximately US$4.3 million and US$1.0 million for the year ended 31 December 2019 and 2018, respectively. The increase was mainly attributable to a year-on-year increase of approximately US$3.5 million in the hedging losses arising from realization of Japanese Yen.

## Finance Costs

The Group's finance costs increased from approximately US$9.4 million for the year ended 31 December 2018 to US$14.5 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in interest on the lease liabilities due to the implementation of Hong Kong Financial Reporting Standard 16 (Leases) ("**HKFRS 16**") for the first time.

## Bank Interest Income and Other Investment Income

The Group's amount of bank interest income and other investment income was approximately US$14.2 million and US$14.1 million for the year ended 31 December 2019 and 2018, respectively. There was no material change in the amount.

## Profit before Tax

As a result of the foregoing, the Group's profit before tax increased from approximately US$207.7 million for the year ended 31 December 2018 to approximately US$230.5 million for the year ended 31 December 2019.

## Income Tax Expenses

The Group's income tax expense was approximately US$9.0 million and US$8.6 million for the year ended 31 December 2019 and 2018, respectively. The increase was primarily attributable to the increase in taxable profit of the Group.

## Profit for the Year

The Group's profit for the year ended 31 December 2019 was approximately US$221.5 million, representing an increase of approximately 11.3% as compared to the profit of approximately US$199.1 million for the year ended 31 December 2018.

# CONTAINER SHIPPING AND LOGISTICS

The following table sets forth selected income statement data for the Group's container shipping and logistics segment for the periods indicated:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Amount (US$'000)** | **% of segment revenue** | Amount (US$'000) | % of segment revenue |
| **Income Statement Data** | | | | |
| **Segment revenue** | **1,527,346** | **100%** | 1,425,219 | 100% |
| Container shipping and supporting logistics income | **1,390,352** | **91.0%** | 1,306,225 | 91.7% |
| Other container logistics income | **136,994** | **9.0%** | 118,994 | 8.3% |
| **Cost of Sales** | **(1,238,096)** | **(81.1%)** | (1,180,516) | (82.8%) |
| Equipment and cargos transportation costs | **(680,825)** | **(44.6%)** | (648,409) | (45.5%) |
| Voyage costs | **(275,558)** | **(18.0%)** | (263,455) | (18.5%) |
| Container shipping vessels cost | **(166,093)** | **(10.9%)** | (168,251) | (11.8%) |
| Other container logistics costs | **(115,620)** | **(7.6%)** | (100,401) | (7.0%) |
| **Gross Profit** | **289,250** | **18.9%** | 244,703 | 17.2% |
| Other income and gains (excluding bank interest income and other investment income) | **8,237** | **0.5%** | 10,465 | 0.7% |
| Administrative expenses | **(80,101)** | **(5.2%)** | (76,328) | (5.4%) |
| Other expenses and losses | **(4,344)** | **(0.3%)** | (1,005) | (0.1%) |
| Share of profits and losses of: | | | | |
| Joint ventures | **8,975** | **0.6%** | 10,140 | 0.7% |
| Associates | **442** | **0.1%** | 171 | 0.1% |
| **Segment results** | **222,459** | **14.6%** | 188,146 | 13.2% |

## Segment results

The following table sets forth the average freight rate for the years ended 31 December 2018 and 2019, and the number of trade lanes and port calls per week of the Group as at 31 December 2018 and 2019:

| Year ended 31 December | | As of 31 December | | | |
|---|---|---|---|---|---|
| **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| **Average freight rate (US$ per TEU, excluding slot exchange fee rate)** | | **Number of trade lanes** | | **Port calls per week** | |
| **536.6** | 522.1 | **68** | 64 | **408** | 385 |

### Revenue

Revenue of the Group's container shipping and logistics segment increased by approximately 7.2% from approximately US$1,425.2 million for the year ended 31 December 2018 to approximately US$1,527.3 million for the year ended 31 December 2019. The increase was a result of a combined effect, from container shipping and supporting logistics business, where (i) container shipping volume achieved an increase of 3.5% growth from 2,399,169 TEUs in 2018 to 2,483,278 TEUs in 2019 and (ii) average freight rate (excluding slot exchange fee income) increased by approximately 2.8% from US$522.1/TEU in 2018 to US$536.6/TEU in 2019.

### Cost of Sales

The cost of sales of the Group's container shipping and logistics business increased by approximately 4.9% from approximately US$1,180.5 million for the year ended 31 December 2018 to approximately US$1,238.1 million for year ended 31 December 2019. The increase was primarily attributable to the increase from container shipping and supporting logistics business in equipment and cargos transportation costs and voyage costs, due to growth in container shipping volume.

### Gross Profit and Gross Profit Margin

As a result of the foregoing, the Company recorded gross profit of approximately US$289.3 million in its container shipping and logistics business for the year ended 31 December 2019, representing an increase of approximately 18.2% as compared to approximately US$244.7 million for the year ended 31 December 2018. The gross profit margin of the Group's container shipping and logistics business was approximately 18.9% and 17.2% for the year ended 31 December 2019 and 2018, respectively.

### Other Income and Gains (excluding bank interest income and other investment income)

For the year ended 31 December 2019, other income and gains (excluding bank interest income and other investment income) decreased to approximately US$8.2 million from approximately US$10.5 million for the year ended 31 December 2018. The decrease was mainly attributable to a year-on-year decrease of approximately US$4.2 million for gains on disposal of fixed assets, including containers and others.

### Administrative Expenses

Administrative expenses of the Group's container shipping and logistics business increased by approximately 5.0% from approximately US$76.3 million for the year ended 31 December 2018 to approximately US$80.1 million for the year ended 31 December 2019. The increase in administrative expenses was mainly attributable to the overall increase in staff cost.

### Other Expenses and Losses

Other expenses and losses for the Group's container shipping and logistics business increased from approximately US$1.0 million for the year ended 31 December 2018 to approximately US$4.3 million for the year ended 31 December 2019. It was mainly attributable to a year-on-year increase of approximately US$3.5 million in the hedging losses arising from realization of Japanese Yen.

## Share of Profits and Losses of Joint Ventures

The Group's container shipping and logistics business's share of profits and losses of joint ventures decreased by approximately 10.9% from approximately US$10.1 million in 2018 to approximately US$9.0 million in 2019. The decrease was mainly attributable to the decline in the profits from part of the jointly controlled depots.

## Share of Profits and Losses of Associates

The Group's container shipping and logistics business's share of profits and losses of associates was approximately US$0.4 million and US$0.2 million for 2019 and 2018, respectively. There was no material change in the amount.

## Segment Results

As a result of the foregoing, the segment results of the Group's container shipping and logistics business increased by approximately US$34.4 million from approximately US$188.1 million for the year ended 31 December 2018 to approximately US$222.5 million for the year ended 31 December 2019.

## Dry Bulk and Others

The following table sets forth selected income statement data for the Group's dry bulk and others segment for the periods indicated:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Amount (US$'000)** | **% of segment revenue** | Amount (US$'000) | % of segment revenue |
| **Income Statement Data** | | | | |
| **Segment revenue** | **26,372** | **100%** | 23,869 | 100% |
| Dry bulk business | **24,885** | **94.4%** | 22,352 | 93.6% |
| Other business | **1,487** | **5.6%** | 1,517 | 6.4% |
| **Cost of Sales** | **(17,470)** | **(66.3%)** | (15,973) | (66.9%) |
| Dry bulk business | **(16,738)** | **(63.5%)** | (15,243) | (63.9%) |
| Other business | **(732)** | **(2.8%)** | (730) | (3.0%) |
| **Gross Profit** | **8,902** | **33.7%** | 7,896 | 33.1% |
| Other income and gains (excluding bank interest income and other investment income) | **–** | **–** | 7,248 | 30.4% |
| Administrative expenses | **(145)** | **(0.5%)** | (121) | (0.5%) |
| Other expenses and losses | **–** | **–** | (3) | (0.1%) |
| Share of profit and losses of: | | | | |
| Joint ventures | **(390)** | **(1.5%)** | (179) | (0.7%) |
| **Segment results** | **8,367** | **31.7%** | 14,841 | 62.2% |

### Revenue

The revenue of the Group's dry bulk and others business increased by approximately 10.5% from approximately US$23.9 million for the year ended 31 December 2018 to approximately US$26.4 million for year ended 31 December 2019. This increase was mainly attributable to the following:

- *Dry bulk business.* Revenue of the Group's dry bulk business increased by approximately 11.2% from approximately US$22.4 million for the year ended 31 December 2018 to approximately US$24.9 million for the year ended 31 December 2019, which primarily reflected the increase in the daily charter rate of dry bulk vessels.

### Cost of Sales

The cost of sales of the Group's dry bulk and others business increased by approximately 9.4% from approximately US$16.0 million for the year ended 31 December 2018 to approximately US$17.5 million for the year ended 31 December 2019. The increase was mainly attribute to the following:

- *Dry bulk business.* Cost of sales for the dry bulk business increased by approximately 9.9% from approximately US$15.2 million for the year ended 31 December 2018 to approximately US$16.7 million for year ended 31 December 2019, primarily reflecting an increase in dry-dock costs.

### Gross Profit and Gross Profit Margin

As a result of the foregoing, the gross profit of the Group's dry bulk and others business increased by approximately 12.7% from approximately US$7.9 million for the year ended 31 December 2018 to approximately US$8.9 million for the year ended 31 December 2019. The gross profit margin of the Group's dry bulk and others business increased from approximately 33.1% for the year ended 31 December 2018 to approximately 33.8% for the year ended 31 December 2019.

### Other Income and Gains (excluding bank interest income and other investment income)

There was no other income and gains (excluding bank interest income and other investment income) of the Group's dry bulk and others business occurred for the year ended 31 December 2019 (2018: US$7.2 million). The decrease was mainly attributable to a reversal of impairment losses for dry bulk vessels in prior years of approximately US$5.9 million in 2018 (2019: Nil).

### Administrative Expenses

Administrative expenses of the Group's dry bulk and others business were approximately US$0.1 million for both the years ended 31 December 2019 and 2018. There was no fluctuation in the amount.

### Share of Losses of Joint Ventures

The Group's share of losses of joint ventures for the dry bulk and others business was approximately US$0.4 million and US$0.2 million for the year ended 31 December 2019 and 2018, respectively. There was no material fluctuation in the amount.

### Segment Results

As a result of the foregoing, the segment results of the Group's dry bulk logistics and others business decreased by approximately 43.2% from US$14.8 million for the year ended 31 December 2018 to approximately US$8.4 million for the year ended 31 December 2019.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Total assets of the Group increased by approximately 12.7% from approximately US$1,551.9 million as at 31 December 2018 to approximately US$1,749.5 million as at 31 December 2019. As at 31 December 2019, the Group had cash and cash equivalents amounting to approximately US$399.4 million, mainly denominated in US dollar, Renminbi, Japanese Yen and other currencies.

Total liabilities of the Group increased by approximately 44.2% from approximately US$506.2 million as at 31 December 2018 to approximately US$730.0 million as at 31 December 2019. At 31 December 2019, the Group had secured interest-bearing bank loans of approximately US$282.0 million. The maturity profile is spread over a period, with approximately US$55.4 million repayable within one year or on demand, approximately US$47.9 million within the second year, approximately US$105.4 million within third to fifth years and approximately US$73.3 million beyond five years.

Further, the Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. As at 31 December 2019, the Group hedged approximately 11.0% (31 December 2018: 17.1%) of its foreign currency sales for which firm commitments existed at the end of the reporting period.

As at 31 December 2019, the Group had current ratio (being the current assets divided by the current liabilities) of approximately 1.3 compared to that of 1.9 as at 31 December 2018. The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain a healthy gearing ratio. Net debt includes interest-bearing bank borrowings, lease liabilities, trade and other payables, accruals, amounts due to related companies, less cash and cash equivalents. Adjusted capital includes equity attributable to owners of the parent less the hedging reserve. The Group's gearing ratio was 11% as at 31 December 2018 before adoption of HKFRS 16. Upon adoption of HKFRS 16 with an increase in lease liabilities, the Group's gearing ratio was 18% as at 1 January 2019 and 31 December 2019.

## CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities.

## CHARGE ON ASSETS

As at 31 December 2019, the Group's bank loans were secured by mortgages over the Group's container vessels and dry-bulk vessels which had an aggregate carrying value at the end of the reporting period of approximately US$489.2 million (31 December 2018: US$565.1 million).

## EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2019, the Group had an aggregate of 1,491 full-time employees (excluding crew member), (31 December 2018: 1,468). The related employees' costs for the period (including directors' emoluments) amounted to approximately US$98.7 million (31 December 2018: US$89.2 million). The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees (including the directors) with reference to corporate performance, individual performance and current market salary scale. Further, the Group has in place the pre-IPO share option scheme, post-IPO share option scheme and adopted a share award scheme on 13 September 2017. Further information of the share option schemes and share award scheme are provided in the section headed "Report of the Board of Directors" on pages 27 to 46 of the annual report of the Company for the year ended 31 December 2019.

## SIGNIFICANT INVESTMENTS

For the year ended 31 December 2019, a total of 5 new container vessels were delivered. Save as otherwise, the Group did not have other significant investments.

## MATERIAL ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2019, the Group did not have any material acquisitions and disposals of its subsidiaries and associated companies.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company will continue to purchase container vessels, dry bulk vessels, containers and invest in logistics projects, as and when appropriate. The Company expected that the internal financial resources and bank borrowings will be sufficient to meet the necessary funding requirements. Save as disclosed, the Company does not have any future plans for significant investments or capital assets as at the date of this announcement.

## FINAL DIVIDEND

At the Board meeting held on 13 March 2020, it was proposed that a final dividend of HK27 cents (equivalent to US3.47 cents) per ordinary share would be paid on 20 May 2020 to the shareholders of the Company whose names appear on the Company's register of members at the close of business at 4:30 p.m. on 11 May 2020 (Monday). The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company to be held on 29 April 2020 (the "**Annual General Meeting**").

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

## OTHER INFORMATION

### Annual General Meeting

The Annual General Meeting will be held on Wednesday, 29 April 2020. A notice convening the Annual General Meeting will be published and despatched to the shareholders of the Company in the manner required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in due course.

### Closure of Register of Members

For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 24 April 2020 (Friday) to 29 April 2020 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 23 April 2020 (Thursday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 7 May 2020 (Thursday) to 11 May 2020 (Monday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 6 May 2020 (Wednesday).

### Purchase, Sale and Redemption of Shares

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

### Corporate Governance

The Company is committed to maintaining a stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. For the year ended 31 December 2019, the Board is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules and there has been no deviation from the code provisions set out in the CG Code for the year ended 31 December 2019.

## Model Code for Securities Transactions by Directors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules (the "**Appendix 10**") and devised its own code of conduct regarding directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code as set out in Appendix 10. Having made specific enquiries with all Directors, they have confirmed that they complied with the required standards set out in the Model Code and the Company Code throughout the year ended 31 December 2019.

## Audit Committee

The audit committee of the Company (the "**Audit Committee**") consists of Mr. Tsui Yung Kwok, Dr. Lo Wing Yan, William and Dr. Ngai Wai Fung, all of whom are the Company's independent non-executive directors. The chairman of the Audit Committee is Mr. Tsui Yung Kwok.

## Auditor

The Company appointed Ernst & Young as its auditor for the year ended 31 December 2019. The Company will submit a resolution in the coming Annual General Meeting to re-appoint Ernst & Young as the auditor of the Company.

# Directors and Senior Management

**Mr. Yang Shaopeng (楊紹鵬)**, aged 63, is the chairman of the Board, an Executive Director, the chairman of the nomination committee (the "**Nomination Committee**") and a member of the remuneration committee (the "**Remuneration Committee**") of the Company. Mr. Yang has been the chairman of the Company since April 2006 and has been actively and extensively involved in the management and strategic development of the Company, and oversees the overall development of the Group. Mr. Yang graduated from Asia International Open University (Macau) in 2000 with a master's degree in business administration and completed a CEO class in China Europe International Business School in 2004. Mr. Yang has over 42 years of experience in the shipping industry through his employment in the shipping and foreign trade companies. From November 1988, Mr. Yang worked as an assistant general manager at Sinotrans (Shandong) Co., Ltd. (中國外運（山東）公司). From September 1990, he served as the deputy manager in the storage and transportation department of Shandong Foreign Trade Corporation ("**SFTC**"). From May 1991 to May 1992, he served as a deputy general manager of Shandong International Transportation Corporation and as general manager between May 1992 and December 1996. From December 1996 to January 2002, he served as the general manager in SITC Maritime (Group) Co., Ltd. ("**SITC Group**"). From October 1998 to December 2000, Mr. Yang was a vice-president of SFTC. From January 2002 to January 2005, Mr. Yang served as the president of SITC Maritime Group Co., Ltd. (山東海豐際航運集團有限公司) ("**Shandong SITC**") and also as the chairman of the same company from January 2001.

**Mr. Yang Xianxiang (楊現祥)**, aged 53, is the Vice-Chairman of the Board, Chief Executive Officer, an Executive Director, the chairman of the disclosure committee ("**Disclosure Committee**") and sustainable development committee ("**Sustainable Development Committee**") as well as a member of the Nomination Committee, Remunertion and Risk Management Committee of the Company. Mr. Yang has been a Director and chief executive officer of the Company since January 2008. He is actively involved in the management and the decision-making process of the Company. Mr. Yang graduated from Asia International Open University (Macau) with a master's degree in Business Administration in 2000 and completed a CEO class in Tsinghua University in 2003. He also received a master's degree in business administration from China Europe International Business School in 2006. He completed a non-degree course in Sinology in Fudan University in 2009, which is a course on Chinese heritage classical study, and completed another non-degree Chief Executive Officer Class at the Cheung Kong Graduate School of Business in 2010. Mr. Yang has over 33 years of experience in the shipping industry through his employment in the shipping companies. In July 1987, Mr. Yang joined Lufeng Shipping Co., Ltd. (魯豐航運有限公司) ("**Lufeng Shipping**"), a container shipping company, and was subsequently promoted to be a manager before he left in July 1997. From August 1997 to December 2001, he served as a general manager in SITC Container Lines (Shandong) Co., Ltd. (山東省海豐船務有限公司). Between January 2002 and January 2005, he served as executive vice president in Shandong SITC and as president in the same company between January 2005 and May 2007. From May 2007 to January 2008, he served as president of SITC Container Lines and as a chief executive officer of SITC Steamship (Shanghai) Co., Ltd. Mr. Yang was appointed as an Executive Director on 9 April 2010. Save as disclosed above, Mr. Yang is not related to any other Directors or senior management or substantial shareholder of the Company. Mr. Yang was appointed as the Non-Executive Director of JS Global Lifestyle Company Limited (HKSE Stock code: 01691) on 11 October 2019.

**Mr. Liu Kecheng (劉克誠)**, aged 46, is an Executive Director, chief financial officer, authorized representative and a member of the Disclosure Committee and Sustainable Development Committee of the Company and the general manager of the finance center and investment center of the Group. Mr. Liu has been a Director of the Company since December 2006. From September 2010 to May 2013, he served as joint company secretary of the Company. Since October 2010, Mr. Liu has been appointed as the director for investment and securities, responsible for investments and equity funding. Since May 2013, Mr. Liu has been appointed as the chief financial officer of the Company, responsible for finance accounting and cash management in the Company. Since July 2017, Mr. Liu has been appointed as the general manager of the finance center and investment center of the Group. Mr. Liu graduated from Shandong Foreign Economic and Trade School in 1994 where he majored in foreign trade and accounting, and from Shandong University of Economics in 1996 where he majored in accounting. In 2005, he graduated from Renmin University of China majoring in accounting. He also received a master's degree in business administration from China Europe International Business School in 2007. Mr. Liu has over 26 years of experience in the shipping industry through his employment in the shipping companies. Mr. Liu worked with the finance department of Shandong Foreign Trade Corporation from July 1994 to June 1998. From July 1998 to May 2000, he served as a finance manager in Shandong SITC International Container Storage and Transportation Company Limited (山東海豐國際集裝箱儲運有限公司). Between June 2000 and January 2003, he served as the manager of the finance centre and the deputy general manager of Shandong SITC. From January 2003 to October 2003, he served as the deputy general manager in the planning & development center of Shandong SITC. Between October 2003 and December 2006, Mr. Liu served as the general manager of the investment and development center in Shandong SITC. From December 2006 to January 2008, he served as the director and chief financial officer of SITC Group Company Limited ("**SITC Holding**") and Shandong SITC. Mr. Liu was appointed an Executive Director on 9 April 2010. Save as disclosed above, Mr. Liu is not related to any other Directors or senior management or substantial shareholder of the Company.

**Mr. Xue Peng (薛鵬)**, aged 49, is an Executive Director, company secretary, authorized representative, a member of the Disclosure Committee, Sustainable Development Committee and Risk Management Committee of the Company and the general manager of the operations management center of the Group. Mr. Xue has been a Director of the Company since January 2008. From January 2008 to May 2013, he served as a chief financial officer of the Company. Mr. Xue has been appointed as the general manager of the operations management center of the Group since July 2017. Mr. Xue graduated from Shandong Province Foreign Trade and Economic University in 1991 majoring in financial accounting, and graduated from Shandong University of Economics in 1997 majoring in accounting. He was qualified as a intermediate accountant in 2004 and also obtained an undergraduate degree in accounting from Renmin University of China in 2006. He received a master's degree in business administration from China Europe International Business School in 2011. He obtained a Master's degree in Corporate Governance by the Hong Kong Open University in 2019. He was also qualified the fellowship of the Hong Kong Institute of Chartered Secretariesand the Chartered Governance Professional by the end of the year 2019. Mr. Xue has over 27 years of experience in the shipping industry through his employment in the shipping companies. From March 1993 to March 1996, Mr. Xue worked in Lufeng Shipping, a container shipping company. From March 1996 to January 1998, he served as a financial manager in Guang Lian Shipping Agency (Shandong) Company Limited (山東廣聯船務有限公司), a company that is principally engaged in the shipping agency business. Between January 1998 and March 1999, he served as a financial manager in SITC Container Lines (Shandong) Co., Ltd. and Shandong SITC respectively. From March 1999 to February 2002, he served as the finance manager of SITC Japan Co., Ltd. Between February 2002 and January 2003, he served as the general manager of the supervision department in Shandong SITC. He served as a deputy general manager of the finance center of Shandong SITC from January 2003 to April 2006, and as the general manager of the finance department of SITC Holding between April 2006 and January 2008. Between April 2006 and January 2008, he also served as the financial manager of SITC Holding and SITC Shipping Agency (HK) Company Limited (新海豐船務代理(香港)有限公司), respectively. Mr. Xue was appointed as an Executive Director and joint company secretary on 9 April 2010 and 3 May 2013, respectively. Mr. Xue was subsequently re-designated as the sole company secretary of the Company from 18 October 2019. Mr. Xue was appointed as the Non-Executive Director of China Beststudy Education Group (HKSE Stock code: 3978) on 3 December 2018.

**Mr. Xue Mingyuan (薛明元)**, aged 46, an Executive Director, a member of the Sustainable Development Committee and Disclosure Committee of the Company. He has been serving as the president of SITC Shipping Group and the general manager of SITC Container Lines since December 2012. Mr. Xue obtained a master degree in international shipping and logistics management from The Hong Kong Polytechnic University (香港理工大學) in November 2004. He received a master degree in business administration from China Europe International Business School in September 2012. Mr. Xue has over 23 years of experience in the shipping industry. During the period from August 1997 to November 2012, Mr. Xue had served as the export supervisor of Shandong SITC Lianji, the manager of the customers service department and the sales and marketing department of SITC Container Lines, the deputy general manager and general manager of SITC Container Lines (Korea) Co., Ltd. and the general manager of SITC Container Lines. Mr. Xue was appointed as an Executive Director on 11 March 2013. Save as disclosed above, Mr. Xue is not related to any other Directors or senior management or substantial shareholder of the Company.

**Mr. Lai Zhiyong (賴智勇)**, aged 47, an Executive Director, a member of the Sustainable Development Committee and Disclosure Committee of the Company. He has been serving as the president of SITC Logistics Group since December 2012. Mr. Lai graduated from Ocean University of China (中國海洋大學) in July 1994 specialising in international trade, and received a master degree in business administration from China Europe International Business School in 2017. Mr. Lai has over 24 years of experience in the shipping industry. During the period from August 1997 to November 2012, Mr. Lai had served as the supervisor of the import division of SITC Lianji (Shandong) Co., Ltd. (山東海豐聯集有限公司) ("**Shandong SITC Lianji**"), the manager of the import department, operation department and marketing department of SITC Container Lines and the general manager of SITC Container Lines (Hong Kong) Co., Ltd. (新海豐集運 (香港)有限公司). Mr. Lai was appointed as an Executive Director on 11 March 2013. Save as disclosed above, Mr. Lai is not related to any other Directors or senior management or substantial shareholder of the Company.

**Mr. Tsui Yung Kwok (徐容國)**, aged 51, is an Independent Non-executive Director, the chairman of the audit committee (the "**Audit Committee**") and a member of the Remuneration Committee and Risk Management Committee of our Company. Mr. Tsui was appointed as our Independent Non-executive Director in September 2010. He was awarded a bachelor's degree in business (accounting) from Curtin University of Technology, Australia in 1992 and a master's degree in corporate governance from The Hong Kong Polytechnic University in 2007. Mr. Tsui has over 25 years of experience in accounting and finance through his senior position in an international accounting firm in Hong Kong from February 1994 to October 2003 and his office as the chief financial officer of Qin Jia Yuan Media Services Company Limited (the Stock Exchange, Stock Code: 2366) from 2003 to 2004. Since 2004, Mr. Tsui has been the chief financial officer and the company secretary of Ju Teng International Holdings Limited (the Stock Exchange, Stock Code: 3336). He later became an executive director of Ju Teng International Holdings Limited in June 2005 and resigned as its company secretary in March 2017. Mr. Tsui has also served as an independent non-executive director of Shenguan Holdings (Group) Limited (the Stock Exchange, Stock Code: 829), Cabbeen Fashion Limited (the Stock Exchange, Stock Code: 2030) and Intion Technology Holdings Limited(the Stock Exchange,Stock Code:1760) since September 2009, February 2013 and June 2018 respectively. He was also appointed as an independent non-executive director of 361 Degrees International Limited (the Stock Exchange, Stock Code: 1361)from September 2012 to May 2019 Mr. Tsui is a member of Chartered Accountants Australia and New Zealand, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

**Mr. Yeung Kwok On (楊國安)**, aged 59, an Independent Non-executive Director, the chairman of the Remuneration Committee and a member of the Nomination Committee of our Company. Mr. Yeung was appointed as our Independent Non-executive Director in September 2010. He is a Visiting Professor of Management at China Europe International Business School. He received a Ph.D. of business administration from University of Michigan in 1990. Mr. Yeung worked in Acer Group as chief human resources officer from early 1999 to June 2002. During the same period of time, he simultaneously served as the president of Aspire Academy under Acer Foundation. Mr. Yeung is also the Senior Management Advisor of Tencent Group and co-founder of Cathay Entrepreneuship and Head of Cathay Connect & Consult Platform at Cathay Capital. Mr. Yeung is an expert in organizational capabilities, human resources strategy, and leadership development. He is a non-executive director of Saurer Intelligent Group (Shanghai Stock Exchange, Stock Code: 600545). He was an independent non-executive director of Kingdee International Software Group Company Limited (the Stock Exchange, Stock Code: 268) from 2003 to 2014 and Trina Solar Limited (formerly listed on the New York Stock Exchange, Stock Code: TSL) from 2010 to 2017, and Country Garden Holdings Company Limited (the Stock Exchange, Stock Code: 2007) from 2014 to 2019. Mr. Yeung also advises chief executive officers of several leading Chinese firms.

**Dr. Lo Wing Yan, William (盧永仁)**, aged 59, an Independent Non-executive Director and a member of the Audit Committee, Nomination Committee and the Risk Management Committee of our Company in September 2010. Dr. Lo was appointed as our Independent non-executive Director in September 2010. He received an M. Phil. and a Ph.D. degree, both from the University of Cambridge in England in March 1986 and March 1988, respectively. Dr. Lo is currently the Chairman of Captcha Media Ltd, OtoO Academy Limited, Strategenes Limited and the Founding Governor of Charles K Kao Foundation for Alzheimer's disease. He was also a Bye-Fellow of Downing College, the University of Cambridge. In 1999, he was appointed as a Justice of Peace (J.P.) by the government of Hong Kong. In 2003-2016, he was appointed as a member of Shantou Committee of the Chinese People's Political Consultative Conference. He is also a governor of an independent school, the ISF Academy in Hong Kong, as well as a director of Junior Achievement Hong Kong. Dr. Lo is currently an independent non-executive director of Jingrui Holdings Limited (the Stock Exchange, Stock Code: 1862), CSI Properties Limited (the Stock Exchange, Stock Code: 497), Television Broadcasts Limited (the Stock Exchange, Stock Code: 511) and Brightoil Petroleum Holdings Limited (HKSE:0933). He is also an independent non-executive director of Nam Tai Property Inc. (New York Stock Exchange, Stock Code: NTP). Dr Lo was appointed as a non-executive director of South China Assets Holdings Limited (Formerly "**South China Land Limited**") (GEM of the Stock Exchange, Stock Code: 8155) from September 2011 to March 2014. He was also appointed as an independent nonexecutive director of International Housewares Retail Company Limited (the Stock Exchange, Stock Code: 1373) from September 2013 to September 2015, Astaka Holdings Limited (Formerly "**E2-Capital Holdings Limited**") (Singapore Stock Exchange, Stock Code: 42S) from June 2009 to November 2015, BOE Varitronix Limited (Formerly: Varitronix International Limited) (the Stock Exchange, Stock Code: 710) from July 2004 to June 2016; Ronshine Holdings Limited (the Stock Exchange, Stock Code: 3301) from January 2016 to June 2019 and Hsin Chong Group Holdings Limited (stock code: 404) from June 2018 to September 2019. He was appointed as an executive director of Kidsland International Holdings Limited (the Stock Exchange, Stock Code: 2122) from April 2017 to December 2018. Recently, Dr Lo has also been tasked by the United Nations ESCAP to lead a task force for the Sustainable Business Network's to look at financial inclusion leveraging Fintech in the region.

**Dr. Ngai Wai Fung (魏偉峰)**, aged 58, is an Independent Non-executive Director, the chairman of Risk Management Committee, a member of the Audit Committee, Remuneration Committee and Nomination Committee of our Company. Dr. Ngai was appointed as an Independent Non-executive Director in September 2010. Dr. Ngai is the chief executive officer of SWCS Corporate Services Group (Hong Kong) Limited, a specialty company secretarial, corporate governance and compliance services provider to companies in pre-IPO and post-IPO stages. Prior to that, he was the director and head of listing services of an independent integrated corporate services provider. He has over 30 years of senior management experience including acting as the executive director, chief financial officer and company secretary, most of which are in the areas of finance, accounting, internal control and regulatory compliance, corporate governance and secretarial work for listed issuers including major red chips companies. Dr. Ngai had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities. He is a member of the General Committee of the Chamber of Hong Kong Listed Companies and has been appointed as a Finance Expert Consultant by the Ministry of Finance of the PRC since 2016. He was the President of Hong Kong Institute of Chartered Secretaries (2014-2015), an unofficial member of the Working Group on Professional Services under the Economic Development Commission of the Hong Kong Special Administrative Region (2013 to 2018), and a member of the Qualification and Examinations Board of the Hong Kong Institute of Certified Public Accountants (2013-2018). Dr. Ngai is currently an independent non-executive director of Bosideng International Holdings Limited, Power long Real Estate Holdings Limited, Ba Wang International (Group) Holding Limited, Health and Happiness (H&H) International Holdings Limited, Beijing Capital Grand Limited, BBMG Corporation, Travel Sky Technology Limited and China Communications Construction Company Limited, also the independent director of LDK Solar Co., Ltd. and SPI Energy Co., Ltd.. Apart from LDK Solar Co., Ltd. and SPI Energy Co., Ltd., which are now listed on the OTC Pink Limited Information and Nasdaq respectively, all of which are companies listed on the Hong Kong Stock Exchange and/or the Shanghai Stock Exchange. Dr. Ngai is a Fellow of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Chartered Secretaries, a fellow of the Chartered Governance Institute(formerly known as the Institute of Chartered Secretaries and Administrators),a member of the Hong Kong Institute of Certified Public Accountants,, a fellow of Association of Chartered Certified Accountants in the United Kingdom, a fellow of Hong Kong Institute of Directors, a member of Hong Kong Securities and Investment Institute and a member of the Chartered Institute of Arbitrators. Dr. Ngai received a doctoral degree in Finance from Shanghai University of Finance and Economics, a master's degree in Corporate Finance from the Hong Kong Polytechnic University, a bachelor honor degree in Laws from University of Wolver hampton in the United Kingdom and a master's degree in Business Administration from Andrews University of Michigan in the United States.

Dr. Ngai was an independent non-executive director China Coal Energy Company Limited from December 2010 to June 2017, China Railway Group Limited from June 2014 to June 2017,HK Bridge Financial Holdings Limited from March 2016 to April 2018 and Yangtze Optical Fibre and Cable Joint Stock Limited Company from September 2014 to Jan 2020.

## COMPANY SECRETARIES

**Mr. Xue Peng (薛鵬),** has been appointed as the sole company secretary of the Company since 18 October 2019. For details regarding Mr. Xue's experience, see the paragraph headed "Directors" under the section headed "Directors and Senior Management" in the report. For details in relation to the appointment of Mr. Xue as the sole company secretary of the Company, please refer to the announcement of the Company dated 18 October 2019.

Save as otherwise, there is no relationship (including financial/business/family or other material/relevant relationship) between any members of the Board.

# Report of the Board of Directors

The Directors of the Company are pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2019.

## MAJOR BUSINESS

The Company is an Asian shipping logistics company that provides integrated transportation and logistics solutions. The analysis of the revenue of the Group for the year is set out in Note 5 to the Financial Statements.

A review of the business of the Group during the year under review and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2019 are provided in the section headed "Chairman's Statement" on pages 10 to 11, the section headed "Management Discussion and Analysis" on pages 12 to 21 and the paragraph headed "Risks and Uncertainties" of this section of this annual report.

An analysis of the Group's performance during the year ended 31 December 2019 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 12 to 21 of this annual report.

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2019 are set out in the Consolidated Statement of Profit and Loss and Other Comprehensive Income. The financial position as of 31 December 2019 of the Group is set out in the Consolidated Statement of Financial Position. The cash flow position of the Group during the year ended 31 December 2019 is set out in the Consolidated Statement of Cash Flows.

## SHARE CAPITAL

The changes in the share capital of the Group during the year ended 31 December 2019 are set out in Note 32 to the Financial Statements.

## FINAL DIVIDEND

At the Board meeting held on 13 March 2020 (Friday), it was proposed that a final dividend of HK27 cents (equivalent to US3.47 cents) per ordinary share would be paid on 20 May 2020 (Wednesday) to the shareholders of the Company whose names appear on the Company's register of members at the close of business at 4:30 p.m. on 11 May 2020 (Monday). The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company to be held on 29 April 2020 (Wednesday) (the "**Annual General Meeting**").

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 24 April 2020 (Friday) to 29 April 2020 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, unregistered holders of shares of the Company shall ensure that all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 23 April 2020 (Thursday).

For determining the entitlement to the proposed final dividend (subject to approval by the shareholders of the Company at the Annual General Meeting), the register of members of the Company will be closed from 7 May 2020 (Thursday) to 11 May 2020 (Monday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, unregistered holders of shares of the Company shall ensure that all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 6 May 2020 (Wednesday).

## RESERVE

Details of the changes in reserve of the Group during the year ended 31 December 2019 are set out in Note 34 to the Financial Statements.

## DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution of dividends to the shareholders subject to the provisions of the Company's articles of association (the "**Articles of Association**"), with the sanction of an ordinary resolution, dividend may be declared and paid out of share premium account of any other fund or account which can be authorised for this purpose. As at 31 December 2019, the Company had distributable reserves of approximately US$507.9 million.

## PROPERTY, PLANT AND EQUIPMENTS

The changes in property, plant and equipment during the year ended 31 December 2019 are set out in Note 14 to the Financial Statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate purchase amount attributable to the Group's five largest suppliers and the aggregate revenue attributable to the Group's five largest customers were both less than 30% of the Group's total revenue.

## RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group's business is built on a customer-oriented culture, and are focused on establishing relationships with blue-chip companies globally. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers. During the year under review, there was no material and significant dispute between the Group and its suppliers and/or customers.

## DONATION

During the year, the charitable contributions and other donations made in Hong Kong and Mainland China amounted to approximately HK$2.4 million.

## DIRECTORS

The Directors in office during the year under review and as of the date of this report are as follows:

### Executive Directors

YANG Shaopeng *(Chairman)*
YANG Xianxiang *(Vice Chairman and Chief Executive Officer)*
LIU Kecheng
XUE Peng
*(Sole Company Secretary with effect from 18 October 2019)*
XUE Mingyuan
LAI Zhiyong

### Independent non-executive Directors

TSUI Yung Kwok
YEUNG Kwok On
LO Wing Yan, William
NGAI Wai Fung

Details of the resume of the Directors and senior management are set forth in the section headed "Directors and Senior Management" of this annual report.

Pursuant to the terms of the Articles of Association and the CG Code, Mr. YANG Shaopeng, Mr. XUE Peng, Mr. TSUI Yung Kwok, Mr. YEUNG Kwok On, Dr. LO Wing Yan, William and Dr. NGAI Wai Fung will retire in the coming Annual General Meeting, and being qualified, have offered to be re-elected and re-appointed at the Annual General Meeting.

## SERVICE CONTRACTS OF DIRECTORS

Details of service contracts for executive Directors are set out under the section headed "Appointment and Re-election of Director" of the Corporate Governance Report. There was no service contract entered by the Company and any Directors to be re-elected in the coming Annual General Meeting stipulating that the Company may not terminate the appointment within one year without compensation payment (other than the statutory compensation).

## DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in any of the information of the Directors required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) are as follows:

1. With effect from 20 May 2019, Mr. Tsui Yung Kwok, an independent non-executive Director, has retired as director and ceased to be the chairman of the audit committee and member of each of the remuneration committee and nomination committee of 361 Degrees International Limited (the Stock Exchange, Stock Code: 1361).

2. With effect from 5 June 2019, Dr. Lo Wing Yan William ("Dr. Lo"), an independent non-executive Director, has retired as independent non-executive director and ceased to be the member of each of the audit committee and nomination committee of Ronshine China Holdings Limited (the Stock Exchange, Stock Code: 3301).

3. With effect from 18 January 2019, Dr. Lo was appointed as executive director and the chairman of the board of directors of SMI Holdings Group Limited (the Stock Exchange, Stock Code: 198) ("SMI Holdings"). On 28 February 2019, Dr. Lo was appointed as member of each of nomination committee and remuneration committee of SMI Holdings. Subsequently, Dr. Lo resigned as executive director and ceased to be the chairman of the board of directors and member of each of the nomination committee and remuneration committee of SMI Holdings with effect from 1 April 2019.

4. With effect from 28 June 2019, Dr. Lo was appointed as independent non-executive director and the chairman of the remuneration committee, member of each of the audit committee and nomination committee of Brightoil Petroleum (Holdings) Limited (the Stock Exchange, Stock Code: 933).

5. With effect from 1 June 2019, Mr. YEUNG Kwok On, an independent non-executive Director, has retired as independent non-executive director of Country Garden Holdings Company Limited (the Stock Exchange, Stock Code: 2007).

6. With effect from 27 September 2019, Dr. Lo Wing Yan, William, an independent non-executive Director, has retired as an independent non-executive director of Hsin Chong Group Holdings Limited (Delisted on 31 December 2019) ("**Hsin Chong**"), a company incorporated in Bermuda with limited liability principally engaged in building construction, civil engineering, electrical and mechanical installation, interiors and special projects, property development and investment. On 17 January 2019, a winding up petition was filed against Hsin Chong with the Supreme Court of Bermuda by a creditor and a shareholder of Hsin Chong. On 18 January 2019, a winding-up petition was filed against Hsin Chong with the High Court of the Hong Kong Special Administrative Region by a creditor of Hsin Chong in relation to outstanding debts in the amount of approximately HK$79.0 million including interest.

7. With effect from 11 October 2019 Mr. Yang Xianxiang, an executive Director, was appointed as the Non-Executive Director of JS Global Lifestyle Company Limited. JS Global was listed in Hong Kong Stock Exchange on 18 December 2019, HKSE Stock Code is 1691.

8. With effect from 18 October 2019, Mr. Xue Pang, an executive Director, has been re-designated as the sole company secretary of the Company.

9. With effect from 17 January 2020, Dr. Ngai Wai Fung, an independent non-executive Director, has retired as an independent non-executive director of Yangtsz Optical Fibre and Cable Joint Stock Limited Company (長飛光纖光纜股份有限公司), a joint stock company the shares of which are listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange.

Please refer to the section headed "Directors and Senior Management" on pages 22 to 26 of this annual report for the updated biographical information of the Directors and senior management of the Company.

With effect from 1 March 2020, the Directors' fees were changed. The revised Directors' fees are set out below pursuant to Rule 13.51B(1) of the Listing Rules:–

| **Name of Director** | **Revised Director' fee** (per annum) |
|---|---|
| Yang Shaopeng | 5,337,000 |
| Yang Xianxiang | 3,985,000 |
| Liu Kecheng | 1,401,000 |
| Xue Peng | 1,366,000 |
| Xue Mingyuan | 1,965,000 |
| Lai Zhiyong | 826,000 |
| TSUI Yung Kwok | 275,000 |
| YEUNG Kwok On | 275,000 |
| LO Wing Yan, Willia | 275,000 |
| NGAI Wai Fung | 295,000 |

## DIRECTORS' INTERESTS IN CONTRACTS

Other than those transactions disclosed in Note 38 to the Financial Statements and in the section headed "Related Party Disclosures" below, there was no other significant contract with any member of the Group as the contracting party and in which the Directors possessed direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

## DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

Mr. YANG Shaopeng, chairman of the Company and an executive Director, through Better Master Limited ("**Better Master**") and Resourceful Link Management Limited ("**Resourceful Link**") and by virtue of his direct interest, owns approximately 51.36% of the issued share capital in the Company as at the date of this annual report. Mr. YANG Shaopeng, Better Master and Resourceful Link are the controlling shareholders of the Company. Ms. Liu Rongli, the spouse of Mr. YANG Shaopeng also owns as to 43.05% in SITC Maritime Group Company Limited (青島海豐國際航運集團有限公司) ("**Qingdao SITC**"), which is involved in various business which had been excluded from the deed of non-competition provided by the controlling shareholders of the Company and as supplemented by a supplemental deed of non-competition entered into between the Company and Qingdao SITC (hereinafter, the "**Deed of Non-Competition**"). Pursuant to the Deed of Non- Competition, the following businesses have been excluded from the Deed of Non-Competition provided by the Company's controlling shareholders to the Company:

(a) SITC Steamship (Shandong) Co., Ltd. (山東海豐航運有限公司) ("**Shandong Steamship**"), a wholly-owned subsidiary of Qingdao SITC which is principally engaged in the ship-owning business, continues to hold operating licenses for the mainland China-Taiwan routes. The vessels that operate on this route belong to the Company but are chartered to Shandong Steamship for the mainland China-Taiwan route. These vessels are being used to operate such routes on terms that permit the Company to enjoy the charter fee revenues derived from such operation.

(b) During the year under review, Shandong Steamship owned one PRC-registered vessels named Hai Feng Lian Xing. According to the PRC Regulations Governing the Registration of Ships (中華人民共和國船舶登記條例) promulgated by the State Council on 2 June 1994 and effective as of 1 January 1995, only Chinese enterprises which are owned by Chinese investors as to not less than 50% are permitted to own Chinese flag vessels, and the Company is therefore unable to acquire control of this vessel under applicable laws and regulations for the time being. However, this vessel is subject to a lease to SITC Container Lines Co., Ltd., a subsidiary of the Company.

The Company has received an annual written confirmation from each of the Company's controlling shareholders in respect of the compliance by them and their associates with the Deed of Non-Competition entered into by and among the Company, the controlling shareholders of the Company, Mr. YANG Shaopeng, Better Master and Resourceful Link.

The independent non-executive Directors have reviewed the Deed of Non-Competition and whether the controlling shareholders of the Company have abided by the Deed of Non-Competition. The independent non-executive Directors confirmed that they had determined that the controlling shareholders of the Company have not been in breach of the Deed of Non-Competition during the year ended 31 December 2019.

Save as disclosed, none of the Directors or their respective connected persons have any interests in any business that competed or might compete with the Group's business during the year ended 31 December 2019.

## POST-IPO SHARE OPTION SCHEME

On 10 September 2010, the Company adopted a share option scheme (the "**Post-IPO Share Option Scheme**") whereby the Board can grant options for the subscription of the shares of the Company (the "**Shares**") to the employees, managerial staff and senior employees and those other persons that the Board considers that they will contribute or have contributed to the Group (the "**Post-IPO Scheme Participants**") as described in the Post-IPO Share Option Scheme in order to serve as compliment and to reciprocate their contribution to the Group. The maximum number of Shares that can be issued according to the Post-IPO Share Option Scheme was 260,000,000 shares which is equivalent to 10% of the issued capital of the Company after completion of the Global Offering (as defined in the prospectus of the Company dated 20 September 2010 (the "**Prospectus**")).

The number of options that may be granted pursuant to the terms of the Post-IPO Share Option Scheme shall not exceed 10% of the issued Shares immediately after the completion of the Global Offering. Unless otherwise approved by the shareholders of the Company in a general meeting, the number of Shares that may be granted to the Post-IPO Scheme Participants under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial shareholders (as defined in the Listing Rules), or the total number of Shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time. There is no minimum period that the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the Board, however no options shall be exercised 10 years after they have been granted. The exercise price of the option shall be the higher of (a) the closing price of the Shares on the daily quotation sheet of the Stock Exchange on the date of grant; (b) the average closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) nominal value of the Share.

Each grantee shall pay a consideration of HK$1.00 at the time the option is granted. The Post-IPO Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date.

The following are details of the options granted pursuant to the Post-IPO Share Option Scheme but not yet exercised during the year ended 31 December 2019:

| Grantee and position | Date of grant of options | Number of options outstanding as at 1 January 2019 | Number of options granted during the period | Number of options exercised/ cancelled/ lapsed during the period | Number of options not yet exercised on 31 December 2019 | Approximate percentage of shareholding of options held upon the exercise of the options |
|---|---|---|---|---|---|---|
| ***Executive Director*** | | | | | | |
| LAI Zhiyong | 10 March 2015 | 300,000 | — | 300,000 | — | — |
| XUE Mingyuan | 25 October 2011 | 500,000 | — | 500,000 | — | — |
| ***Independent non-executive Director*** | | | | | | |
| LO Wing Yan, William | 10 March 2015 | 100,000 | — | — | 100,000 | 0.01% |
| ***Other employees*** | | | | | | |
| Other employees | 25 October 2011 | 1,289,000 | — | 640,000 | 649,000 | |
| | 10 March 2015 | 4,216,000 | — | 1,197,000 | 3,019,000 | 0.14% |
| **Total** | | 6,405,000 | — | 2,637,000 | 3,768,000 | 0.14% |

On 25 October 2011, the Company granted a total of 11,600,000 share options pursuant to the Post-IPO Share Option Scheme with an exercise price of HK$1.968 per share and shall be exercisable from 25 October 2011 to 25 October 2021. The closing price of the Shares immediately before the date of grant of such share options was HK$1.960.

On 10 March 2015, the Company granted a total of 13,800,000 share options pursuant to the Post-IPO Share Option Scheme with an exercise price of HK$4.378 per share and shall be exercisable from 10 March 2015 to 10 March 2025. The closing price of the Shares immediately before the date of grant of such share options was HK$4.35.

As at 31 December 2019, the Company had 3,768,000 share options outstanding under the Post-IPO Scheme, which represented approximately 0.14% of the Shares in issue as at the date of this annual report.

## PRE-IPO SHARE OPTION SCHEME

The Company adopted a pre-IPO share option scheme on 10 September 2010 (the "**Pre-IPO Share Option Scheme**"). The purpose of the Pre-IPO Share Option Scheme is to reward the contribution of certain employees, executives or officers of the Company made or may have made to the growth of the Company and/or the listing of the Shares on the Stock Exchange. The principal terms of the Pre-IPO Share Option Scheme, which were confirmed and approved by resolutions in writing of all the shareholders of the Company passed on 10 September 2010, are substantially the same as the terms of the Post-IPO Share Option Scheme except that:

(a) the subscription price per share shall be a price equivalent to a 20% discount to the Offer Price (as defined in the Prospectus) of the Shares under the Global Offering, that means HK$3.824 per share;

(b) the total number of shares involved in the Pre-IPO Share Option Scheme was 79,160,000 shares, which is equivalent to approximately 3.0% of the Shares in issue after completion of the Global Offering; and

(c) the eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of the Company or any of the subsidiaries who have been in employment with the Company for over one year prior to the date of the adoption of the Pre-IPO Share Option Scheme or any other persons who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of the subsidiaries;

(d) the conditions which the Board may in its absolute discretion to consider (including, without limitation, any minimum period for which an option must be held before it can be exercised and/or any performance targets which must be achieved before an option can be exercised) as it may think fit; and

(e) save for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so has terminated upon the listing of the Shares on the Stock Exchange.

The followings are details of the options granted under the Pre-IPO Share Option Scheme which remained outstanding as at ended 31 December 2019:

| Grantee and position | Date of grant of options | Number of options granted outstanding as at 1 January 2019 | Number of options exercised/ cancelled/ lapsed during the period | Number of options not yet exercised on 31 December 2019 | Approximate percentage of shareholding upon the exercise of the options |
|---|---|---|---|---|---|
| Other employees | 10 September 2010 | 9,352,000 | 6,981,900 | 2,370,100 | 0.09% |
| Total | | 9,352,000 | 6,981,900 | 2,370,100 | 0.09% |

As at 31 December 2019, the Company had 2,370,100 share options outstanding under the Pre-IPO Scheme, which represented approximately 0.09% of the Shares in issue as at the date of this annual report. The grantees to whom an option has been granted under the Pre-IPO Share Option Scheme will be entitled to exercise his/her option in the following manner:

(a) up to 25% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing from the first anniversary of 6 October 2010 (the "**Listing Date**") and ending on the second anniversary of the Listing Date;

(b) up to 25% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing from the second anniversary of the Listing Date and ending on the third anniversary of the Listing Date;

(c) up to 25% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing from the third anniversary of the Listing Date and ending on the fourth anniversary of the Listing Date; and

(d) such number of Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the options has been exercised at any time during the period commencing from the fourth anniversary of the Listing Date and ending on the expiry of the option period.

The options granted under the Pre-IPO Share Option Scheme are not transferable and options not exercised within the exercise period above will lapse and cease to be of further effect.

Upon acceptance of the options, the grantee shall pay HK$1.00 to the Company as consideration for each grant of the option. The options granted under the Pre-IPO Share Option Scheme are not transferable and options not exercised within the exercise period above will lapse and cease to be of further effect.

Other details of the Pre-IPO Share Option Scheme are set forth in the Prospectus.

## SHARE AWARD SCHEME

A share award scheme was adopted by the Board on 13 September 2017 (the "**Share Award Scheme**") to:

(a) recognise and motivate the contributions by certain eligible participants and to give incentives thereto in order to retain them for the continual operation and development of the Group;

(b) attract suitable personnel for further development of the Group; and

(c) provide certain eligible participants with a direct economic interest in attaining a long- term relationship between the Group and certain eligible participants.

The Share Award Scheme shall be valid and effective for a term of ten years commencing on the date of adoption (i.e. 13 September 2017), unless otherwise early terminated by the Board.

Pursuant to the Share Award Scheme, Shares will be purchased and/or subscribed by the independent trustee at the cost of the Company and be held in trust for selected employees until the end of each vesting period. Vested Shares will be transferred to the selected employees at no cost. At no point in time shall the independent trustee be holding more than 5% of the total number of Shares in issue under the Share Award Scheme.

Details of the rules of the Share Award Scheme (the "**Scheme Rules**") are set out in the announcement of the Company dated 13 September 2017.

On 25 March 2019, the Board resolved to grant an aggregate of 6,348,743 Shares (the "**Awarded Shares**") to 552 selected participants (the "**Selected Participants**") pursuant to the Scheme Rules, of which 5,444,233 Awarded Shares were awarded to 543 independent Selected Participants and 904,510 Awarded Shares were granted to 9 Directors. Please refer to the announcement of the Company dated 25 March 2019 for details of the grant.

A summary of the Awarded Shares granted to Selected Participants during the year under review are set forth below:

| Name of Awardees | No. of Awarded Shares granted on 25 March 2019 | Total Awarded Shares granted in 2019 | Vesting Date | Vesting Conditions |
|---|---|---|---|---|
| Yang Xianxiang | 173,320 | 173,320 | The third anniversary of the date of grant, i.e. 25 March 2022 or an earlier date as approved by the Board. | Subject to the terms of the Scheme Rules and the fulfillment of such additional performance requirements as specified by the Board. |
| Liu Kecheng | 162,487 | 162,487 | | |
| Xue Peng | 124,574 | 124,574 | | |
| Xue Mingyuan | 297,894 | 297,894 | | |
| Lai Zhiyong | 81,243 | 81,243 | | |
| Tsui Yung Kwok | 16,248 | 16,248 | | |
| Yeung Kwok On | 16,248 | 16,248 | | |
| Lo Wing Yan | 16,248 | 16,248 | | |
| Ngai Wai Fung | 16,248 | 16,248 | | |
| Other employees | 5,444,233 | 5,444,233 | | |
| Total | | 6,348,743 | | |

## DEBENTURE

At any time during the year under review, the Company, its holding company or its subsidiaries were not the contracting parties of any arrangements from which the Directors could make a profit by purchasing the shares or debentures of the Company or any other companies.

## INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2019, the interest or short position of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules, were as follows:

### (i) Interest in the Shares

| Name of Director | Nature of Interest | Number of Shares[(1)] | Approximate percentage of Shareholding |
|---|---|---|---|
| YANG Shaopeng[(2)] | Beneficiary of the Pengli Trust | 1,375,390,231 (L) | 51.37% |
| | Beneficial Owner | 10,619,000 (L) | 0.40% |
| YANG Xianxiang | Beneficial Owner | 8,679,924 (L) | 0.32% |
| LIU Kecheng | Beneficiary Owner | 1,449,091 (L) | 0.05% |
| XUE Peng[(3)] | Interest in controlled corporation | 12,866,176 (L) | 0.48% |
| | Beneficial Owner | 1,822,717 (L) | 0.07% |
| LAI Zhiyong[(4)] | Beneficiary of the Go Thrive Trust | 3,037,847 (L) | 0.11% |
| | Beneficial Owner | 1,304,239 (L) | 0.05% |
| XUE Mingyuan[(4)] | Beneficiary of the Go Thrive Trust | 1,906,100 (L) | 0.07% |
| | Beneficial Owner | 2,666,727 (L) | 0.10% |
| TSUI Yung Kwok | Beneficial Owner | 845,438 (L) | 0.03% |
| YEUNG Kwok On | Beneficial Owner | 146,438 (L) | 0.01% |
| Lo Wing Yan William | Beneficial Owner | 145,438 (L) | 0.01% |
| NGAI Wai Fung | Beneficial Owner | 845,438 (L) | 0.03% |

Notes:

(1) The letters "L" denotes the person's long position in the Shares.

(2) 1,375,390,231 Shares are held by Resourceful Link. The issued share capital of Resourceful Link is owned as to 79.82% by Better Master. As at 31 December 2019, Better Master was owned as to 100% by UBS Nominees Limited. UBS Trustees (B.V.I.) Limited, as the trustee, held such interests for the beneficiaries of the Pengli Trust, namely Mr. YANG Shaopeng and his family. The Pengli Trust is a revocable discretionary trust established under the laws and regulations of the British Virgin Islands. Mr. YANG Shaopeng is the settlor and a beneficiary of the Pengli Trust. The Pengli Trust was revoked on 14 February 2020

(3) 12,866,176 Shares were held by Watercrests Profits Limited, which was owned 100% by Add Investments Company Limited, which was in turn owned as to 100% by Mr. XUE Peng.

(4) 3,037,847 Shares and 1,906,100 Shares are held by Go Thrive Limited, which is wholly owned by Mr. ZHAO Zhiyong, as the trustee holding such interests for the beneficiaries of the Go Thrive Trust, including Mr. LAI Zhiyong and Mr. XUE Mingyuan.

## (ii) Interest in the underlying Shares

| Name of Director | Nature of Interest | Number of Shares in the Company subject to options under the Pre-IPO Share Option Scheme | Number of Shares in the Company subject to options under the Post-IPO Share Option Scheme | Number of Shares in the Company subject to vesting under the Share Award Scheme | Approximate percentage of shareholding attributable to the options under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and the Shares subject to vesting under the Share Award Scheme (Note) |
|---|---|---|---|---|---|
| YANG Xianxiang | Beneficial owner | — | — | 459,924 | 0.02% |
| LIU Kecheng | Beneficial owner | — | — | 449,091 | 0.02% |
| XUE Peng | Beneficial owner | — | — | 322,717 | 0.01% |
| LAI Zhiyong | Beneficial owner | — | — | 219,239 | 0.01% |
| XUE Mingyuan | Beneficial owner | — | — | 766,727 | 0.03% |
| TSUI Yung Kwok | Beneficial owner | — | — | 45,438 | 0.002% |
| YEUNG Kwok On | Beneficial owner | — | — | 45,438 | 0.002% |
| LO Wing Yan, William | Beneficial owner | — | 100,000 | 45,438 | 0.005% |
| NGAI Wai Fung | Beneficial owner | — | — | 45,438 | 0.002% |

Note: Assuming full exercise of the options under both the Pre-IPO Share Option and the Post-IPO Share Option Scheme and all the Shares being vested under the Share Award Scheme

### (iii) Interest in associated corporations

| Name of Director | Name of associated corporation | Number of Shares | Percentage of Shareholding |
|---|---|---|---|
| YANG Shaopeng(1) (4) | Resourceful Link | 55,290 | 79.82% |
| YANG Xianxiang(2) (4) | Resourceful Link | 11,776 | 17.00% |
| LIU Kecheng(3) (4) | Resourceful Link | 2,205 | 3.18% |

Notes:

(1) Resourceful Link is interested in approximately 51.37% of the issued share capital of the Company. As at 31 December 2019, Resourceful Link was owned as to 79.82% by Better Master, which was owned as to 100% by UBS Nominees Limited. UBS Trustees (B.V.I.) Limited, as the trustee, held such interests for the beneficiaries of the Pengli Trust, namely Mr. YANG Shaopeng and his family. The Pengli Trust was a revocable discretionary trust established under the laws and regulations of the British Virgin Islands. Mr. YANG Shaopeng was the settlor and a beneficiary of the Pengli Trust.

(2) Resourceful Link is interested in approximately 51.37% of the issued share capital of the Company. As at 31 December 2019, Jixiang Limited was interested in 17.00% of the issued share capital of Resourceful Link. Jixiang Limited was in turn owned as to 100% by UBS Nominees Limited. UBS Trustees (B.V.I.) Limited, as the trustee, held such interests for the beneficiaries of the Jixiang Trust, namely Mr. YANG Xianxiang and his family. The Jixiang Trust was a revocable discretionary trust established under the laws and regulations of the British Virgin Islands. Mr. YANG Xianxiang was the settlor and a beneficiary of the Jixiang Trust. YANG Xianxiang was the settlor and a beneficiary of the Jixiang Trust.

(3) Resourceful Link is interested in approximately 51.37% of the issued share capital of the Company. As at 31 December 2019, Yicheng Group Limited was interested in 3.18% of the issued share capital of Resourceful Link. Yicheng Group Limited was in turn owned as to 100% by UBS Nominees Limited. UBS Trustees (B.V.I.) Limited, as the trustee, held such interests for the beneficiaries of the Yicheng Trust, namely Mr. LIU Kecheng and his family. The Yicheng Trust was a revocable discretionary trust established under the laws and regulations of the British Virgin Islands. Mr. LIU Kecheng was the settlor and a beneficiary of the Yicheng Trust.

(4) On 14 February 2020, UBS Nominees Limited transferred its entire interest in Better Master, Jixiang Limited and Yicheng Limited to Mr. YANG Shaopeng, Mr. YANG Xianxiang and Mr. LIU Kecheng, respectively, upon which each of the Pengli Trust, Jixiang Trust and Yicheng Trust has been revoked on the same date.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executives of the Company had or were deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2019, the following persons (other than the Directors and chief executives of the Company) had interest and/or short position in the Shares or the underlying Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO:

### (i) Interest in the Shares

| Name | Capacity | Number of Shares[1] | Percentage of Shareholding |
|---|---|---|---|
| LIU Rongli[(2) (4)] | Beneficiary of the Pengli Trust | 1,375,390,231 (L) | 51.37% |
| | Interest of spouse | 10,619,000 (L) | 0.40% |
| Resourceful Link[(3) (4)] | Beneficial owner | 1,375,390,231 (L) | 51.37% |
| Better Master[(3) (4)] | Interest in controlled corporation | 1,375,390,231 (L) | 51.37% |
| UBS Trustees (B.V.I.) Limited[(3) (4)] | Trustee | 1,375,390,231 (L) | 51.37% |
| FMR LLC | Interest in controlled corporation | 160,517,583 (L) | 6.00% |

Notes:

(1) The letters "L" denotes the person's long position in the Shares.

(2) Ms. LIU Rongli is the spouse of Mr. YANG Shaopeng and is also deemed to be interested in all the Shares held by Mr. YANG Shaopeng by virtue of the SFO.

(3) Resourceful Link is owned as to 79.82%, 17.00% and 3.18% by Better Master, Jixiang Limited and Yicheng Group Limited. As at 31 December 2019, Better Master was owned as to 100% by UBS Nominees Limited. UBS Trustees (B.V.I) Limited, as the trustee, held such interests for the beneficiaries of the Pengli Trust. Jixiang Limited was owned as to 100% by UBS Nominees Limited. UBS Trustees (B.V.I) Limited, as the trustee, held such interests for the beneficiaries of the Jixiang Trust. Yicheng Group Limited was owned as to 100% by UBS Nominees Limited. UBS Trustees (B.V.I) Limited, as the trustee, held such interests for the beneficiaries of the Yicheng Trust. Each of the Pengli Trust, the Jixiang Trust and the Yicheng Trust was a revocable discretionary trust established under the laws and regulations of the British Virgin Islands by certain of the Directors to hold their family interests in the Company.

(4) On 14 February 2020, UBS Nominees Limited transferred its entire interest in Better Master, Jixiang Limited and Yicheng Limited to Mr. YANG Shaopeng, Mr. YANG Xianxiang and Mr. LIU Kecheng, respectively, upon which each of the Pengli Trust, Jixiang Trust and Yicheng Trust has been revoked on the same date.

Save as disclosed above, as at 31 December 2019, the Company had not been notified by any person or corporation, other than the Directors or the chief executives of the Company, who had interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## SUBSIDIARIES

Details of the major subsidiaries of the Company as of 31 December 2019 are set out in Note 1 to the Financial Statements.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

## CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the following continuing connected transactions were entered into with its connected persons and/or subsisted during the year under review. Details of the continuing connected transactions of the Company are as follows:

## CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT BUT ARE SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS

### 1. Master Charter Agreement

On 2 August 2017, the Company entered into a master charter agreement (the "**Existing Master Charter Agreement**") with Qingdao SITC, pursuant to which it is agreed that Qingdao SITC will provide vessel chartering services to the Group for a term from the date of the Existing Master Charter Agreement and ending on 31 December 2019.

On 22 March 2019, the Company and Qingdao SITC entered in a supplemental agreement to increase the annual cap of the charter fee to be paid by the Company to Qingdao SITC under the Existing Master Charter Agreement for the year ending 31 December 2019 from US$7,100,000 to US$14,000,000.

As the term for the Existing Master Charter Agreement was expiring on 31 December 2019, the Company and Qingdao SITC entered into a renewed master charter agreement (the "**2020 Master Charter Agreement**") to renew the terms of the Existing Master Charter Agreement for a further period of three years commencing from 1 January 2020 and ending on 31 December 2022.

The following table sets forth the annual caps for the transactions contemplated under the 2020 Master Charter Agreement for the periods below:

| | **For the year ending 31 December 2020 (US$)** | **For the year ending 31 December 2021 (US$)** | **For the year ending 31 December 2022 (US$)** |
|---|---|---|---|
| Provision of vessel chartering services | 14,000,000 | 14,000,000 | 14,000,000 |

During the year under review, the total actual amount of service fees paid by the Company pursuant to the Existing Master Charter Agreement was US$7,348,743 and did not exceed the proposed annual cap.

Qingdao SITC is owned as to 43.05% by Ms. Liu Rongli, the spouse of by Mr. Yang Shaopeng, an executive Director and the controlling shareholder of the Company. Accordingly, Qingdao SITC is a connected person of the Company and the entering into of the 2020 Master Charter Agreement and the transactions contemplated thereunder constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rule.

Details of the Existing Master Charter Agreement and the 2020 Master Charter Agreement are set out in the announcements of the Company dated 2 August 2017, 22 March 2019 and 20 December 2019.

## 2. Master Agency Agreement

On 22 December 2017, the Company entered into a renewed master agency agreement (the "**2018 Master Agency Agreement**") with Qingdao SITC, in relation to the agency services to be provided by Qingdao SITC to the Company and the container shipping services to be provided by the Company's subsidiaries to the shipping agency companies of Qingdao SITC for a term of three years from 1 January 2018 and ending on 31 December 2020.

The following table sets forth the annual caps for the periods below:

| For the year ended/ending 31 December | Service fees received by the Company (US$) | Service fees paid by the Company (US$) |
|---|---|---|
| 2018 | 29,000,000 | 4,500,000 |
| 2019 | 33,000,000 | 4,500,000 |
| 2020 | 38,000,000 | 4,500,000 |

During the year under review, the total actual amount of service fees received by the Company and paid by the Company pursuant to the 2018 Master Agency Agreement was US$24,662,590 and US$2,864,369, respectively, and did not exceed the proposed annual cap.

Qingdao SITC is a company owned as to 43.05% by Ms. Liu Rongli, the spouse of Mr. Yang Shaopeng, an executive Director and the controlling shareholder of the Company. Accordingly, Qingdao SITC is a connected person of the Company and the 2018 Master Agency Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Details of the 2018 Master Agency Agreement are set out in the announcement of the Company dated 22 December 2017 and 9 January 2018.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions above of the Group.

All independent non-executive Directors have reviewed the above continuing connected transactions, and confirmed that those transactions were entered into:

1. in the ordinary and usual course of business of the Group;

2. under normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

3. in accordance with the agreements related to the above continuing connected transactions, the terms of which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Based on the work performed, the auditors of the Company confirmed to the Board that the aforesaid continuing connected transactions:

1. have been approved by the Board;

2. are in accordance with the pricing policy of the Group;

3. have been entered into under the terms of the related agreements governing the transactions; and

4. have not exceeded the relevant cap allowed by the Stock Exchange in the previous announcements.

## CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as otherwise disclosed, where was no other contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a controlling shareholder had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

## CONFIRMATION OF INDEPENDENCE

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 considered all the independent non-executive Directors as independent.

## CORPORATE GOVERNANCE

The Company is committed to the establishment of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strived to maintain high corporate governance standard and has complied with all code provisions of the CG Code for the year ended 31 December 2019, save and except for code provision A.5.5(2) and there has been no other derivation from the code provisions for the year ended 31 December 2019.

## INDEMNITY AND INSURANCE PROVISIONS

The Articles of Association provides that every Director shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses as a result of any act or failure to act in carrying out his/her functions. The Company has arranged appropriate directors' and officers' liability insurance in respect of legal action against Directors.

## PURCHASE, SALE AND RE-PURCHASE OF SHARES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

## DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advance by the Company to an entity.

## FIVE YEAR FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group in the past five years is set out on page 163 of this annual report.

## PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the Articles of Association or the ordinance of Cayman Islands. It is stipulated that any new shares shall be offered according to the respective shareholding of the existing shareholders of the Company when new shares are issued by the Company.

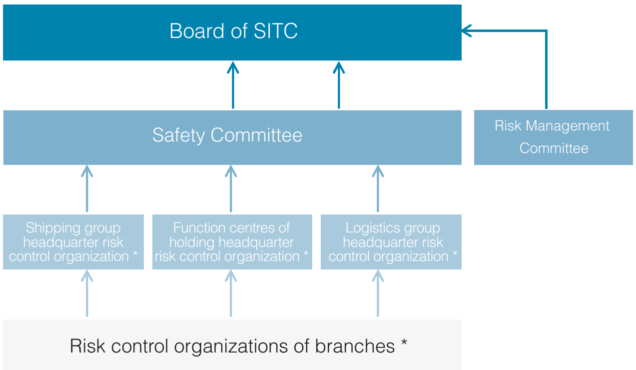
## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 December 2019.

## RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties which are not known to the Group or which may not be material now but could turn out to be material in the future.

In terms of organizational development, the Company has established an integrated risk control management organization with several branches under the Board.




* Risk control organizations at all levels include risk management organizations and crisis management public relations teams

In terms of corporate strategies, the Group's business is subject to the ever-changing market conditions. Facing the risks arising from the ever-changing market conditions, the Board has been able to lead the Company to make timely responses to the changes in the market. Risks arising from market fluctuations have been avoided through unique business model of developing frequent and sophisticated sea-land integrated logistics services and effective cost control. In addition, the Company has set up a mechanism for holding regular strategic risk seminar at the board level, organize a group-wide risk point survey at least once a year in the form of a questionnaire survey, and strive to detect risks as early as possible and take precautions. For example, this year, the risks of supply chain changes were identified and corresponding countermeasures were formulated.

In terms of operational risk, the Company has publicly released its requirements for declaration and handling of, and the inspection and supervision of dangerous goods to be made and carried out in strict compliance with relevant safety management systems and procedures in order to reduce risks relating to the transportation of dangerous goods and documentation and operation procedures. Regarding the risks of framed box transportation, the Group has set out certain requirements to tie them properly before loading and to manage them well during shipping. In respect of the risks related to overdue in delivery of imported goods and bad debts regarding payment on delivery, the Group has enhanced the qualification inspection on consignors and has built its negative list, rejected to take order or received deposits in advance. In face of operational risks relating to vessel owners and container leasing companies, the Company has included relevant contract clauses during negotiation, prudently selected and ensured the diversity of its suppliers, cooperated with vessel owners and container leasing companies with good reputation and strong financial condition, and increased the charterers' liability insurance. Besides, the Group's operating results are mainly affected by the risk arising from its major costs component, such as fluctuations in fuel price and quality. Through its creditworthy and long-term suppliers, monitoring of fuel price fluctuations and cargo fuel surcharges which has reduced the impacts of fuel price fluctuations, the Company has been able to maintain its operating results despite the volatile fuel price fluctuations.

In terms of employees, the Company has developed a regular rotation system and an audit system which should be carried out before rotation or suspension for particular roles including the senior management and the financial officers to avoid the risks arising from changes of employees' positions. Conditions for avoiding conflict of interest and non-compete clauses have also been included in the relevant employment contracts. The Company has also established an optimized safety production management system, enhanced training courses, organize mutual inspections and exchange experience and lessons of safety production, formulated plans for crisis management, organized regular drills, installed safety monitoring equipment such as probes on vessels and purchased insurance to reduce the risk of casualties.

In terms of asset risks, the Company has held insurance policies and added protection clauses in the procurement contracts and investigated the background of sellers to mitigate risks in relation to the vessels and container assets. In terms of currency risks, the Group has maintained a reasonable currencies mix and settled payments in time according to the guiding exchange rates. As for risks relating to accounts receivable, the Company has conducted an overall qualification check on the existing credit sales customers, strictly examined and approved new customers on credit terms, and shortened the credit period.

In terms of internal control and systemic risks, as for risks relating to the absence of system, the Company has conducted annual comprehensive review according to the actual operation and management practices, and updated the compilation of management system and made amendments from time to time. In terms of internal control risks, the Company has focused on internal control risks in routine and special audits, updated and improved system specifications, and compiled cases. In respect of malpractice and corruption risks, the Company has increased its efforts in internal audit, built up its internal audit team, increased whistleblowing channels for external complaints, conducted case study trainings on risk evaluation for staff members and provided trainings on self-awareness of risks. In terms of legal and compliance risks, the Group has maintained close communication with relevant regulatory agencies to receive updates on laws and regulations promptly, and operated in compliance with such laws and regulations. For the risks relating to transaction contracts, the Company's legal advisors participates in the formulation of standardized contract templates, and the Company reviews each contract before execution. The Company has assessed contracts annually, including the credit terms, settlement methods and service quality of its counterparties. As for information system risks, the Company has improved its disaster recovery system, purchased and installed antivirus software, strengthened its internal and external security system at both group and subsidiary levels to minimize risks of emergencies and hacker attacks. The Company has also enhanced safety awareness of its employees in order to prevent information leakage. For IT equipment risks, the Company has stipulated rules on the useful life of IT equipment.

In terms of public relations risks, the Company has paid close attention to industry public opinions proactively, established a variety of channels to release information to the public regularly, maintained communication with the public, and promptly refuted rumours through the communication channels.

In terms of force majeure risks, the Company has established risk alerting mechanism and information feedback mechanism, with reference to the summary of the Covid-19 prevention and control experience that broke out in early 2020, a risk prevention plan such as a major event was formulated, and maintained flexibility with operating leverage. The Company has performed its safe keeping and insurance obligation for the containers under respective container leasing agreement. The Company has timely adopted preventive measures (e.g., avoid entering war zones, etc.) according to relevant alerts issued by insurance companies. The Company has also stipulated relevant risks, related trade and war provisions in the ship charter agreement. In addition, the Company has a regular internal rotation and provide data and system security for remote offices.

## ENVIRONMENTAL PROTECTION

As a responsible enterprise, the Group has endeavoured to comply with laws and regulations regarding environmental protection and adopted effective environmental technologies to ensure that the conducting of the Group's business meets the applicable local standards and ethics in respect of environmental protection. The Group puts great emphasis in environmental protection and sustainable development. Through the establishment of an ever-improving management system, enhancement on procedure monitoring, energy conservation and environment protection were strongly promoted, leading to the remarkable achievement of environmental management. The Group strictly complies with IMO 2020 and Chinese environmental regulations on the use of low-sulfur oil.

Several measures have been implemented in order to mitigate environmental pollution, such as reducing fuel consumption; enhancing machines and equipment; carrying out maintenance for optimal operation condition; proactively developing new vessels; and developing an Owner's Account ("**OA**") paperless office system to minimise office wastage.

Further, the Group has actively promoted material-saving and environmentally friendly working environment so as to protect the environment and improve air quality within the community.

## COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Audit Committee is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

As far as the Company is aware of, the Group complies with all relevant rules and regulations promulgated by the relevant regulatory bodies to which the Group operates its business in and holds relevant required licences for provision of its services. The Group's management must ensure that the conduct of business is in conformity with the applicable laws and regulations.

To protect the Group's intellectual property rights, the Group has registered its domain name and various trademarks have been applied for or registered in various classes in over 20 countries and regions including mainland China and Hong Kong. "SITC" has been used in all principal operation regions of the Group. The Group has established a trademark management system for strict management of the registration, renewal, transfer and use of trademarks. There has been no incident or dispute in relation to the infringement or counterfeiting of trademarks since its listing.

As a listed company, the Company has been in strict compliance with the requirements of the Listing Rules and has promptly responded to the amendments of the Listing Rules.

In respect of the safety of vessels, the Group has complied with SOLARS Convention, STCW Convention, MLC2006 Convention and IMO 2020 Convention in line with the characteristics of the industry. In respect of sea transportation service, the Group has complied with the relevant laws and regulations such as the Maritime Code (《海商法》) and the Contract Law (《合同法》), and formulated corresponding procedures and complementary systems within the Company.

## WORKPLACE QUALITY

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behaviour, employees' rights and benefits. The Group establishes and implements policies that promote a harmony and respectful workplace.

The Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. It will continue to provide on-the-job training and development opportunities to enhance our employees' career progression. Through different training, staff's professional knowledge in corporate operations, occupational and management skills are enhanced. The Group also organised charitable and staff-friendly activities for employees, such as outings, outward bound training and rope skipping competitions to provide communication opportunities among staff, which are vital to promote staff relationship and physical fitness.

## HEALTH AND SAFETY

The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, training and guidelines are implemented to ensure the working environment is healthy and safe. The Group provided health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of staff. In order to provide employees with health coverage, staff are entitled to medical insurance benefits as well as other health awareness programs.

## TRAINING AND DEVELOPMENT

The Group is committed to the professional and personal development and growth of all employees and considers training and development a continual process. Many on- and off-the-job training courses and programs are provided to help employees develop and maintain consistency, proficiency and professionalism. Structured training programmes including courses, seminars and workshops are offered to staff at all levels with the objective of grooming and unleashing their full potential, supporting, organizational development and facilitating team synergies. Employees are encouraged to take advantage of these programmes in order to equip themselves with the skills and knowledge for expanded career opportunities within the Group.

## AUDITOR

The Company appointed Ernst & Young as the Auditor of the Company for the year ended 31 December 2019. The Company will submit a resolution in the coming Annual General Meeting to re-appoint Ernst & Young as the Auditor of the Company.

For and on behalf of the Board
**YANG Shaopeng**
*Chairman*

27 March 2020

## CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the annual report of the Group for the year ended 31 December 2019.

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of the shareholders of the Company, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules.

For the period throughout the year ended 31 December 2019, the Board is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, save and except for code provision A.5.5(2) which stipulates that when a listed issuer proposes to elect an individual as Independent non-Executive Director ("INED") at a general meeting and the individual will be holding his seventh (or more) listed company directorship, it must explain why the board believes the individual would still be able to devote sufficient time to the board in the relevant shareholder circular and/or explanatory statement accompanying the meeting notice.

The Company genuinely believes that the code provision A.5.5(2) of the CG Code which took effect on 1 January 2019 is only applicable to the election of a new INED to the Board, but not the re-election of an existing INED. Based on such understanding, the Company has inadvertently not disclosed in the circular dated 18 April 2019 the details as required under code provision A.5.5(2) in respect of the re-election of Dr. Ngai Wai Fung ("Dr. Ngai") as an INED of the Company at the 2019 annual general meeting.

The nomination committee (the "Nomination Committee") and the Board of the Company have considered a number of factors including the time commitment before making recommendation to the Shareholders on the re-election of the retiring Directors. Although Dr. Ngai has served as director for more than seven listed companies, he has maintained his profession in various directorships of listed companies he served, and has actively participated in all the meetings of the Board and its committees held by the Company during the year 2018. Accordingly, the Board considered that Dr. Ngai has devoted sufficient time to perform his director's duties in the Company.

In terms of disclosure, the Company has made adequate disclosure in its annual report for the year ended 31 December 2018 and the accompanying circular on the re-election of the retiring Directors. The Company has disclosed in the circular the information about Dr. Ngai pursuant to Rule 13.51(2) of the Listing Rules, including the list of directorship in companies which Dr. Ngai served. It has also been clearly stated in the corporate governance report that the Nomination Committee has reviewed the qualifications, skills and experience, time commitment and contribution of the retiring Directors with reference to the nomination principles and criteria set out in the Company's Board Diversity Policy and Director Nomination Policy and the Company's corporate strategy, as well as the independence of all INEDs. Based on such factors and the recommendation from the Nomination Committee, the Board has recommended to the Shareholders on the re-election of all the retiring Directors (including the retiring INEDs). Accordingly, the Company is of the view that it has provided the Shareholders with sufficient information to form an informed view in order to make their voting decisions at the annual general meeting.

The Company acknowledges the deviation from code provision A.5.5 of the CG Code and will use its best endeavour to ensure full disclosure of requisite details in compliance with code provision A.5.5 for future election or re-election of INEDs at general meetings.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Code of Conduct**") on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Code of Conduct throughout the year ended 31 December 2019.

The Company has also established written guidelines (the "**Employees Written Guidelines**") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

### Board composition

As at the date of this annual report, the Board currently comprises ten Directors, consisting of six executive Directors and four independent non-executive Directors. The composition of the Board is set out below:

**Executive Directors**

| | |
|---|---|
| Mr. YANG Shaopeng | *Chairman* |
| Mr. YANG Xianxiang | *Vice-Chairman and Chief Executive Officer* |
| Mr. LIU Kecheng | |
| Mr. XUE Peng | *Sole Company Secretary* |
| Mr. XUE Mingyuan | |
| Mr. LAI Zhiyong | |

**Independent non-executive Directors**

Mr. TSUI Yung Kwok
Mr. YEUNG Kwok On
Dr. LO Wing Yan, William
Dr. NGAI Wai Fung

The biographical information of the Directors and the relationships between the members of the Board are set out and disclosed in the section headed "Directors and Senior Management" on pages 22 to 26 of this annual report.

None of the members of the Board is related to one another.

### Chairman and Chief Executive Officer

The positions of chairman of the Board (the "**Chairman**") and chief executive officer of the Company (the "**Chief Executive Officer**") are held by Mr. YANG Shaopeng and Mr. YANG Xianxiang, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

### Independent non-executive Directors

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the board, with two of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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 as independent.

## Appointment and re-election of Directors

In accordance with the Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

In addition, the Articles of Association provides that all Directors appointed to fill a casual vacancy shall be subject to election by the shareholders of the Company at the first general meeting after such appointment.

In accordance to the letters of appointment signed between each of the independent non-executive Directors and the Company, the term of appointment of each independent non-executive Director is one year subject to re-election by the shareholders at each annual general meeting of the Company.

## Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All the Directors, including the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

## Continuous professional development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2019, the Company organized a training session for all the Directors conducted by the legal advisors. Such training session covers a wide range of relevant topics including directors' duties and responsibilities and updates on the recent amendments to the Listing Rules.

The Company has encouraged the Directors to participate continuous professional development courses and seminars organized by professional institutions or professional firms and reading materials on relevant topics so that they can continuously update and further improve their relevant knowledge and skills.

According to the records maintained by the Company, a summary of continuous professional development received by the Directors for the year ended 31 December 2019 is as follows:

| | Type of continuous professional development | |
|---|---|---|
| **Name of Directors** | **Training coordinated by the Company** | **Attending seminars/briefings/ conferences** |
| *Executive Directors* | | |
| Mr. YANG Shaopeng | ✓ | ✓ |
| Mr. YANG Xianxiang | ✓ | ✓ |
| Mr. LIU Kecheng | ✓ | ✓ |
| Mr. XUE Peng | ✓ | ✓ |
| Mr. XUE Mingyuan | ✓ | ✓ |
| Mr. LAI Zhiyong | ✓ | ✓ |
| *Independent Non-executive Directors* | | |
| Mr. TSUI Yung Kwok | ✓ | ✓ |
| Mr. YEUNG Kwok On | ✓ | ✓ |
| Dr. LO Wing Yan, William | ✓ | ✓ |
| Dr. NGAI Wai Fung | ✓ | ✓ |

## BOARD COMMITTEES

The Board has established six committees, namely, the Audit Committee, Nomination Committee, Remuneration Committee, Risk Management Committee, Disclosure Committee and Sustainable Development Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of each of the Audit Committee, Nomination Committee, Remuneration Committee, Risk Management Committee and Sustainable Development Committee are posted on the websites of the Company and the Stock Exchange, and the terms of reference of the Disclosure Committee are posted on the website of the Company, and each of such terms of reference is also available to the Company's shareholders upon request.

Except for the Disclosure Committee and Sustainable Development Committee, the majority of the members of each Board committee are independent non-executive Directors and the list of the respective chairman and members of each board committee is set out under the section headed "Corporate Information" on page 3 of this annual report.

### Audit Committee

The Audit Committee consist of three independent non-executive Directors, namely Mr. TSUI Yung Kwok, Dr. LO Wing Yan, William and Dr. NGAI Wai Fung. Mr. TSUI Yung Kwok is the chairman of the Audit Management Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee include assisting the Board in reviewing and overseeing the financial reporting system, internal control principles and risk management systems of the Company, monitoring the effectiveness of the internal audit function, determining the scope of audit and appointment of external auditors, and to review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2019, the Audit Committee held five meetings to review the annual and interim financial results and reports for the year ended 31 December 2018 and for the six months ended 30 June 2019 and significant issues on financial reporting, operational and compliance controls, effectiveness of the risk management and internal control systems, internal audit function, appointment of external auditors and relevant scope of works, and to review connected transactions of the Company and arrangements for employees to raise concerns about possible improprieties. The Audit Committee has met with the external auditors twice without the presence of the executive Directors.

### Nomination Committee

The Nomination Committee consists of five members, namely Mr. YANG Shaopeng and Mr. YANG Xianxiang, being the executive Directors, Mr. YEUNG Kwok On, Dr. LO Wing Yan, William and Dr. NGAI Wai Fung, being the independent non-executive Directors. Mr. YANG Shaopeng is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the composition of the Board, the Nomination Committee would take into account various aspects as well as factors concerning board diversity as set out in the Company's Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

The Nomination Committee has reviewed the nomination procedures for selection of candidates for directorship of the Company by making reference to the Company's Board Diversity Policy, characters, skills, experience, professional knowledge, personal integrity, independency and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations to complement the corporate strategy and board diversity, where appropriate, before making recommendation to the Board. External recruitment professionals may be engaged to carry out selection process, where necessary.

During the year ended 31 December 2019, the Nomination Committee held one meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, and to consider the qualifications of the retiring Directors standing for election at the Annual General Meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

### Remuneration Committee

The Remuneration Committee consists of five members, namely Mr. YANG Shaopeng and Mr. YANG Xianxiang, being the executive Directors, Mr. TSUI Yung Kwok, Mr. YEUNG Kwok On and Dr. NGAI Wai Fung, being the independent non-executive Directors. Mr. YEUNG Kwok On is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the policy and structure for all Directors' and senior management remuneration, and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration.

During the year ended 31 December 2019, the Remuneration Committee held one meeting to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters.

### Risk Management Committee

The Risk Management Committee consists of five members, namely Mr. YANG Xianxiang, Mr. XUE Peng, being the executive Directors, Mr. TSUI Yung Kwok, Dr. LO Wing Yan, William and Dr. NGAI Wai Fung, being the independent non-executive Directors. Dr. NGAI Wai Fung is the chairman of the Risk Management Committee. The principal duties of the Risk Management Committee include reviewing and monitoring risk management system and internal control system (except for financial control system), regularly oversee and advise the Board on the risk exposures of the Group, identifying new risk types and to ensure that appropriate arrangements are in place to effectively control and mitigate risks, formulating comprehensive risk management strategy and to establish an effective communication mechanism with the other committees of the Board.

During the year ended 31 December 2019, the Risk Management Committee held two meetings to review and make recommendation to the Board on the current risk exposures and future risk strategy of the Company, and the effectiveness of the risk management system and internal control system of the Company.

### Disclosure Committee

The principal duties of the Disclosure Committee include (a) considering and making recommendations to the Board in relation to the Company's disclosure policy and guidelines regarding inside information (as defined under Part XIVA of the SFO); (b) evaluating the information proposed to be disclosed by the secretary of the Board and, if necessary, obtain professional advice and report to the Board with relevant details; (c) setting up disclosure plan in respect of information required to be disclosed; (d) understanding and overseeing the Company's business affairs, financial conditions, events occurred or may occur and their impact on the Company; (e) actively investigating and obtaining information required for making decision; and (f) considering any other businesses as authorized by the Board.

## Sustainable Development Committee

The principal duties of the Sustainable Development Committee include (a) considering and submitting proposals for (i) long term development planning and sustainable development policy of the Company; (ii) sustainable development areas of the Company including but not limited to policies in relation to health and safety, community relations, environment, human rights and anti-corruption, ensuring the Company's position and performance on global sustainable development issues are in line with the current standards; (iii) reputation of the parties related to the key interests of the Company; (b) supervising and continuously optimizing the culture, management framework, affairs, risk management, capacity building and other matters in the fields of environment, social responsibility and sustainable development of the Company; (c) deliberating and reviewing the policies, management framework and daily operations in the fields of the environment, social responsibility and sustainable development of the Company half yearly and submitting opinions and proposals to the Board on the relevant matters; (d) advising on the corrective and preventive measures for material internal control incidents; (e) reviewing the Company's annual environmental, social and governance report before the deliberation and approval by the Board and the publication of such report; (f) reviewing, supervising and responding to emerging issues in the areas of environment, social responsibility and sustainable development and, where appropriate, submit proposals to the Board for the Company to make continuous progresses in such areas; (g) supervising the relevant Company's risk management, external engagement related to sustainable development matters and their fulfillment, all matters related to corporate governance and the formulation of relevant policies; and (h) supervising the implementation of such policies by the management of the Company, including deliberating the reports on policy implementation submitted by the management.

## Summary of the Board Diversity Policy

The Company's Board Diversity Policy (the "**Diversity Policy**") was adopted by the Company pursuant to the resolution of the Board passed on 14 August 2013. The Diversity Policy aims to set out the approach to diversity on the Board. The Diversity Policy applies to the Board and does not apply to diversity in relation to the employees of the Company, nor the board or employees of any subsidiary of the Company. In reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge, industry, regional experience and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review the Diversity Policy, as appropriate, to ensure the effectiveness of the Diversity Policy and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval. The Company aims to maintain an appropriate balance of diversity perspectives of the Board in supporting the attainment of its strategic objectives and its sustainable development. On 28 October 2013, the Board discussed the above measurable objectives, including but not limited to skills, knowledge, professional experience and cultural and educational background, and agreed that these measurable objectives were achieved for the diversity of the Board which contributed to the corporate strategy and the business development of the Company.

## Corporate governance functions

The Board, through the Audit Committee, is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. During the year ended 31 December 2019, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Code of Conduct, Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this corporate governance report.

## Nomination Policy

The Company has adopted a Nomination Policy which sets out the selection criteria and process and the board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- requirements of independent non-executive directors on the board and independence of the proposed independent non-executive directors in accordance with the Listing Rules; and
- commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or board committee(s) of the Company.

The Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2019, there was no change in the composition of the Board.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness.

## ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board, Nomination Committee, Remuneration Committee, Risk Management Committee and Audit Committee meetings and the general meeting of the Company held during the year ended 31 December 2019 is set out in the table below:

| | Attendance/Number of meetings | | | | | |
|---|---|---|---|---|---|---|
| **Name of Director** | **Board** | **Nomination Committee** | **Remuneration Committee** | **Audit Committee** | **Risk Management Committee** | **Annual General Meeting** |
| YANG Shaopeng | 5/5 | 1/1 | 1/1 | N/A | N/A | 1/1 |
| YANG Xianxiang | 5/5 | 1/1 | 1/1 | N/A | 2/2 | 1/1 |
| LIU Kecheng | 5/5 | N/A | N/A | N/A | N/A | 1/1 |
| XUE Peng | 5/5 | N/A | N/A | N/A | 2/2 | 1/1 |
| XUE Mingyuan | 5/5 | N/A | N/A | N/A | N/A | 1/1 |
| LAI Zhiyong | 5/5 | N/A | N/A | N/A | N/A | 1/1 |
| TSUI Yung Kwok | 5/5 | N/A | 1/1 | 5/5 | 2/2 | 1/1 |
| YEUNG Kwok On | 5/5 | 1/1 | 1/1 | N/A | N/A | 1/1 |
| LO Wing Yan, William | 5/5 | 1/1 | N/A | 5/5 | 2/2 | 1/1 |
| NGAI Wai Fung | 5/5 | 1/1 | 1/1 | 5/5 | 2/2 | 1/1 |

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of the other executive Directors during the year ended 31 December 2019.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 58 to 62.

## REMUNERATION OF MEMBERS OF SENIOR MANAGEMENT BY BAND

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2019 is set out below:

| Annual remuneration by band | Number of individuals |
|---|---|
| HK$5,000,000 to HK$6,000,000 | 1 |
| HK$3,000,000 to HK$4,000,000 | 1 |
| HK$1,000,000 to HK$2,000,000 | 3 |
| HK$500,000 to HK$1,000,000 | 1 |
| HK$0 to HK$500,000 | 4 |

Details of the remuneration of the Directors for the year ended 31 December 2019 are set out in Note 9 to the Financial Statements.

## AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditor of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2019 is set out below:

| Service Category | Fee paid/Payable (HK$'000) |
|---|---|
| Audit services | 3,461 |
| Non-audit services | |
| – Tax advisory services | 82 |
| – Others | 367 |
| | 449 |
| Total: | 3,910 |

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledge its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee and the Risk Management Committee assist the Board in leading the management, overseeing and monitoring the design and implementation of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each division/department. All divisions/departments conduct internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security.

The management, in coordination with division/department heads, assesses the likelihood of risk occurrence, provides treatment plans, and monitors the risk management and internal control systems and reports to the Audit Committee, the Risk Management Committee and the Board on all findings and the effectiveness of the systems.

The Board, through the Audit Committee and the Risk Management Committee, has reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries for the year ended 31 December 2019, including the adequacy of resources, staff qualification and experience, training programmes and budget of the Company's accounting and reporting function.

The Board, as supported by the Audit Committee and the Risk Management Committee, assessed the effectiveness of the risk management and internal control systems by reviewing the management report and the internal audit findings and considered that, for the year ended 31 December 2019, the risk management and internal control systems of the Company are effective and adequate.

## COMPANY SECRETARY

Mr. XUE Peng, an executive Director, was appointed as one of the joint company secretaries of the Company on 3 May 2013 and, upon acquiring the relevant experiences to act as the company secretary of the Company as required under Rule 3.28 of the Listing Rules, serves as the sole company secretary of the Company with effect from 18 October 2019. Mr. XUE Peng reports to the Chairman, Mr. YANG Shaopeng, and/or the Vice Chairman and Chief Executive Officer, Mr. YANG Xianxiang, depends on various matters, respectively.

Ms. CHAN Wai Ling of Tricor Services Limited, an external service provider, was engaged by the Company as its joint company secretary for the period from 9 March 2015 to 18 October 2019. Ms. CHAN's primary contact person during her service at the Company was Mr. XUE Peng, an executive Director, and Ms. Elaine XU, manager of the Operations and Management Centre of the Company.

Mr. XUE Peng undertook not less than 15 hours of relevant professional training during the year ended 31 December 2019.

## SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at the general meetings of the Company, including but not limited to the election of individual Directors. All resolutions put forward at the general meetings of the Company will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting of the Company.

## PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING ("EGM") AND PUTTING FORWARD PROPOSALS AT EGM

Pursuant to article 58 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM.

Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The requisition must state clearly the name of the requisitionists, their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM and signed by the requisitionists.

### Putting forward enquiries to the Board

For putting forward any enquiries to the Board, shareholders of the Company may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

### Contact details

Shareholders may send their enquiries or requests as mentioned above to the following:

| | |
|---|---|
| Address: | 21/F., World Trade Centre, 280 Gloucester Road,<br>Causeway Bay, Hong Kong<br>(For the attention of the Company Secretary) |
| Fax: | 852-2824 3748 |
| Tel: | 852-2850 0302 |
| Email: | ir@sitc.com |

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with its shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings and other general meetings.

The chairman of the Board, respective chairman of the Audit Committee, Remuneration Committee, Nomination Committee, Risk Management Committee, Disclosure Committee and Sustainable Development Committee, or, in their absence, other members of the respective board committees, will make themselves available at the annual general meetings to meet shareholders of the Company and answer their enquiries.

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

### Dividend Policy

The Company has adopted a policy on payment of dividends on 26 October 2018. The Board may determine to pay dividends at its own discretion in the future after considering the profits, cash flows, working capital requirements, general financial condition, regulatory limitations in the PRC and other subsidiaries of the Company, ability to distribute dividends to shareholders and any other factors that the Board considers relevant.

The rate of common dividend payout of the Company is not more than 100% of the annual distributable profit attributable to the shareholders of the Company.

# Independent Auditor's Report

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel電話：+852 2846 9888
Fax傳真：+852 2868 4432
ey.com

**To the shareholders of SITC International Holdings Company Limited**
(Incorporated in the Cayman Islands with limited liability)

## OPINION

We have audited the consolidated financial statements of SITC International Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 162, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2019, 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 (the "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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Impairment assessment of vessels* | |
| The carrying amount of the vessels of the Group as at 31 December 2019 was US$866,390,000, which represented 89% of the carrying amount of the Group's property, plant and equipment and 50% of the Group's total assets.<br><br>Management is required to perform impairment assessment on an asset if there is an indicator that the recoverable amount of the asset may be lower than its carrying amount. The Group performed an impairment assessment of its vessels in accordance with Hong Kong Accounting Standard ("HKAS") 36 *Impairment of Assets* issued by the HKICPA and concluded that (i) there was no impairment indicator on the container vessels as the container shipping business has been profitable in recent years; and (ii) the Group's dry bulk vessels may be impaired, given the relevant market indexes that affect charter rates are volatile. Accordingly, the Group estimated the recoverable amounts of its dry bulk vessels, using a value in use calculation based on the discounted cash flow method. Such assessment requires, inter alia, management's estimation on the expected future cash flows from the assets and a suitable discount rate in order to calculate the present value of those cash flows.<br><br>Given the complexity and judgemental nature of the impairment assessment, we considered this a key audit matter.<br><br>Related disclosures are included in notes 3 and 14 to the financial statements. | We evaluated the assumption and data used by the Group in the forecast, and with the assistance of our internal valuation specialists, the methodology adopted for the impairment assessment and the discount rates used in the recoverable amount calculation of the Group's vessels prepared by management.<br><br>We also assessed the adequacy of the related disclosures in the notes to the financial statements. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 THE DIRECTORS 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, 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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 Anthony S.T. Leung.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
20 March 2020

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| REVENUE | 5 | **1,553,718** | 1,449,088 |
| Cost of sales | | **(1,255,566)** | (1,196,489) |
| Gross profit | | **298,152** | 252,599 |
| Other income and gains, net | 6 | **22,406** | 31,210 |
| Administrative expenses | | **(80,246)** | (76,449) |
| Other expenses, net | | **(4,344)** | (428) |
| Finance costs | 7 | **(14,482)** | (9,368) |
| Share of profits and losses of: | | | |
| Joint ventures | 19(b) | **8,585** | 9,961 |
| Associates | 20(b) | **442** | 171 |
| PROFIT BEFORE TAX | 8 | **230,513** | 207,696 |
| Income tax | 11 | **(8,998)** | (8,599) |
| PROFIT FOR THE YEAR | | **221,515** | 199,097 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | | |
| Debt investments at fair value through other comprehensive income: | | | |
| Changes in fair value | | **1,015** | (1,701) |
| Reclassification adjustments for losses on disposal included in profit or loss | | **143** | 41 |
| | | **1,158** | (1,660) |
| Cash flow hedges: | | | |
| Effective portion of changes in fair value of hedging instruments arising during the year | | **(2,368)** | (3,064) |
| Reclassification adjustments for losses/(gains) included in profit or loss | | **4,111** | (658) |
| | | **1,743** | (3,722) |
| Exchange differences on translation of foreign operations | | **(783)** | (4,893) |
| Share of other comprehensive loss of joint ventures | 19(b) | **(311)** | (1,665) |
| Share of other comprehensive loss of associates | 20(b) | **(110)** | (539) |
| Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods | | **1,697** | (12,479) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX | | **1,697** | (12,479) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **223,212** | 186,618 |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

| | Note | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| Profit for the year attributable to: | | | |
| Shareholders of the Company | | **219,977** | 197,514 |
| Non-controlling interests | | **1,538** | 1,583 |
| | | **221,515** | 199,097 |
| Total comprehensive income for the year attributable to: | | | |
| Shareholders of the Company | | **221,530** | 185,481 |
| Non-controlling interests | | **1,682** | 1,137 |
| | | **223,212** | 186,618 |
| EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY | 13 | | |
| Basic (US cents per share) | | **8.29** | 7.44 |
| Diluted (US cents per share) | | **8.22** | 7.39 |

# Consolidated Statement of Financial Position

31 December 2019

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | **969,957** | 927,514 |
| Right-of-use assets | 15(b) | **164,308** | – |
| Prepaid land lease payments | 15(a) | **–** | 17,196 |
| Advance payments for the acquisition of vessels | 16 | **49,954** | 46,376 |
| Goodwill | 17 | **1,016** | 1,029 |
| Other intangible assets | 18 | **1,579** | 1,579 |
| Investments in joint ventures | 19 | **34,467** | 35,777 |
| Investments in associates | 20 | **9,703** | 9,431 |
| Debt investments at fair value through other comprehensive income | 21 | **–** | 9,430 |
| Derivative financial instruments | 22 | **14** | 155 |
| Total non-current assets | | **1,230,998** | 1,048,487 |
| CURRENT ASSETS | | | |
| Prepaid land lease payments | 15(a) | **–** | 468 |
| Bunkers | | **22,067** | 22,962 |
| Trade receivables | 23 | **70,551** | 65,877 |
| Prepayments, deposits and other receivables | 24 | **18,903** | 16,625 |
| Derivative financial instruments | 22 | **252** | 105 |
| Principal-protected investment deposits at fair value through profit or loss | 25 | **7,410** | 16,665 |
| Cash and bank balances | 26 | **399,363** | 380,702 |
| Total current assets | | **518,546** | 503,404 |
| CURRENT LIABILITIES | | | |
| Trade payables | 27 | **137,862** | 138,767 |
| Other payables and accruals | 28 | **60,315** | 52,471 |
| Derivative financial instruments | 22 | **–** | 18 |
| Bank borrowings | 29 | **55,416** | 77,718 |
| Lease liabilities | 15(c) | **38,498** | – |
| Dividend payables | | **102,615** | – |
| Income tax payables | | **1,610** | 1,271 |
| Total current liabilities | | **396,316** | 270,245 |
| NET CURRENT ASSETS | | **122,230** | 233,159 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,353,228** | 1,281,646 |

# Consolidated Statement of Financial Position

31 December 2019

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,353,228** | 1,281,646 |
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings | 29 | **226,596** | 235,947 |
| Lease liabilities | 15(c) | **104,656** | – |
| Provision for reinstatement costs | 30 | **2,406** | – |
| Total non-current liabilities | | **333,658** | 235,947 |
| Net assets | | **1,019,570** | 1,045,699 |
| EQUITY | | | |
| **Equity attributable to shareholders of the Company** | | | |
| Issued capital | 32 | **34,513** | 34,393 |
| Reserves | 34(a) | **975,730** | 1,002,639 |
| | | **1,010,243** | 1,037,032 |
| Non-controlling interests | | **9,327** | 8,667 |
| Total equity | | **1,019,570** | 1,045,699 |

**YANG Shaopeng**
*Director*

**YANG Xianxiang**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

| | Notes | Issued capital US$'000 | Share premium account US$'000 | Shares held under share award scheme account US$'000 | Share-based compensation reserve US$'000 | Capital and other reserves US$'000 (note 34(b)) | Hedging reserve US$'000 | Fair value reserve US$'000 | Exchange fluctuation reserve US$'000 | Reserve funds US$'000 (note 34(c)) | Retained profits US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to shareholders of the Company | | | | | | | | | | | | |
| At 1 January 2018 | | 34,213 | 383,513 | (3,659) | 6,365 | (7,623) | (4,332) | 523 | 2,165 | 4,779 | 547,518 | 963,462 | 7,920 | 971,382 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | 197,514 | 197,514 | 1,583 | 199,097 |
| Other comprehensive loss for the year: | | | | | | | | | | | | | | |
| Changes in fair value of debt investments at fair value through other comprehensive income, net of income tax | | – | – | – | – | – | – | (1,660) | – | – | – | (1,660) | – | (1,660) |
| Cash flow hedges, net of income tax | | – | – | – | – | – | (3,722) | – | – | – | – | (3,722) | – | (3,722) |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | (4,447) | – | – | (4,447) | (446) | (4,893) |
| Share of other comprehensive loss of: | | | | | | | | | | | | | | |
| Joint ventures | | – | – | – | – | – | – | – | (1,665) | – | – | (1,665) | – | (1,665) |
| Associates | | – | – | – | – | – | – | – | (539) | – | – | (539) | – | (539) |
| Total comprehensive income/(loss) for the year | | – | – | – | – | – | (3,722) | (1,660) | (6,651) | – | 197,514 | 185,481 | 1,137 | 186,618 |
| Capital contribution from a non-controlling equity holder of a subsidiary | | – | – | – | – | – | – | – | – | – | – | – | 195 | 195 |
| Acquisition of a subsidiary | 35 | – | – | – | – | – | – | – | – | – | – | – | 161 | 161 |
| Acquisition of non-controlling interests | | – | – | – | – | – | – | – | – | – | – | – | 813 | 813 |
| Issue of shares upon exercise of share options under the pre-IPO share option scheme | 32(a) | 65 | 2,550 | – | (132) | – | – | – | – | – | – | 2,483 | – | 2,483 |
| Issue of shares upon exercise of share options under the post-IPO share option scheme | 32(b) | 31 | 1,535 | – | (368) | – | – | – | – | – | – | 1,198 | – | 1,198 |
| Issue of shares under the share award scheme | 33 | 84 | 6,529 | (6,613) | – | – | – | – | – | – | – | – | – | – |
| Share award expense | 33 | – | – | – | 3,249 | – | – | – | – | – | – | 3,249 | – | 3,249 |
| Transfer of share-based compensation reserve upon forfeiture or expiry of share options | | – | – | – | (13) | – | – | – | – | – | 13 | – | – | – |
| Transfer to reserve funds | | – | – | – | – | – | – | – | – | 428 | (428) | – | – | – |
| Dividends declared to non-controlling equity holders of subsidiaries | | – | – | – | – | – | – | – | – | – | – | – | (1,559) | (1,559) |
| Final 2017 dividend paid | | – | – | – | – | – | – | – | – | – | (67,876) | (67,876) | – | (67,876) |
| Interim 2018 dividend declared | 12 | – | – | – | – | – | – | – | – | – | (50,965) | (50,965) | – | (50,965) |
| At 31 December 2018 | | 34,393 | 394,127* | (10,272)* | 9,101* | (7,623)* | (8,054)* | (1,137)* | (4,486)* | 5,207* | 625,776* | 1,037,032 | 8,667 | 1,045,699 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

| | Notes | Issued capital US$'000 | Share premium account US$'000 | Shares held under share award scheme account US$'000 | Share-based compensation reserve US$'000 | Capital and other reserves US$'000 (note 34(b)) | Hedging reserve US$'000 | Fair value reserve US$'000 | Exchange fluctuation reserve US$'000 | Reserve funds US$'000 (note 34(c)) | Retained profits US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to shareholders of the Company | | | | | | | | | | | | |
| At 1 January 2019 | | 34,393 | 394,127 | (10,272) | 9,101 | (7,623) | (8,054) | (1,137) | (4,486) | 5,207 | 625,776 | 1,037,032 | 8,667 | 1,045,699 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | 219,977 | 219,977 | 1,538 | 221,515 |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | |
| Changes in fair value of debt investments at fair value through other comprehensive income, net of income tax | | – | – | – | – | – | – | 1,158 | – | – | – | 1,158 | – | 1,158 |
| Cash flow hedges, net of income tax | | – | – | – | – | – | 1,743 | – | – | – | – | 1,743 | – | 1,743 |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | (927) | – | – | (927) | 144 | (783) |
| Share of other comprehensive loss of: | | | | | | | | | | | | | | |
| Joint ventures | | – | – | – | – | – | – | – | (311) | – | – | (311) | – | (311) |
| Associates | | – | – | – | – | – | – | – | (110) | – | – | (110) | – | (110) |
| Total comprehensive income/(loss) for the year | | – | – | – | – | – | 1,743 | 1,158 | (1,348) | – | 219,977 | 221,530 | 1,682 | 223,212 |
| Capital contribution from non-controlling equity holders of subsidiaries | | – | – | – | – | – | – | – | – | – | – | – | 538 | 538 |
| Issue of shares upon exercise of share options under the pre-IPO share option scheme | 32(a) | 86 | 3,401 | – | (177) | – | – | – | – | – | – | 3,310 | – | 3,310 |
| Issue of shares upon exercise of share options under the post-IPO share option scheme | 32(b) | 34 | 1,462 | – | (373) | – | – | – | – | – | – | 1,123 | – | 1,123 |
| Repurchase of shares under the share award scheme | 33 | – | – | (5,661) | – | – | – | – | – | – | – | (5,661) | – | (5,661) |
| Share award expense | 33 | – | – | – | 5,413 | – | – | – | – | – | – | 5,413 | – | 5,413 |
| Transfer of share-based compensation reserve upon forfeiture or expiry of share options | | – | – | – | (5) | – | – | – | – | – | 5 | – | – | – |
| Transfer to reserve funds | | – | – | – | – | – | – | – | – | 408 | (408) | – | – | – |
| Dividends declared to non-controlling equity holders of subsidiaries | | – | – | – | – | – | – | – | – | – | – | – | (1,560) | (1,560) |
| Final 2018 dividend paid | 12 | – | – | – | – | – | – | – | – | – | (88,558) | (88,558) | – | (88,558) |
| Interim 2019 dividend declared | 12 | – | – | – | – | – | – | – | – | – | (61,331) | (61,331) | – | (61,331) |
| Special divided declared | 12 | – | – | – | – | – | – | – | – | – | (102,615) | (102,615) | – | (102,615) |
| At 31 December 2019 | | 34,513 | 398,990* | (15,933)* | 13,959* | (7,623)* | (6,311)* | 21* | (5,834)* | 5,615* | 592,846* | 1,010,243 | 9,327 | 1,019,570 |

* These reserve accounts comprise the consolidated reserves of US$975,730,000 (2018: US$1,002,639,000) in the consolidated statement of financial position as at 31 December 2019.

# Consolidated Statement of Cash Flows

Year ended 31 December 2019

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **230,513** | 207,696 |
| Adjustments for: | | | |
| Finance costs | 7 | **14,482** | 9,368 |
| Share of profits of joint ventures | | **(8,585)** | (9,961) |
| Share of profits of associates | | **(442)** | (171) |
| Bank interest income | 6 | **(13,358)** | (12,101) |
| Investment income of principal-protected investment deposits at fair value through profit or loss | 6 | **(319)** | (231) |
| Gain on disposal of items of property, plant and equipment, net | 6 | **(151)** | (4,388) |
| Fair value losses/(gains), net: | | | |
| Cash flow hedges (transfer from equity) | 8 | **4,111** | (658) |
| Derivative instruments — transactions not qualifying as hedges | 6 | **(830)** | (65) |
| Equity investments at fair value through profit or loss | 6 | **–** | (517) |
| Debt investments at fair value through other comprehensive income (transfer from equity on disposal) | 8 | **143** | 41 |
| Depreciation of property, plant and equipment | 8 | **66,756** | 59,855 |
| Depreciation of right-of-use assets | 8 | **36,450** | – |
| Amortisation of prepaid land lease payments | 8 | **–** | 475 |
| Reversal of impairment of items of property, plant and equipment | 6 | **–** | (5,864) |
| Impairment of trade receivables, net | 8 | **76** | 224 |
| Share award expense | 33 | **5,413** | 3,249 |
| | | **334,259** | 246,952 |
| Increase/(decrease) in bunkers | | **895** | (5,183) |
| Increase in trade receivables | | **(4,960)** | (2,920) |
| Decrease in prepayments, deposits and other receivables | | **746** | 1,139 |
| Decrease in derivative financial assets | | **824** | 1,116 |
| Increase/(decrease) in trade payables | | **(905)** | 6,778 |
| Increase/(decrease) in other payables and accruals | | **7,775** | (2,620) |
| Decrease in derivative financial liabilities | | **(18)** | (443) |
| Effect of foreign exchange rate changes, net | | **(871)** | (109) |
| Cash generated from operations | | **337,745** | 244,710 |

# Consolidated Statement of Cash Flows

Year ended 31 December 2019

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| Interest income received | | **10,030** | 11,261 |
| Interest paid | | **(9,727)** | (9,368) |
| Hong Kong profits tax paid | | **–** | (150) |
| Overseas income tax paid | | **(8,375)** | (7,976) |
| Net cash flows from operating activities | | **329,673** | 238,477 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | 4 | **(9,804)** | (23,517) |
| Proceeds from disposal of items of property, plant and equipment | | **151** | 5,492 |
| Advance payments for the acquisition of vessels | 4 | **(106,286)** | (100,811) |
| Redemption of investment/(investments) in joint ventures | | **480** | (1,144) |
| Proceeds from disposal of debt investments at fair value through other comprehensive income | | **10,445** | 11,309 |
| Proceeds from disposal of equity investments at fair value through profit or loss | | **–** | 4,070 |
| Net disposal/(additions) of principal-protected investment deposits at fair value through profit or loss | | **9,255** | (5,778) |
| Proceeds from investment income of principal-protected investment deposits at fair value through profit or loss | | **319** | 231 |
| Increase in non-pledged time deposits with original maturity of over three months | | **(475,243)** | (402,882) |
| Decrease in non-pledged time deposits with original maturity of over three months | | **256,058** | 511,247 |
| Dividends received from joint ventures | | **9,104** | 6,170 |
| Dividends received from an associate | | **60** | – |
| Withholding tax paid on dividends received | | **(284)** | (523) |
| Acquisition of a subsidiary | 35 | **–** | (151) |
| Net cash flows from/(used in) investing activities | | **(305,745)** | 3,713 |

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 32(a),(b) | **4,433** | 3,681 |
| Repurchase of shares | 32 | **(5,661)** | – |
| Capital contribution from a non-controlling equity holders of subsidiaries | | **538** | 195 |
| New bank borrowings | | **314,065** | 48,669 |
| Repayment of bank borrowings | | **(348,223)** | (154,127) |
| Payment for dividends paid | | **(149,889)** | (152,805) |
| Principal portion of lease payments | | **(38,004)** | – |
| Payment for provision for reinstatement costs | | **(94)** | – |
| Dividends paid to non-controlling equity holders of subsidiaries | | **(1,560)** | (1,559) |
| Net cash flows used in financing activities | | **(224,395)** | (255,946) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(200,467)** | (13,756) |
| Cash and cash equivalents at beginning of year | | **277,036** | 293,653 |
| Effect of foreign exchange rate changes, net | | **(57)** | (2,861) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **76,512** | 277,036 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances other than time deposits | | **74,789** | 40,301 |
| Time deposits | | **324,574** | 340,401 |
| Cash and cash equivalents as stated in the consolidated statement of financial position | | **399,363** | 380,702 |
| Less: Non-pledged time deposits with original maturity of over three months when acquired | | **(322,851)** | (103,666) |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | **76,512** | 277,036 |

# Notes to Financial Statements

31 December 2019

## 1. CORPORATE AND GROUP INFORMATION

SITC International Holdings Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the Company's principal place of business in Hong Kong is located at 21/F, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the following businesses:

- the provision of integrated logistics services, including provision of container transport, freight forwarding, shipping agency, depot and warehousing services; and

- the provision of dry bulk vessel leasing, air-freight forwarding, land leasing and other services.

The immediate holding company of the Company is Resourceful Link Management Limited, which is incorporated in the British Virgin Islands (the "BVI"), and, in the opinion of the directors of the Company, the ultimate holding company of the Company is Better Master Investments Limited, which is incorporated in the BVI.

### Information about principal subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Company name | Place of incorporation/ registration and operations | Nominal value of registered/paid–up capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| Qingdao Smart Cargo Logistics Company Limited ^ # | Peoples's Republic of China ("PRC")/ Mainland China | US$30,000,000 | 60 | Provision of warehousing and depot services |
| SITC Batangas Shipping Company Limited | Hong Kong | HK$100 | 100 | Vessel holding and chartering services |
| SITC Busan Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Cebu Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Container Lines (Cambodia) Co., Ltd. # | Cambodia | US$200,000 | 100 | Provision of shipping agency services |
| SITC Container Lines Company Limited | Hong Kong | HK$1,000,000 | 100 | Provision of container marine transportation services |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about principal subsidiaries (continued)

| Company name | Place of incorporation/ registration and operations | Nominal value of registered/paid–up capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| SITC Container Lines (Indonesia) Co., Ltd. # | Indonesia | IDR6,000,000,000 | 67 | Provision of shipping agency services |
| SITC Container Lines (Japan) Co., Ltd. # | Japan | JPY10,000,000 | 100 | Provision of shipping agency services |
| SITC Container Lines (Korea) Co., Ltd. # | Korea | KRW600,000,000 | 80 | Provision of shipping agency services |
| SITC Container Lines (SARAWAK) SDN BDH # | Malaysia | MYR500,000 | 70 | Provision of shipping agency services |
| SITC Container Lines (Shanghai) Co., Ltd. * # | PRC/ Mainland China | US$16,000,000 | 100 | Provision of shipping agency services |
| SITC Fangcheng Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Fujian Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Group Company Limited* | BVI/Hong Kong | US$10,000 | 100 | Investment holding |
| SITC Guangdong Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Guangxi Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Hainan Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Hanshin Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about principal subsidiaries (continued)

| Company name | Place of incorporation/ registration and operations | Nominal value of registered/paid–up capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| SITC Hebei Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Hengshan Shipping Company Limited | Hong Kong | RMB100 | 100 | Vessel holding and chartering services |
| SITC Hochiminh Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Huangshan Shipping Company Limited | Hong Kong | HK$1 | 100 | Vessel holding and chartering services |
| SITC Huashan Shipping Company Limited | Hong Kong | HK$1 | 100 | Vessel holding and chartering services |
| SITC Jiangsu Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Kanto Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Keelung Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Kwangyang Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Lianyungang Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Liaoning Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Logi Korea Co., Ltd. # | Korea | KRW300,000,000 | 100 | Provision of freight forwarding services |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about principal subsidiaries (continued)

| Company name | Place of incorporation/ registration and operations | Nominal value of registered/paid–up capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| SITC Logistics Co., Ltd. * # | PRC/Mainland China | RMB150,000,000 | 100 | Provision of freight forwarding services |
| SITC Logistics (Japan) Co., Ltd. | Japan | JPY10,000,000 | 100 | Provision of freight forwarding services |
| SITC Lushan Shipping Company Limited | Hong Kong | HK$1 | 100 | Vessel holding and chartering services |
| SITC Macao Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Moji Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Osaka Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Qingdao Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Semarang Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Sendai Shipping Company Limited | Hong Kong | US$1 | 100 | Vessel holding and chartering services |
| SITC Shandong Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering chartering services |
| SITC Shanghai Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Shenzhen Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about principal subsidiaries (continued)

| Company name | Place of incorporation/ registration and operations | Nominal value of registered/paid–up capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| SITC Shidao Shipping Company Limited | Hong Kong | US$1 | 100 | Vessel holding and chartering services |
| SITC Shimizu Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Shipping Agency (HK) Company Limited | Hong Kong | HK$5,000,000 | 100 | Provision of shipping agency and freight forwarding services |
| SITC Shipping Agency (Taicang) Co., Ltd. ^ # | PRC/Mainland China | RMB1,500,000 | 51 | Provision of shipping agency and freight forwarding services |
| SITC Shipowning Group Company Limited | BVI/Hong Kong | US$1 | 100 | Investment holding |
| SITC Subic Shipping Company Limited | Hong Kong | US$1 | 100 | Vessel holding and chartering services |
| SITC Taicong Shipping Company Limited | Hong Kong | US$1 | 100 | Vessel holding and chartering services |
| SITC Taishan Shipping Company Limited | Hong Kong | HK$1 | 100 | Vessel holding and chartering services |
| SITC Technologies (Shanghai) Co., Ltd. * # | PRC/Mainland China | RMB10,000,000 | 100 | Provision of technologies support services |
| SITC Tokuyama Shipping Company Limited | Hong Kong | US$1 | 100 | Vessel holding and chartering services |
| SITC Toyohashi Shipping Company Limited | Hong Kong | US$1 | 100 | Vessel holding and chartering services |
| SITC Yantai Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about principal subsidiaries (continued)

| Company name | Place of incorporation/ registration and operations | Nominal value of registered/paid–up capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| SITC Yokkaichi Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Zhejiang Shipping Company Limited | Hong Kong | US$100 | 100 | Vessel holding and chartering services |
| SITC Zhoushan Shipping Company Limited | Hong Kong | HK$1 | 100 | Vessel holding and chartering services |
| Tailian Container Enterprises Inc. | Panama/Hong Kong | US$10,000 | 100 | Container holding and chartering services |

* Except for this entity which is directly held by the Company, all subsidiaries are indirectly held by the Company.

^ Registered as limited liability companies under PRC law.

* Registered as wholly-foreign-owned enterprises under PRC law.

# The English names of these companies represent the best effort made by management of the Company to directly translate their official Chinese, Japanese and Korean names as they have not registered any official English names.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, debt and equity investments, which have been measured at fair value. These financial statements are presented in the United States dollars (the "US$") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

| | |
|---|---|
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements to HKFRSs 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

### New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

*As a lessee – Leases previously classified as operating leases*

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land, offices, containers and vessels. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position. This includes a vessel recognised previously under a finance lease of US$5,275,000 that were reclassified from property, plant and equipment and upfront payments for land lease of US$17,664,000 that were reclassified from prepaid land lease payments.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

*As a lessee – Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities measured under HKAS 17.

Lease liabilities were not recognised on the finance lease of vessel at 1 January 2019 as the finance lease payable was fully settled in prior years.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

*As a lessee – Leases previously classified as finance leases* (continued)

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

| | Increase/(decrease) US$'000 |
|---|---|
| **Assets** | |
| Decrease in property, plant and equipment | (5,275) |
| Increase in right-of-use assets | 134,342 |
| Decrease in prepaid land lease payments | (17,664) |
| Decrease in prepayments, deposits and other receivables | (208) |
| Increase in total assets | 111,195 |
| **Liabilities** | |
| Increase in lease liabilities and total liabilities | 111,195 |

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

| | US$'000 |
|---|---|
| Operating lease commitments as at 31 December 2018 | 160,025 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019 | (24,122) |
| | 135,903 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 4.5% |
| Lease liabilities as at 1 January 2019 | 111,195 |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group did not have any long-term interests in associates and joint ventures as at 1 January 2019 and accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from (i) the transfer pricing on its intergroup sales and (ii) the offshore position on its sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy and offshore position will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business*[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | *Interest Rate Benchmark Reform*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| HKFRS 17 | *Insurance Contracts*[2] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[1] |

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

(a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

(b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

(c) Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

(d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

*Business combinations under common control*

Business combinations under common control are accounted for using the merger method of accounting. Under the merger method of accounting, the net assets of the combining entities or businesses are combined using their existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

*Other business combinations*

Other business combinations are accounted for using the acquisition method of accounting. Under the acquisition method of accounting, the consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

*Other business combinations* (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Fair value measurement

The Group measures its derivative financial instruments and debt investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than bunkers and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### Property, plant and equipment and depreciation

Plant and equipment, other than construction in progress and buildings, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 3% to 7% |
| Vessels | 4% to 6% |
| Containers | 9% to 20% |
| Computers, furniture and equipment | 10% to $33^1/_3$% |
| Motor vehicles | 12% to 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

*Trademarks and golf club membership*

Trademarks and golf club membership have indefinite useful lives and are stated at cost less any impairment losses.

### Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (applicable from 1 January 2019) (continued)

*Group as a lessee* (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, reinstatement costs expected to incur and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|---|---|
| Land | 2 to 50 years |
| Offices | 2 to 8 years |
| Containers | 1 to 6 years |
| Vessels | 10 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (applicable from 1 January 2019) (continued)

*Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

### Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

(a) Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

(b) Financial assets at fair value through other comprehensive income (debt investments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

*Subsequent measurement* (continued)

(c) Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Impairment of financial assets*

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

*General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets (continued)

*General approach* (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

*Simplified approach*

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank and other borrowings.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

(b) Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Derivative financial instruments and hedge accounting

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.

- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instruments and hedge accounting (continued)

*Fair value hedges*

The change in the fair value of hedging instrument is recognised in profit or loss as other expenses and losses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss as other expenses and losses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

*Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedge item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instruments and hedge accounting (continued)

*Hedges of a net investment*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Shares held under a share award scheme

Own equity instruments which are issued by way of issue of new shares and/or repurchased from the market and held by the Company or the Group (treasury shares) under the share award scheme of the Company are recognised directly in equity at cost, which are measured at the grant date fair value of the new shares and cost for the repurchase of the shares, respectively. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Upon vesting, the related costs of the vested awarded shares issued by the Company or repurchased from the market are credited to the shares held under share award scheme account, with a corresponding decrease in the share-based compensation reserve for awarded shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to the shares held under share award scheme account, and the related fair value of the shares regranted are debited to the share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to the share premium account if the fair value is higher than the cost or debited against retained profits if the fair value is less than the cost.

### Bunkers

Bunkers represent fuels and are stated at the lower of the cost and net realisable value. Cost is determined on the weighted average basis.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Where the Group receives non-monetary grants of assets, the grants are recorded at the fair value of the non-monetary assets and released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

### Revenue recognition

*Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

*Revenue from contracts with customers* (continued)

For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Revenue from container shipping activities is recognised over time as the performance obligation is satisfied, including a share of revenue from incomplete voyages as at the end of the reporting period. Detention and demurrage fees are recognised over time up until the time of the customer´s late return or pick-up of containers.

(b) Revenue from shipping agency, freight forwarding and logistics management activities are recognised at a point in time upon the services have been rendered.

*Other revenue*

(a) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(b) Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(c) Revenue from a time charter is recognised on the straight-line basis over the period of the charter.

(d) Rental income is recognised on a time proportion basis over the lease terms.

### Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

### Share-based payments

*Share option schemes*

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payments (continued)

*Share option schemes* (continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised, where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

*Share award scheme*

The Group operates a share award scheme for the purpose of providing incentive for employees to achieve performance goals and aligning the interests of employees directly to the shareholders of the Company through ownership of shares of the Company.

The amount to be expensed as share-based compensation expenses is determined by reference to the fair value of the awarded shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods (or on the grant date if the shares vest immediately), with a corresponding credit to the share-based compensation reserve under equity.

For those awarded shares which are amortised over the vesting periods, the Group revises its estimates of the number of awarded shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is recognised in profit or loss in the current year, with a corresponding adjustment to the share-based compensation reserve.

### Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Retirement benefit schemes (continued)

Certain subsidiaries outside Hong Kong and Mainland China are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to profit or loss as they become payable in accordance with the rules of the pension schemes.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Interim dividends are simultaneously proposed and declared because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends are recognised as a liability when they have been approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

### Foreign currencies

These financial statements are presented in US dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designed as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the US dollars. As at the end of each reporting period, the assets and liabilities of these entities are translated into US dollarss at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into US dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries are translated into US dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into US dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

### Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

### Estimated useful lives and residual values of shipping vessels

Shipping vessels are depreciated on the straight-line basis over their estimated remaining useful lives after allowance for their estimated residual values. Significant judgement and estimate are required in determining the useful life and residual value of a shipping vessel.

In determining the useful lives of its shipping vessels, the Group considers its business model and assets management policy, the industry practice, and factors like expected usage of each shipping vessel, expected repair and maintenance, and technical or commercial obsolescence arising from changes or improvements in the shipping vessel market. In respect of capitalised drydocking costs included in the cost of a shipping vessel, the Group estimates the useful life of these costs by reference to regulatory requirements, the average periods between drydocking cycles of shipping vessels of similar age and the expected usage of a shipping vessel until its next drydocking.

In determining the residual value of a shipping vessel, the Group considers net proceeds that would be obtained from the disposal of the shipping vessel in the resale or scrap markets, by reference to the lightweight tonnage of the shipping vessel provided by the shipyard and fluctuations in scrap steel prices.

The Group will review the useful life and residual value of each of its shipping vessels at the end of each reporting period based on the conditions of the shipping vessels, the market condition and other regulatory requirements. The depreciation expense in future periods will change where the estimated useful life or residual value of a shipping vessel are different from the previous estimate. The carrying amount of the Group's shipping vessels carried as assets in the consolidated statement of financial position as at 31 December 2019 was US$866,390,000 (2018: US$817,228,000) in aggregate, further details of which are set out in note 14 to the financial statements.

### Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., significant customisation to the leased asset).

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Hedge accounting

At 31 December 2019, certain bank borrowings of the Group denominated in JPY with a then total carrying amount of US$87,150,000 (2018: US$132,355,000) were designated as hedging instruments to manage the Group's foreign currency risk in relation to forecast sales denominated in JPY (i.e., the hedged items). These bank loan balances vary with the levels of expected JPY denominated sales and changes in JPY-US$ forward rate. The cash flow hedges relating to the expected future sales transactions denominated in JPY were assessed by the Group to be highly effective and hence the Group applies hedge accounting for this cash flow hedge relationship.

The cash flow hedge accounting is dependent on the effectiveness of the hedge relationship, as such, this inherent complexity of hedge accounting involved a significant degree of management judgement. Further details are given in note 29(c) to the financial statements.

### Recognition of a deferred tax liability for withholding taxes

The new Corporate Income Tax Law of the PRC, which became effective on 1 January 2008, states that the distribution of dividends by a foreign invested enterprise established in Mainland China to its foreign investors, from its earnings in 2008 and thereafter, shall be subject to withholding corporate income tax at a rate of 5% or 10%. The Group carefully evaluates the necessity of dividend distribution of its PRC subsidiaries out of profits earned after 1 January 2008 based on the senior management's judgement. Further details are given in note 31(b) to the financial statements.

### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Group did not recognise any deferred tax assets as at 31 December 2019 (2018: Nil).

### Income taxes

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

(a) the container shipping and logistics segment, which is engaged in the provision of integrated logistics services, including provision of container transport, freight forwarding, shipping agency, depot and warehousing services; and

(b) the dry bulk and others segment, which is engaged in the provision of dry bulk vessel leasing, air-freight forwarding, land leasing and other services.

Segment assets exclude cash and bank balances, derivative financial instruments and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude bank borrowings, derivative financial instruments, income tax payables and other unallocated corporate liabilities as these liabilities are managed on a group basis.

## 4. OPERATING SEGMENT INFORMATION (continued)

**Year ended 31 December 2019**

| | Container shipping and logistics US$'000 | Dry bulk and others US$'000 | Total US$'000 |
|---|---|---|---|
| **Segment revenue (note 5)** | | | |
| Sales to external customers | 1,527,346 | 26,372 | 1,553,718 |
| **Segment results** | 222,459 | 8,367 | 230,826 |
| *Reconciliation:* | | | |
| Bank interest income | | | 13,358 |
| Interest income of debt investments at fair value through other comprehensive income | | | 492 |
| Investment income of principal-protected investment deposits at fair value through profit or loss | | | 319 |
| Finance costs | | | (14,482) |
| Profit before tax | | | 230,513 |
| **At 31 December 2019** | | | |
| **Segment assets** | 1,014,505 | 145,184 | 1,159,689 |
| *Reconciliation:* | | | |
| Corporate and other unallocated assets | | | 589,855 |
| Total assets | | | 1,749,544 |
| **Segment liabilities** | 431,302 | 479 | 431,781 |
| *Reconciliation:* | | | |
| Corporate and other unallocated liabilities | | | 298,193 |
| Total liabilities | | | 729,974 |

## 4. OPERATING SEGMENT INFORMATION (continued)

**Year ended 31 December 2019** (continued)

| | Container shipping and logistics US$'000 | Dry bulk and others US$'000 | Total US$'000 |
|---|---|---|---|
| **Other segment information:** | | | |
| Share of profits and losses of: | | | |
| Joint ventures | 8,975 | (390) | 8,585 |
| Associates | 442 | – | 442 |
| Depreciation of property, plant and equipment | 58,825 | 7,931 | 66,756 |
| Depreciation of right-of-use assets | 35,995 | 455 | 36,450 |
| Gain on disposal of items of property, plant and equipment, net | 151 | – | 151 |
| Impairment of trade receivables, net | 76 | – | 76 |
| Investments in joint ventures | 33,897 | 570 | 34,467 |
| Investments in associates | 9,703 | – | 9,703 |
| Capital expenditure* | 115,222 | 868 | 116,090 |

* Capital expenditure consists of additions to property, plant and equipment and advance payments for the acquisition of vessels.

## 4. OPERATING SEGMENT INFORMATION (continued)

**Year ended 31 December 2018**

| | Container shipping and logistics US$'000 | Dry bulk and others US$'000 | Total US$'000 |
|---|---|---|---|
| **Segment revenue (note 5)** | | | |
| Sales to external customers | 1,425,219 | 23,869 | 1,449,088 |
| **Segment results** | 188,146 | 14,841 | 202,987 |
| *Reconciliation:* | | | |
| Bank interest income | | | 12,101 |
| Interest income of debt investments at fair value through other comprehensive income | | | 1,197 |
| Dividend income of equity investments at fair value through profit or loss | | | 31 |
| Investment income of principal-protected investment deposits at fair value through profit or loss | | | 231 |
| Fair value gains of equity investments at fair value through profit or loss | | | 517 |
| Finance costs | | | (9,368) |
| Profit before tax | | | 207,696 |
| **At 31 December 2018** | | | |
| **Segment assets** | 977,788 | 153,224 | 1,131,012 |
| *Reconciliation:* | | | |
| Corporate and other unallocated assets | | | 420,879 |
| Total assets | | | 1,551,891 |
| **Segment liabilities** | 176,491 | 4,005 | 180,496 |
| *Reconciliation*: | | | |
| Corporate and other unallocated liabilities | | | 325,696 |
| Total liabilities | | | 506,192 |

## 4. OPERATING SEGMENT INFORMATION (continued)

**Year ended 31 December 2018** (continued)

| | Container shipping and logistics US$'000 | Dry bulk and others US$'000 | Total US$'000 |
|---|---|---|---|
| Other segment information: | | | |
| Share of profits and losses of: | | | |
| Joint ventures | 10,140 | (179) | 9,961 |
| Associates | 171 | – | 171 |
| Depreciation | 53,283 | 6,572 | 59,855 |
| Amortisation of prepaid land lease payments | – | 475 | 475 |
| Reversal of impairment of items of property, plant and equipment | – | 5,864 | 5,864 |
| Gain on disposal of items of property, plant and equipment, net | 4,388 | – | 4,388 |
| Impairment of trade receivables, net | 224 | – | 224 |
| Recovery of write-off of trade receivables | 886 | – | 886 |
| Investments in joint ventures | 34,820 | 957 | 35,777 |
| Investments in associates | 9,431 | – | 9,431 |
| Capital expenditure* | 121,840 | 2,488 | 124,328 |

* Capital expenditure consists of additions to property, plant and equipment and advance payments for the acquisition of vessels.

### Geographical information

The Group's non-current assets are primarily dominated by its vessels. The directors of the Company consider that the nature of the Group's business and the way in which costs are allocated preclude a meaningful allocation of vessels, their operating profits and related capital expenditure to specific geographical areas as defined under HKFRS 8 *Operating Segments* issued by the HKICPA. These vessels are primarily utilised across the geographical markets for shipment of cargoes throughout Asia. Accordingly, geographical information is only presented for revenue.

The following revenue information by geographical area is based on the locations of customers:

| | **2019 US$'000** | 2018 US$'000 |
|---|---|---|
| Greater China* | **592,566** | 579,924 |
| Japan | **406,557** | 378,283 |
| Southeast Asia | **465,022** | 422,392 |
| Others | **89,573** | 68,489 |
| | **1,553,718** | 1,449,088 |

* Greater China includes Mainland China, Hong Kong and Taiwan.

## 4. OPERATING SEGMENT INFORMATION (continued)

### Major customer information disclosure

During the year, there was no sales to any single customer which contributed 10% or more of the Group's revenue (2018: Nil).

## 5. REVENUE

An analysis of the Group's revenue is as follows:

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Revenue from contracts with customers | **1,527,346** | 1,425,219 |
| Revenue from other sources: | | |
| Time charter income | **24,885** | 22,352 |
| Other rental income | **1,487** | 1,517 |
| | **26,372** | 23,869 |
| | **1,553,718** | 1,449,088 |

## 5. REVENUE (continued)

Notes:

*(a)* *Disaggregated revenue information*

**Year ended 31 December 2019**

| Segments | Container shipping and logistics US$'000 | Dry bulk and others US$'000 | Total US$'000 |
|---|---|---|---|
| **Type of services** | | | |
| Container shipping and supporting logistics income | 1,390,352 | – | 1,390,352 |
| Other container logistics income* | 136,994 | – | 136,994 |
| Total revenue from contracts with customers | 1,527,346 | – | 1,527,346 |
| Revenue from other sources | – | 26,372 | 26,372 |
| Total revenue | 1,527,346 | 26,372 | 1,553,718 |
| **Geographical markets** | | | |
| Greater China# | 590,797 | – | 590,797 |
| Japan | 406,557 | – | 406,557 |
| Southeast Asia | 463,762 | – | 463,762 |
| Others | 66,230 | – | 66,230 |
| Total revenue from contracts with customers | 1,527,346 | – | 1,527,346 |
| Revenue from other sources | – | 26,372 | 26,372 |
| Total revenue | 1,527,346 | 26,372 | 1,553,718 |
| **Timing of revenue recognition** | | | |
| Total revenue from contracts with customers – | | | |
| Services transferred over time | 1,527,346 | – | 1,527,346 |
| Revenue from other sources | – | 26,372 | 26,372 |
| Total revenue | 1,527,346 | 26,372 | 1,553,718 |

## 5. REVENUE (continued)

Notes: (continued)

*(a) Disaggregated revenue information (continued)*

**Year ended 31 December 2018**

| Segments | Container shipping and logistics US$'000 | Dry bulk and others US$'000 | Total US$'000 |
|---|---|---|---|
| **Type of services** | | | |
| Container shipping and supporting logistics income | 1,306,225 | – | 1,306,225 |
| Other container logistics income* | 118,994 | – | 118,994 |
| Total revenue from contracts with customers | 1,425,219 | – | 1,425,219 |
| Revenue from other sources | – | 23,869 | 23,869 |
| Total revenue | 1,425,219 | 23,869 | 1,449,088 |
| **Geographical markets** | | | |
| Greater China# | 556,055 | – | 556,055 |
| Japan | 378,283 | – | 378,283 |
| Southeast Asia | 422,392 | – | 422,392 |
| Others | 68,489 | – | 68,489 |
| Total revenue from contracts with customers | 1,425,219 | – | 1,425,219 |
| Revenue from other sources | – | 23,869 | 23,869 |
| Total revenue | 1,425,219 | 23,869 | 1,449,088 |
| **Timing of revenue recognition** | | | |
| Total revenue from contracts with customers – | | | |
| Services transferred over time | 1,425,219 | – | 1,425,219 |
| Revenue from other sources | – | 23,869 | 23,869 |
| Total revenue | 1,425,219 | 23,869 | 1,449,088 |

* Other container logistics income includes freight forwarding income, shipping agency income and depot and warehousing income.

\# Greater China includes Mainland China, Hong Kong and Taiwan.

## 5. REVENUE (continued)

Notes: (continued)

*(b) Performance obligations*

Information about the Group's performance obligations in contracts with customers is summarised below:

Container shipping and supporting logistics income

The performance obligation relates to the provision of container marine transportation and is satisfied over time as services are rendered and payment is generally due within 15 days upon the completion of the voyage, except for selected customers, where payment term can be extended up to 3 months.

Other container logistics income

The performance obligation is satisfied when the services of integrated freight forwarding, shipping agency, etc. are rendered and payment is generally due within 15 days from the date of billing.

Remaining performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 amounted to US$25,886,000 (2018: US$18,196,000), which is expected to be recognised within one year from the end of the reporting period.

## 6. OTHER INCOME AND GAINS, NET

An analysis of the Group's other income and gains, net is as follows:

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| **Other income** | | |
| Bank interest income | **13,358** | 12,101 |
| Interest income of debt investments at fair value through other comprehensive income | **492** | 1,197 |
| Dividend income of equity investments at fair value through profit or loss | **–** | 31 |
| Investment income of principal-protected investment deposits at fair value through profit or loss | **319** | 231 |
| Government subsidies* | **1,667** | 1,766 |
| Recovery of write-off of trade receivables | **–** | 886 |
| Others | **134** | 251 |
| | **15,970** | 16,463 |
| **Gains, net** | | |
| Gain on disposal of items of property, plant and equipment, net | **151** | 4,388 |
| Reversal of impairment of items of property, plant and equipment | **–** | 5,864 |
| Fair value gains, net: | | |
| Cash flow hedges (transfer from equity) | **–** | 658 |
| Derivative instruments – transactions not qualifying as hedges | **830** | 65 |
| Equity investments at fair value through profit or loss – designated as such upon initial recognition | **–** | 517 |
| Foreign exchange differences, net | **5,455** | 3,255 |
| | **6,436** | 14,747 |
| Other income and gains, net | **22,406** | 31,210 |

* The amount represented subsidies received from certain government authorities in Mainland China for the Group's operations of marine transportation and logistics businesses. There are no unfulfilled conditions or contingencies relating to these grants.

## 7. FINANCE COSTS

| | Notes | 2019 US$'000 | 2018 US$'000 |
|---|---|---|---|
| Interest on bank borrowings | | **9,188** | 9,368 |
| Interest on lease liabilities | 15(c) | **5,209** | – |
| Increase in discounted amounts of provision for reinstatement costs arising from the passage of time | 30 | **85** | – |
| Total finance costs | | **14,482** | 9,368 |

## 8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2019 US$'000 | 2018 US$'000 |
|---|---|---|---|
| Cost of services provided: | | | |
| Cost of bunkers consumed | | **207,885** | 201,705 |
| Others | | **1,047,681** | 994,784 |
| | | **1,255,566** | 1,196,489 |
| Depreciation of property, plant and equipment | 14 | **66,756** | 59,855 |
| Less: Included in cost of services provided | | **(65,751)** | (56,043) |
| | | **1,005** | 3,812 |
| Depreciation of right-of-use assets | 15(b) | **36,450** | – |
| Less: Included in cost of services provided | | **(33,897)** | – |
| | | **2,553** | – |
| Amortisation of prepaid land lease payments | 15(a) | **–** | 475 |
| Minimum lease payments under operating leases | | **–** | 143,795 |
| Less: Included in cost of services provided | | **–** | (138,360) |
| | | **–** | 5,435 |
| Lease payments not included in the measurement of lease liabilities | | **97,652** | – |
| Less: Included in cost of services provided | | **(91,659)** | – |
| | | **5,993** | – |
| Auditor's remuneration | | **393** | 384 |
| Employee benefit expense (including directors' remuneration (note 9)): | | | |
| Wages and salaries | | **84,486** | 76,635 |
| Share award expense | 33 | **5,413** | 3,249 |
| Pension scheme contributions (defined contribution schemes) | | **8,795** | 9,274 |
| | | **98,694** | 89,158 |
| Less: Included in cost of services provided | | **(42,187)** | (43,858) |
| | | **56,507** | 45,300 |
| Impairment of trade receivables, net* | 23(c) | **76*** | 224* |
| Fair value losses/(gains), net: | | | |
| Cash flow hedges (transfer from equity) | | **4,111*** | (658)** |
| Debt investments at fair value through other comprehensive income (transfer from equity on disposal) | | **143*** | 41* |

* These items are included in "Other expenses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

** This item is included in "Other income and gains, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

## 9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), section 383 (1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | **2019**<br>**US$'000** | 2018<br>US$'000 |
|---|---|---|
| Fees | **306** | 303 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,914** | 1,964 |
| Performance-related bonuses | **2,642** | 3,228 |
| Share award expense | **1,352** | 456 |
| Pension scheme contributions | **27** | 75 |
| | **5,935** | 5,723 |
| | **6,241** | 6,026 |

Certain directors were granted share options and share awards in the current year and prior years, in respect of their services to the Group, under the share option schemes and the share award scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair values of these options and share awards, which have been recognised in profit or loss over the vesting period, were determined as at the respective dates of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.

## 9. DIRECTORS' REMUNERATION (continued)

An analysis of the directors' remuneration, on a named basis, is as follows:

| | Fees US$'000 | Salaries, allowances and benefits in kind US$'000 | Performance-related bonuses US$'000 | Share award expense US$'000 | Pension scheme contributions US$'000 | Total remuneration US$'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | | | |
| **Executive directors:** | | | | | | |
| Mr. Yang Shaopeng | 28 | 777 | 1,025 | – | 5 | 1,835 |
| Mr. Yang Xianxiang* | 28 | 581 | 754 | 259 | 2 | 1,624 |
| Mr. Liu Kecheng | 28 | 144 | 229 | 254 | 2 | 657 |
| Mr. Xue Peng | 28 | 139 | 223 | 182 | 2 | 574 |
| Mr. Xue Mingyuan | 28 | 203 | 306 | 430 | 2 | 969 |
| Mr. Lai Zhiyong | 28 | 70 | 105 | 123 | 14 | 340 |
| | 168 | 1,914 | 2,642 | 1,248 | 27 | 5,999 |
| **Independent non-executive directors:** | | | | | | |
| Mr. Tsui Yung Kwok | 34 | – | – | 26 | – | 60 |
| Mr. Yeung Kwok On | 34 | – | – | 26 | – | 60 |
| Dr. Lo Wing Yan, William, J.P. | 34 | – | – | 26 | – | 60 |
| Dr. Ngai Wai Fung | 36 | – | – | 26 | – | 62 |
| | 138 | – | – | 104 | – | 242 |
| Total | 306 | 1,914 | 2,642 | 1,352 | 27 | 6,241 |

## 9. DIRECTORS' REMUNERATION (continued)

| | Fees US$'000 | Salaries, allowances and benefits in kind US$'000 | Performance-related bonuses US$'000 | Share award expense US$'000 | Pension scheme contributions US$'000 | Total remuneration US$'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2018** | | | | | | |
| **Executive directors:** | | | | | | |
| Mr. Yang Shaopeng | 28 | 764 | 1,204 | – | 5 | 2,001 |
| Mr. Yang Xianxiang* | 28 | 573 | 886 | 87 | 14 | 1,588 |
| Mr. Liu Kecheng | 28 | 146 | 296 | 87 | 14 | 571 |
| Mr. Xue Peng | 28 | 141 | 288 | 60 | 14 | 531 |
| Mr. Xue Mingyuan | 28 | 202 | 422 | 144 | 14 | 810 |
| Mr. Lai Zhiyong | 28 | 138 | 132 | 42 | 14 | 354 |
| | 168 | 1,964 | 3,228 | 420 | 75 | 5,855 |
| **Independent non-executive directors:** | | | | | | |
| Mr. Tsui Yung Kwok | 33 | – | – | 9 | – | 42 |
| Mr. Yeung Kwok On | 33 | – | – | 9 | – | 42 |
| Dr. Lo Wing Yan, William, J.P. | 33 | – | – | 9 | – | 42 |
| Dr. Ngai Wai Fung | 36 | – | – | 9 | – | 45 |
| | 135 | – | – | 36 | – | 171 |
| Total | 303 | 1,964 | 3,228 | 456 | 75 | 6,026 |

* Mr. Yang Xianxiang is also the chief executive officer of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are five (2018: five) executive directors, details of whose remuneration are set out in note 9 above.

## 11. INCOME TAX

An analysis of the Group's income tax is as follows:

| | 2019 US$'000 | 2018 US$'000 |
|---|---|---|
| Current: | | |
| Hong Kong | **379** | 338 |
| Underprovision/(overprovision) in prior years – Hong Kong | **44** | (250) |
| Mainland China | **1,262** | 1,393 |
| Elsewhere | **7,313** | 7,118 |
| Total tax expense for the year | **8,998** | 8,599 |

Notes:

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable in Mainland China and elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

(b) A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates of the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable tax rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

**Year ended 31 December 2019**

| | Mainland China | | Hong Kong | | Elsewhere | | Total | |
|---|---|---|---|---|---|---|---|---|
| | US$'000 | % | US$'000 | % | US$'000 | % | US$'000 | % |
| Profit before tax | 12,405 | | 155,954 | | 62,154 | | 230,513 | |
| Tax expense at the statutory tax rate | 3,101 | 25.0 | 25,732 | 16.5 | 5,819 | 9.4 | 34,652 | 15.0 |
| Lower tax rate(s) for specific provinces or enacted by local authority | – | – | – | – | 51 | 0.1 | 51 | – |
| Effect of withholding tax at 5% of the distributable profits of the Group's PRC joint ventures | 303 | 2.4 | – | – | 62 | 0.1 | 365 | 0.2 |
| Adjustments in respect of current tax of previous periods | – | – | 44 | – | – | – | 44 | – |
| Profits and losses attributable to joint ventures and associates | (1,811) | (14.6) | 64 | – | (372) | (0.6) | (2,119) | (0.9) |
| Income not subject to tax | (522) | (4.2) | (44,356) | (28.4) | (23,384) | (37.6) | (68,262) | (29.6) |
| Expenses not deductible for tax | 387 | 3.1 | 18,868 | 12.1 | 25,137 | 40.4 | 44,392 | 19.3 |
| Tax losses utilised from previous periods | (196) | (1.6) | – | – | – | – | (196) | (0.1) |
| Temporary difference not recognised | – | – | 71 | – | – | – | 71 | – |
| Tax expense at the Group's effective tax rate | 1,262 | 10.2 | 423 | 0.3 | 7,313 | 11.8 | 8,998 | 3.9 |

## 11. INCOME TAX (continued)

Notes: (continued)

(b) (continued)

**Year ended 31 December 2018**

| | Mainland China US$'000 | % | Hong Kong US$'000 | % | Elsewhere US$'000 | % | Total US$'000 | % |
|---|---|---|---|---|---|---|---|---|
| Profit before tax | 13,192 | | 136,159 | | 58,354 | | 207,696 | |
| Tax expense at the statutory tax rate | 3,298 | 25.0 | 22,466 | 16.5 | 6,182 | 10.6 | 31,946 | 15.4 |
| Lower tax rate(s) for specific provinces or enacted by local authority | – | – | – | – | 64 | 0.1 | 64 | – |
| Effect of withholding tax at 5% of the distributable profits of the Group's PRC joint ventures | 257 | 1.9 | – | – | 6 | – | 263 | 0.1 |
| Adjustments in respect of current tax of previous periods | – | – | (250) | (0.1) | – | – | (250) | (0.1) |
| Profits and losses attributable to joint ventures and associates | (2,137) | (16.2) | 30 | – | (339) | (0.6) | (2,446) | (1.2) |
| Income not subject to tax | (297) | (2.2) | (38,628) | (28.4) | (21,374) | (36.6) | (60,299) | (29.0) |
| Expenses not deductible for tax | 446 | 3.4 | 16,297 | 12.0 | 22,579 | 38.7 | 39,322 | 18.9 |
| Tax losses utilised from previous periods | (202) | (1.5) | – | – | – | – | (202) | (0.1) |
| Tax losses not recognised | – | – | 159 | 0.1 | – | – | 159 | 0.1 |
| Temporary difference not recognised | 28 | 0.2 | 14 | – | – | – | 42 | – |
| Tax expense at the Group's effective tax rate | 1,393 | 10.6 | 88 | 0.1 | 7,118 | 12.2 | 8,599 | 4.1 |

(c) The share of tax expense attributable to joint ventures amounting to US$2,164,000 (2018: US$2,828,000) and the share of tax credit attributable to associates amounting to US$93,000 (2018: tax expense of US$212,000) is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss and other comprehensive income.

## 12. DIVIDENDS

| | **2019 HK$'000** | **2019 US$'000 equivalent** | 2018 HK$'000 | 2018 US$'000 equivalent |
|---|---|---|---|---|
| Interim – HK18 cents (equivalent to approximately US2.30 cents) (2018: HK15 cents, equivalent to approximately US1.91 cents) per ordinary share | **481,064** | **61,331** | 400,006 | 50,965 |
| Special – HK30 cents (equivalent to approximately US3.83 cents) (2018: Nil) per ordinary share | **803,246** | **102,615** | – | – |
| Proposed final – HK27 cents (equivalent to approximately US3.47 cents) (2018: HK26 cents, equivalent to approximately US3.32 cents) per ordinary share | **723,067** | **92,862** | 693,708 | 88,558 |
| | **2,007,377** | **256,808** | 1,093,714 | 139,523 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of ordinary shares in issue during the year less shares held under the share award scheme of the Company.

The calculation of the diluted earnings per share is based on the profit for the year attributable to shareholders of the Company; and the weighted average number of ordinary shares used in the calculation is the total of (i) weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation; (ii) the weighted average of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options into ordinary shares; and (iii) the weighted average number of ordinary shares assumed to have been awarded at no consideration on the deemed exercise of all rights of shares held under the share award scheme of the Company.

The calculations of basic and diluted earnings per share amounts are based on:

| | **2019** | 2018 |
|---|---|---|
| | **US$'000** | US$'000 |
| **Earnings** | | |
| Profit attributable to shareholders of the Company, used in the basic and diluted earnings per share calculation | **219,977** | 197,514 |

| | **Number of shares** | |
|---|---|---|
| | **2019** | 2018 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year less shares held under the share award scheme, used in the basic earnings per share calculation | **2,654,606,606** | 2,654,721,221 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **5,442,581** | 9,223,768 |
| Shares held under the share award scheme | **16,677,638** | 8,776,229 |
| Weighted average number of ordinary shares during the year, used in the diluted earnings per share calculation | **2,676,726,825** | 2,672,721,218 |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings US$'000 | Vessels US$'000 (notes (a), (b) and (c)) | Containers US$'000 (note (b)) | Computers, furniture and equipment US$'000 | Motor Vehicles US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **31 December 2019** | | | | | | |
| At 1 January 2019 (restated): | | | | | | |
| Cost | 44,075 | 1,103,639 | 87,689 | 34,609 | 4,243 | 1,274,255 |
| Accumulated depreciation | (11,770) | (291,686) | (20,690) | (24,759) | (3,111) | (352,016) |
| Net carrying amount | 32,305 | 811,953 | 66,999 | 9,850 | 1,132 | 922,239 |
| Net carrying amount: | | | | | | |
| At 31 December 2018, net of accumulated depreciation | 32,305 | 817,228 | 66,999 | 9,850 | 1,132 | 927,514 |
| Effect of adoption of HKFRS 16 (note 2.2(a)) | – | (5,275) | – | – | – | (5,275) |
| At 1 January 2019 (restated) | 32,305 | 811,953 | 66,999 | 9,850 | 1,132 | 922,239 |
| Additions | 716 | 110,225 | 1,733 | 2,588 | 232 | 115,494 |
| Depreciation provided during the year | (2,410) | (55,392) | (5,284) | (3,371) | (299) | (66,756) |
| Disposals/write-off | – | (396) | (199) | (38) | (15) | (648) |
| Exchange realignment | (389) | – | – | 31 | (14) | (372) |
| At 31 December 2019 | 30,222 | 866,390 | 63,249 | 9,060 | 1,036 | 969,957 |
| At 31 December 2019: | | | | | | |
| Cost | 44,228 | 1,213,469 | 88,309 | 36,691 | 4,267 | 1,386,964 |
| Accumulated depreciation | (14,006) | (347,079) | (25,060) | (27,631) | (3,231) | (417,007) |
| Net carrying amount | 30,222 | 866,390 | 63,249 | 9,060 | 1,036 | 969,957 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings US$'000 | Vessels US$'000 (notes (a), (b) and (c)) | Containers US$'000 (note (b)) | Computers, furniture and equipment US$'000 | Motor vehicles US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | |
| At 1 January 2018: | | | | | | |
| Cost | 44,751 | 1,033,277 | 78,236 | 32,971 | 3,997 | 1,193,232 |
| Accumulated depreciation and impairment | (9,237) | (245,381) | (22,360) | (21,835) | (2,632) | (301,445) |
| Net carrying amount | 35,514 | 787,896 | 55,876 | 11,136 | 1,365 | 891,787 |
| Net carrying amount: | | | | | | |
| At 1 January 2018 | 35,514 | 787,896 | 55,876 | 11,136 | 1,365 | 891,787 |
| Additions | 451 | 73,212 | 16,505 | 2,193 | 108 | 92,469 |
| Acquisition of a subsidiary (note 35) | 154 | – | 1 | 325 | 122 | 602 |
| Depreciation provided during the year | (1,833) | (49,656) | (4,640) | (3,327) | (399) | (59,855) |
| Disposals/write-off | (130) | (88) | (743) | (64) | (12) | (1,037) |
| Reversal of impairment | – | 5,864 | – | – | – | 5,864 |
| Exchange realignment | (1,851) | – | – | (413) | (52) | (2,316) |
| At 31 December 2018 | 32,305 | 817,228 | 66,999 | 9,850 | 1,132 | 927,514 |
| At 31 December 2018: | | | | | | |
| Cost | 44,075 | 1,110,286 | 87,689 | 34,609 | 4,243 | 1,280,902 |
| Accumulated depreciation | (11,770) | (293,058) | (20,690) | (24,759) | (3,111) | (353,388) |
| Net carrying amount | 32,305 | 817,228 | 66,999 | 9,850 | 1,132 | 927,514 |

Notes:

(a) An impairment loss of US$6,600,000 was recognised against dry bulk vessels in prior years. Based on the impairment assessment made by the Group during the year ended 31 December 2018, the directors of the Company were of the opinion that the impairment loss provided against the dry bulk vessels in prior years should be reversed and hence a reversal of the impairment loss of US$5,864,000 was recognised in profit or loss during the year ended 31 December 2018 to reinstate the carrying amount of these assets to an amount had no impairment loss been recognised for them in prior years.

(b) At 31 December 2019, certain of the Group's vessels and containers with aggregate net carrying amounts of approximately US$454,397,000 (2018: US$514,450,000) and US$34,835,000 (2018: US$50,619,000), respectively, were pledged to secure bank loans granted to the Group (note 29(a)).

(c) Included in the balance as at 31 December 2018 was a vessel of the Group with a then net carrying amount of approximately US$5,275,000 leased by the Group from its legal owner, which is a company controlled by Ms. Liu Rongli, the spouse of Mr. Yang Shaopeng (the "Controlling Shareholder", who is an executive director of the Company, the controlling shareholder of the Company, a connected person under the Listing Rules and a related person), for use over the remaining useful life of 10 years of the vessel pursuant to a bareboat charter agreement (the "Bareboat Charter Agreement") entered into between the Group and the legal owner in prior years. At 31 December 2018, the Group had settled the total lease payments under the Bareboat Charter Agreement in full in prior years and the lease was accounted for as a finance lease. At 1 January 2019, the balance was reclassified to right-of-use assets upon the adoption of HKFRS 16 (note 2.2(a)).

## 15. LEASES

### The Group as a lessee

The Group has lease contracts for various items of land, offices, containers and vessel. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 2 to 50 years. No ongoing payments will be made under the terms of these land leases. Leases of offices generally have lease terms between 2 and 8 years, while containers generally have lease terms between 1 and 6 years. A vessel is accounted for as a finance lease and has a remaining lease term of 10 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There is a lease contract that includes an extension option, which is further discussed below.

*(a) Prepaid land lease payments (before 1 January 2019)*

| | US$'000 |
|---|---|
| Carrying amount at 1 January 2018 | 19,151 |
| Amortisation provided during the year | (475) |
| Exchange realignment | (1,012) |
| Carrying amount at 31 December 2018 | 17,664 |
| Portion classified as current assets | (468) |
| Non-current portion | 17,196 |

*(b) Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | Land US'000 | Offices US'000 | Containers US'000 | Vessel US'000 | Total US'000 |
|---|---|---|---|---|---|
| As at 1 January 2019 | **42,261** | **3,921** | **82,885** | **5,275** | **134,342** |
| Additions | **2,047** | **5,004** | **61,982** | **–** | **69,033** |
| Depreciation charge | **(2,577)** | **(1,573)** | **(31,764)** | **(536)** | **(36,450)** |
| Early termination of leases | **(1,815)** | **(56)** | **–** | **–** | **(1,871)** |
| Exchange realignment | **(290)** | **(456)** | **–** | **–** | **(746)** |
| As at 31 December 2019 | **39,626** | **6,840** | **113,103** | **4,739** | **164,308** |

## 15. LEASES (continued)

### The Group as a lessee (continued)

*(c) Lease liabilities*

The carrying amount of lease liabilities and the movements during the year are as follows:

| | US$'000 |
|---|---|
| Carrying amount at 1 January 2019 | 111,195 |
| New leases | 66,618 |
| Early termination of leases | (1,088) |
| Accretion of interest recognised during the year (note 7) | 5,209 |
| Payments | (38,004) |
| Exchange realignment | (776) |
| Carrying amount at 31 December 2019 | 143,154 |
| Analysed into: | |
| Current portion | 38,498 |
| Non-current portion | 104,656 |

*(d) The amounts recognised in profit or loss in relation to leases are as follows:*

| | **2019 US$'000** |
|---|---|
| Interest on lease liabilities | **5,209** |
| Depreciation charge of right-of-use assets | **36,450** |
| Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales and administrative expenses) | **97,652** |
| Total amount recognised in profit or loss | **139,311** |

## 15. LEASES (continued)

### The Group as a lessee (continued)

*(e)* *Extension option*

The Group has a land lease contract that includes an extension option. This option is negotiated by management to provide flexibility in managing the leased-asset portfolio and it is aligned with the Group's business needs. The undiscounted potential future rental payments relating to periods following the exercise date of extension option that is not included in the lease term are US$248,000 which are payable within five years.

*(f)* The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 36(c) and 37(b), respectively, to the financial statements.

### The Group as a lessor

The Group leases certain of its dry bulk vessels and land and buildings to third parties and joint ventures under operating lease arrangements. Leases for dry bulk vessels are negotiated for terms ranging from 10 months to 2 years and those for land and buildings are for terms ranging from 2 to 7 years.

Rental income recognised by the Group during the year was US$26,372,000 (2018: US$23,869,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | **2019**<br>**US$'000** | 2018<br>US$'000 |
|---|---|---|
| Within one year | **11,542** | 6,984 |
| After one year but within two years | **1,277** | 1,290 |
| After two years but within three years | **693** | 294 |
| After three years but within four years | **73** | 294 |
| After four years but within five years | **–** | 98 |
| | **13,585** | 8,960 |

## 16. ADVANCE PAYMENTS FOR THE ACQUISITION OF VESSELS

The balance represented advance payments for the purchase of container vessels. Further details of the capital commitments resulting from the purchase of container vessels are set out in note 37(a) to financial statements.

## 17. GOODWILL

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Cost and net carrying amount at 1 January | **1,029** | 1,088 |
| Exchange realignment | **(13)** | (59) |
| Cost and net carrying amount at 31 December | **1,016** | 1,029 |

### Impairment testing of goodwill

Goodwill of the Group arose from the acquisition of Tianjin Xin Hua Xi Logistics Co., Ltd. ("Tianjin Xin Hua Xi") in 2014. Tianjin Xin Hua Xi is engaged in the provision of depot services and is considered a cash-generating unit that generates independent cash flows.

The goodwill so arising was allocated to the Tianjin Xin Hua Xi cash-generating unit for impairment testing.

The recoverable amount of the Tianjin Xin Hua Xi cash-generating unit has been determined based on a value in use calculation using pre-tax cash flow projections of financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13% (2018: 13%). The growth rate used to extrapolate the cash flows of the business beyond the five-year period is 2% (2018: 2%). This growth rate represents the average growth rate of the industry in which the business operates. Assumptions were used in the value in use calculation of the Tianjin Xin Hua Xi cash-generating unit. The following describes each key assumption which management has adopted for its cash flow projections for the purpose of undertaking the impairment testing of the goodwill:

Budgeted gross margin – The basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the years before the budget year.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the cash-generating unit.

## 18. OTHER INTANGIBLE ASSETS

| | Golf club membership US$'000 | Trademarks US$'000 | Total US$'000 |
|---|---|---|---|
| Cost and net carrying amount: | | | |
| At 1 January 2018, 31 December 2018, | | | |
| 1 January 2019 and 31 December 2019 | 558 | 1,021 | 1,579 |

## 19. INVESTMENTS IN JOINT VENTURES

| | **2019 US$'000** | 2018 US$'000 |
|---|---|---|
| Share of net assets | **34,467** | 35,777 |

Notes:

(a) Particulars of the Group's principal joint ventures, which are all indirectly held by the Company, are as follows:

| Company name | Registered capital | Place of registration and operations and business | Percentage of Ownership interest | Voting power | Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Smart International Logistics Co., Ltd# | RMB25,000,000 | PRC/Mainland China | 51% | 50% | 51% | Provision of depot, warehousing and freight forwarding services |
| Singamas Logistics (Qingdao) Co., Ltd# | RMB47,455,820 | PRC/Mainland China | 40% | 40% | 40% | Provision of depot and warehousing services |
| SITC-Dinhvu Logistics Co., Ltd | US$12,000,000 | Vietnam | 49% | 50% | 49% | Provision of depot and warehousing services |

# The English names of these companies represent the best effort made by management of the Company to directly translate their official Chinese names as they have not registered any official English names.

The above table lists the joint ventures of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other joint ventures would, in the opinion of the directors, result in particulars of excessive length.

## 19. INVESTMENTS IN JOINT VENTURES (continued)

Notes: (continued)

(b) In the opinion of the directors, all joint ventures of the Group are not individually material and the following table illustrates their financial information in aggregate:

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Share of the joint ventures' profit for the year | **8,585** | 9,961 |
| Share of the joint ventures' other comprehensive loss | **(311)** | (1,665) |
| Share of the joint ventures' total comprehensive income | **8,274** | 8,296 |
| Aggregate carrying amount of the Group's investments in joint ventures | **34,467** | 35,777 |

(c) The Group's trade receivable balances and trade payable balances with joint ventures are disclosed in notes 23(d) and 27(b) to the financial statements, respectively. Other non-trade balances with joint ventures are disclosed in note 24(b) to the financial statements.

## 20. INVESTMENTS IN ASSOCIATES

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Share of net assets | **9,703** | 9,431 |

Notes:

(a) Particulars of the associates, which are all indirectly held by the Company, are as follows:

| Company name | Registered/ paid-up/issued capital | Place of registration and operation | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| SITC Container Lines Philippines, Inc.* | 20,000 ordinary shares of PHP100 each | Philippines | 40% | Provision of shipping agency and freight forwarding services |
| APL-SITC Terminal Holdings Pte. Ltd. | 10 ordinary shares of US$1 each | Singapore | 20% | Investment holding |

* The Group has discontinued the recognition of its share of losses of SITC Container Lines Philippines, Inc. because the share of losses of this associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were US$1,000 (2018: US$224,000) and US$225,000 (2018: US$224,000), respectively.

## 20. INVESTMENTS IN ASSOCIATES (continued)

Notes: (continued)

(b) In the opinion of the directors, all associates of the Group are not individually material and the following table illustrates their financial information in aggregate:

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Share of the associates' profit for the year | **442** | 171 |
| Share of the associates' other comprehensive loss | **(110)** | (539) |
| Share of the associates' total comprehensive income/(loss) | **332** | (368) |
| Aggregate carrying amount of the Group's investments in associates | **9,703** | 9,431 |

(c) The Group's trade receivable balances and trade payable balances with associates are disclosed in notes 23(d) and 27(b) to the financial statements, respectively.

## 21. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Listed debt investments, at fair value | **–** | 9,430 |

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | Notes | Assets<br>US$'000 | Liabilities<br>US$'000 | Assets<br>US$'000 | Liabilities<br>US$'000 |
| Forward currency contracts | (a) | **–** | **–** | – | 18 |
| Interest rate swaps | (b) | **266** | **–** | 260 | – |
| | | **266** | **–** | 260 | 18 |
| Portion classified as non-current – | | | | | |
| Interest rate swaps | | **(14)** | **–** | (155) | – |
| Current portion | | **252** | **–** | 105 | 18 |

## 22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes:

(a) The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. A net gain on fair value changes in non-hedging forward currency contracts amounting to US$1,068,000 (2018: US$45,000) was recognised in profit or loss during the year.

(b) The Group has entered into various interest rate swap contracts to manage its interest rate exposures. These interest rate swap contracts are not designated for hedge purposes and are measured at fair value through profit or loss. A net loss on fair value changes in interest rate swaps amounting to US$238,000 (2018: net gain of US$20,000) was recognised in profit or loss during the year.

(c) Derivative financial instruments of the Group were conducted with creditworthy banks.

### Cash flow hedge – Foreign currency risk

Bank borrowings of the Group denominated in JPY are designated as hedging instruments in cash flow hedges of forecast sales in JPY. These forecast sales transactions are highly probable and comprise about 15% of the Group's expected sales in JPY. The bank borrowings balances vary with the level of expected foreign currency sales and changes in foreign exchange forward rates. At 31 December 2019, the Group had several bank borrowings denominated in JPY outstanding with an aggregate amount of US$87,150,000 (2018: US$132,355,000), as detailed in note 29(b) to the financial statements.

There is an economic relationship between the hedged items and the hedging instruments as the repayment of the bank borrowings denominated in JPY match with cash receipts of the expected highly probable forecast sales transactions denominated in JPY. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of bank borrowings denominated in JPY is identical to the hedged risk components (forecasted sales denominated in JPY). To measure the hedge effectiveness, the Group compares the change in the fair value of the hedging instruments against the changes in the fair value of the hedged items attributable to the hedged risk.

Hedge ineffectiveness can arise from:

- differences in the timing of the cash flows of the forecasted sales and the hedging instruments
- changes to the forecasted amounts of cash flows of hedged items and hedging instruments

## 22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Cash flow hedge – Foreign currency risk (continued)

The Group holds the bank borrowings denominated in JPY with the maturity as detailed below:

| | At 31 December 2019 | | At 31 December 2018 | |
|---|---|---|---|---|
| | JPY'000 | US$'000 | JPY'000 | US$'000 |
| *Bank borrowings repayable within:* | | | | |
| Within one year | **2,425,508** | 22,319 | 2,763,320 | 25,028 |
| In the second year | **2,425,508** | 22,188 | 2,763,320 | 24,863 |
| In the third to fifth years, inclusive | **3,869,088** | 35,288 | 6,797,931 | 61,153 |
| After five years | **807,520** | 7,355 | 2,373,467 | 21,311 |
| | **9,527,624** | 87,150 | 14,698,038 | 132,355 |

The impacts of the hedging instruments on the consolidated statement of financial position are as follows:

| | 2019 | 2018 |
|---|---|---|
| | US$'000 | US$'000 |
| Bank borrowings denominated in JPY | | |
| – Decrease/(increase) in fair value upon settlement during the year | **4,111** | (658) |

## 23. TRADE RECEIVABLES

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | US$'000 | US$'000 |
| Trade receivables | (a) | **70,870** | 66,164 |
| Impairment | (c) | **(319)** | (287) |
| | | **70,551** | 65,877 |

## 23. TRADE RECEIVABLES (continued)

Notes:

(a) The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 15 days, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

(b) An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **US$'000** | US$'000 |
| Within 1 month | **60,916** | 55,990 |
| 1 to 2 months | **7,529** | 7,436 |
| 2 to 3 months | **1,046** | 1,374 |
| Over 3 months | **1,060** | 1,077 |
| | **70,551** | 65,877 |

(c) The movements in the loss allowance for impairment of trade receivables are as follows:

| | **2019** | 2018 |
|---|---|---|
| | **US$'000** | US$'000 |
| At beginning of year | **287** | 405 |
| Impairment loss, net | **76** | 224 |
| Amount written off as uncollectible | **(44)** | (342) |
| At end of year | **319** | 287 |

## 23. TRADE RECEIVABLES (continued)

Notes: (continued)

(c) (continued)

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses rate of 0.108% (2018: 0.108%) is provided for the external customers with good credit. External customers with credit deterioration (i.e. overdue by more than 3 months) will be assessed on an individual basis for the provision of expected credit losses. Generally, trade receivables will be written off when past due for more than one year and are not subject to enforcement activity.

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

(d) Included in the Group's trade receivables as at 31 December 2019 are amounts of US$8,614,000 (2018: US$7,740,000), US$36,000 (2018: US$230,000) and US$374,000 (2018: Nil) due from joint ventures, associates and companies controlled by the Controlling Shareholder, respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| Prepayments | | **3,617** | 3,560 |
| Deposits and other receivables | (a) | **14,259** | 11,942 |
| Due from joint ventures | (b) | **1,027** | 1,123 |
| | | **18,903** | 16,625 |

Notes:

(a) None of these assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

(b) The balances with joint ventures are unsecured, interest-free and repayable on demand.

## 25. PRINCIPAL-PROTECTED INVESTMENT DEPOSITS AT FAIR VALUE THROUGH PROFIT OR LOSS

These are unlisted investment deposits made with creditworthy banks in the PRC. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

## 26. CASH AND BANK BALANCES

| | 2019 US$'000 | 2018 US$'000 |
|---|---|---|
| Cash and bank balances other than time deposits | **74,789** | 40,301 |
| Time deposits | **324,574** | 340,401 |
| Cash and bank balances | **399,363** | 380,702 |

Notes:

(a) At the end of the reporting period, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$6,538,000 (2018: US$42,241,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods ranging between seven days and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 27. TRADE PAYABLES

(a) An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2019 US$'000 | 2018 US$'000 |
|---|---|---|
| Within 1 month | **104,582** | 100,218 |
| 1 to 2 months | **22,706** | 26,881 |
| 2 to 3 months | **5,099** | 4,263 |
| Over 3 months | **5,475** | 7,405 |
| | **137,862** | 138,767 |

(b) Included in the Group's trade payables as at 31 December 2019 are amounts of US$344,000 (2018: US$591,000), US$4,050,000 (2018: US$7,185,000) and US$5,946,000 (2018: US$5,896,000) due to companies controlled by the Controlling Shareholder, joint ventures and associates, respectively, which are repayable within 30 days.

(c) The trade payables are non-interest-bearing and are normally settled on terms ranging from 15 to 45 days.

## 28. OTHER PAYABLES AND ACCRUALS

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| Other payables | (a) | **7,627** | 5,086 |
| Accruals | | **23,875** | 22,785 |
| Contract liabilities | (b) | **28,813** | 24,600 |
| | | **60,315** | 52,471 |

Notes:

(a) Other payables are non-interest-bearing and have an average credit term of three months.

(b) Contract liabilities represented advance payments received from the customers for the container shipping service, which will be recognised as revenue as the performance obligation is satisfied.

## 29. BANK BORROWINGS

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | US$'000 | Effective interest rate (%) | Maturity | US$'000 |
| *Current* | | | | | | |
| Bank loans – secured | **1.85** | **2020** | **7,524** | LIBOR+0.90 – LIBOR+1.10 | 2019 | 28,956 |
| Current portion of long term | **LIBOR+0.49 – LIBOR+1.20** | **2020** | **44,724** | LIBOR+0.80 – LIBOR+1.95 | 2019 | 45,594 |
| bank loans – secured | **LIBOR*+1.65** | **2020** | **1,584** | LIBOR*+1.65 | 2019 | 1,584 |
| | **2.39-2.49** | **2020** | **1,584** | 2.39-2.49 | 2019 | 1,584 |
| | | | **55,416** | | | 77,718 |
| *Non-current* | | | | | | |
| Non-current portion of long term | **LIBOR+0.49 – LIBOR+1.20** | **2021-2029** | **220,554** | LIBOR+0.80 – LIBOR+2.70 | 2020-2028 | 226,839 |
| bank loans – secured | **LIBOR*+1.65** | **2021-2029** | **3,021** | LIBOR*+1.65 | 2020-2028 | 4,554 |
| | **2.39-2.49** | **2021-2029** | **3,021** | 2.39-2.49 | 2020-2028 | 4,554 |
| | | | **226,596** | | | 235,947 |
| Total bank borrowings | | | **282,012** | | | 313,665 |
| Analysed into bank loans repayable: | | | | | | |
| Within one year or on demand | | | **55,416** | | | 77,718 |
| In the second year | | | **47,892** | | | 47,406 |
| In the third to fifth years, inclusive | | | **105,418** | | | 115,465 |
| After five years | | | **73,286** | | | 73,076 |
| | | | **282,012** | | | 313,665 |

* The LIBOR is fixed at 1.46% and 1.54% under interest rate swap contract.

## 29. BANK BORROWINGS (continued)

Notes:

(a) The Group's bank loans were secured by mortgages over the Group's vessels and containers which had aggregate carrying amounts of approximately US$454,397,000 (2018: US$514,450,000) and US$34,835,000 (2018: US$50,619,000) as at 31 December 2019, respectively.

(b) An analysis of the carrying amounts of the bank borrowings by type and currency is as follows:

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| JPY: | | |
| Floating rate loans | **87,150** | 132,355 |
| US$: | | |
| Fixed rate loans | **16,734** | 12,276 |
| Floating rate loans | **178,128** | 169,034 |
| | **194,862** | 181,310 |
| Total | **282,012** | 313,665 |

(c) The Group's bank loans denominated in JPY with a total carrying amount of US$87,150,000 (2018: US$132,355,000) as at 31 December 2019 are designated as hedging instruments in respect of highly probable forecast sales transactions denominated in JPY.

The terms of these bank loans match the terms of the highly probable forecast sales transactions. The cash flow hedges relating to expected future sales transactions denominated in JPY were assessed to be highly effective and a net gain of US$1,743,000 (2018: net loss of US$3,971,000) was included in the hedging reserve as follows:

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Total fair value losses on bank loans included in the hedging reserve | **(2,368)** | (3,313) |
| Reclassified from other comprehensive loss/(income) and recognised in profit or loss | **4,111** | (658) |
| Net gain/(loss) recognised in the hedging reserve during the year on bank loans designated as cash flow hedges | **1,743** | (3,971) |

## 30. PROVISION FOR REINSTATEMENT COSTS

The carrying amount of provision for reinstatement costs and the movements during the year are as follows:

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Carrying amount at 1 January | **–** | – |
| Additions | **2,415** | – |
| Accretion of interest recognised during the year (note 7) | **85** | – |
| Payments | **(94)** | – |
| Carrying amount at 31 December | **2,406** | – |

Provision for reinstatement costs represents the present value of the estimated cost for the restoration work of the Group's leased containers agreed to be carried out upon the expiry of the relevant leases. The amount of the provision for the reinstatement costs is estimated based on past experience of the level of restoration work performed. The estimation basis is reviewed on an ongoing basis and revised where appropriate. The related reinstatement costs, upon initial recognition, have been included as right-of-use assets in the consolidated statement of financial position.

## 31. DEFERRED TAX

(a) The Group did not have tax losses arising in Hong Kong during the year (2018: Nil).

At 31 December 2019, the Group had tax losses arising in Mainland China of US$897,000 (2018: US$1,640,000). That will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and joint ventures established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint ventures established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures in Mainland China for which deferred tax liabilities have not been recognised totalled approximately US$2,207,000 (2018: US$2,057,000) and US$12,498,000 (2018: US$11,842,000), as at 31 December 2019, respectively.

(c) There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 32. SHARE CAPITAL

### Shares

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **HK$'000** | **US$'000 equivalent** | HK$'000 | US$'000 equivalent |
| Authorised: | | | | |
| 5,000,000,000 ordinary shares of HK$0.1 each | **500,000** | | 500,000 | |
| Issued and fully paid: | | | | |
| 2,677,203,260 (2018: 2,667,784,360) ordinary shares of HK$0.1 each | **267,720** | **34,513** | 266,778 | 34,393 |

A summary of movements in the Company's issued share capital during the current and prior years is as follows:

| | Notes | Number of issued and fully paid ordinary shares | Issues capital | Share premium account | Shares held under share award scheme | Total |
|---|---|---|---|---|---|---|
| | | | US$'000 | US$'000 | US$'000 | US$'000 |
| At 1 January 2018 | | 2,653,685,000 | 34,213 | 442,925 | (3,659) | 473,479 |
| Exercise of share options granted under pre-IPO share option scheme | (a) | 5,084,000 | 65 | 2,550 | – | 2,615 |
| Exercise of share options granted under post-IPO share option scheme | (b) | 2,445,000 | 31 | 1,535 | – | 1,566 |
| Issuance of ordinary shares for share award scheme | 33 | 6,570,360 | 84 | 6,529 | (6,613) | – |
| At 31 December 2018 and 1 January 2019 | | 2,667,784,360 | 34,393 | 453,539 | (10,272) | 477,660 |
| Exercise of share options granted under pre-IPO share option scheme | (a) | 6,781,900 | 86 | 3,401 | – | 3,487 |
| Exercise of share options granted under post-IPO share option scheme | (b) | 2,637,000 | 34 | 1,462 | – | 1,496 |
| Repurchase of ordinary shares for share award scheme | 33 | – | – | – | (5,661) | (5,661) |
| At 31 December 2019 | | 2,677,203,260 | 34,513 | 458,402 | (15,933) | 476,982 |

## 32. SHARE CAPITAL (continued)

### Shares (continued)

Notes:

(a) During the year ended 31 December 2019, subscription rights attaching to 6,781,900 (2018: 5,084,000) share options granted under the pre-IPO share option scheme were exercised at the subscription price of HK$3.824 (2018: HK$3.824) per share (note 33), resulting in the issue of 6,781,900 (2018: 5,084,000) shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$25,934,000 (2018: HK$19,441,000) (equivalent to approximately US$3,310,000 (2018: US$2,483,000)). An amount of HK$1,385,000 (2018: HK$1,034,000) (equivalent to approximately US$177,000 (2018: US$132,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(b) During the year ended 31 December 2019, subscription rights attaching to 1,140,000 (2018: 550,000) and 1,497,000 (2018: 1,895,000) share options granted under the post-IPO share option scheme were exercised at the subscription prices of HK$1.968 (2018: HK$1.968) and HK$4.378 (2018: HK$4.378) (per share (note 33) respectively, resulting in the issue of a total of 2,637,000 (2018: 2,445,000) shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$8,797,000 (2018: HK$9,379,000) (equivalent to approximately US$1,123,000 (2018: US$1,198,000)). An amount of HK$2,920,000 (2018: HK$2,882,000) (equivalent to approximately US$373,000 (2018: US$368,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

### Share options and share awards

Details of the Company's share option schemes, share award scheme, the share options granted under the share option schemes and the shares held under the share award scheme are included in note 33 to the financial statements.

## 33. SHARE OPTION AND SHARE AWARD SCHEMES

### Pre-IPO Share Option Scheme

The Company adopted a share option scheme in 2010 (the "Pre-IPO Share Option Scheme"). The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain employees, executives or officers of the Company made or may have made to the growth of the Company and/or the listing of shares on the Hong Kong Stock Exchange. Eligible participants of the Pre-IPO Share Option Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group. The Pre-IPO Share Option Scheme was approved and adopted on 10 September 2010 and no further options will be offered under the Pre-IPO Share Option Scheme after the listing of the Company's Shares on the Hong Kong Stock Exchange in 2010.

The exercise price of share options is HK$3.824 per share, which was determined at a price equivalent to a 20% discount to the IPO price of the Company's shares of HK$4.78 per share. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 33. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

### Pre-IPO Share Option Scheme (continued)

The following share options were outstanding under the Pre-IPO Share Option Scheme during the year:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Weighted average exercise price HK$ per share | Number of options '000 | Weighted average exercise price HK$ per share | Number of options '000 |
| At 1 January | 3.824 | 9,352 | 3.824 | 14,936 |
| Exercised during the year | 3.824 | (6,782) | 3.824 | (5,084) |
| Forfeited during the year | 3.824 | (200) | 3.824 | (500) |
| At 31 December | 3.824 | 2,370 | 3.824 | 9,352 |

The weighted average share price at the date of exercise of share options during the year was HK$8.38 per share (2018: HK$8.09 per share).

The exercise price and exercise period of the share options outstanding under the Pre-IPO Share Option Scheme as at the end of the reporting period are as follows:

| Number of options '000 | | Exercise price* HK$ per share | Exercise period |
|---|---|---|---|
| 2019 | 2018 | | |
| 2,370 | 9,352 | 3.824 | 30 September 2014 (fourth anniversary of the IPO date) to 31 March 2020 |

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The above share options were all granted in 2010 and had a total fair value on the grant date of US$2,084,000. The fair value of these share options had been fully recognised in profit or loss in the prior years and hence no share option expense in respect of these share options was recognised in profit or loss in the current year.

At 31 December 2019, the Company had 2,370,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 2,370,000 additional ordinary shares of the Company and additional share capital of HK$237,000 (equivalent to approximately US$30,000) and share premium of HK$8,826,000 (equivalent to approximately US$1,126,000), before any issue expenses and without taking into account any transfer of the share-based compensation reserve to the share premium account.

Subsequent to the end of the reporting period, 310,000 share options issued under the Pre-IPO Share Option Scheme were exercised.

## 33. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

### Post-IPO Share Option Scheme

The Company operates another share option scheme (the "Post-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Post-IPO Share Option Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group. The Post-IPO Share Option Scheme became effective on 10 September 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Post-IPO Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Post-IPO Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive officer or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, or in excess of 0.1% of the shares of the Company in issue at any time, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The following share options were outstanding under the Post-IPO Share Option Scheme during the year:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options '000** | Weighted average exercise price HK$ per share | Number of options '000 |
| At 1 January | **3.705** | **6,405** | 3.854 | 8,850 |
| Exercised during the year | **3.336** | **(2,637)** | 3.836 | (2,445) |
| At 31 December | **3.963** | **3,768** | 3.705 | 6,405 |

The weighted average share price at the date of exercise of share options during the year was HK$8.60 per share (2018: HK$7.76 per share).

## 33. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

### Post-IPO Share Option Scheme (continued)

The exercise prices and exercise periods of the share options outstanding under the Post-IPO Share Option Scheme as at the end of the reporting period are as follows:

| Number of options '000 2019 | 2018 | Exercise price* HK$ per share | Exercise period |
|---|---|---|---|
| **649** | 1,789 | 1.968 | 25 October 2013 to 25 October 2021 |
| **3,119** | 4,616 | 4.378 | 10 March 2016 to 9 March 2025 |
| **3,768** | 6,405 | | |

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At 31 December 2019, the Company had 3,768,000 share options outstanding under the Post-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 3,768,000 additional ordinary shares of the Company and additional share capital of HK$377,000 (equivalent to approximately US$48,000) and share premium of HK$14,555,000 (equivalent to approximately US$1,842,000) before any issue expenses and without taking into account any transfer of the share-based compensation reserve to the share premium account.

Subsequent to the end of the reporting period, 513,000 share options issued under the Post-IPO Share Option Scheme were exercised.

### Share Award Scheme

The board of directors of the Company approved the adoption of a share award scheme (the "Share Award Scheme") with effect from 13 September 2017 (the "Adoption Date"). The purpose of the Share Award Scheme is to (i) recognise and motivate the contributions by certain eligible participants and to give incentives thereto in order to retain them for the continual operation and development of the Group; (ii) to attract suitable personnel for further development of the Group; and (iii) to provide certain eligible participants with a direct economic interest in attaining a long-term relationship between the Group and certain eligible participants. Unless otherwise early terminated by the resolution of the board, the Share Award Scheme is valid and effective for a period of 10 years from the Adoption Date.

The Share Award Scheme is operated through a trustee which is independent of the Group. The shares to be awarded under the Share Award Scheme will be (i) issued by way of new issue of shares; and/or (ii) acquired by the trustee from the open market after the notification and instruction by the Company. The trustee shall not hold more than 5% of the total number of issued shares of the Company.

During the year, on 25 March 2019, the Company granted an aggregate of 904,510 awarded shares (2018: 939,041) to nine directors, namely Messrs. Yang Xianxiang, Liu Kecheng, Xue Peng, Xue Mingyuan, Lai Zhiyoung, Tsui Yung Kowk, Yeung Kwok On, Lo Wing Yan and Dr. Ngai Wai Fung and 5,444,233 awarded shares (2018: 5,631,319) (collectively referred to as the "Awarded Shares") to other employees of the Group (collectively referred to as the "Selected Participants"). Subject to the acceptance of the Selected Participants and that the Selected Participants remain as employees of the Group on the vesting date of the Awarded Shares, the Awarded Shares shall vest in them on 25 March 2022 (2018: 29 March 2021), at which time the Awarded Shares were transferred to the Selected Participants at nil consideration.

## 33. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

### Share Award Scheme (continued)

During the year, the Company repurchased 6,349,000 shares of the Company through the trustee of the Share Award Scheme from the open market (2018: issued 6,570,360 new shares and allotted them to the trustee of the Share Award Scheme). The total amount paid to acquire the shares was HK$44,421,000 (equivalent to approximately US$5,661,000) and has been deducted from shareholders' equity (2018: fair value of new shares issued of 51,897,000 (equivalent to approximately US$6,613,000). The Awarded Shares that are not yet vested were recorded in shares held under the share award scheme account of the Group. The Group recognised a share award expense of HK$42,434,000 (equivalent to approximately US$5,413,000) (2018: HK$25,463,000 (equivalent to approximately US$3,249,000)) during the year ended 31 December 2019 in respect of the Awarded Shares granted in the current and prior years. As at 31 December 2019, there were 16,809,403 (2018: 10,460,660) shares held through the trustee of the Share Award Scheme.

Movements in the number of the Awarded Shares under the shares held under share award scheme and their related average fair value as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Weighted average exercise price US$ per share** | **Number of Shares** | Weighted average exercise price US$ per share | Number of Shares |
| At 1 January | **0.98** | **10,460,660** | 0.94 | 3,890,300 |
| Issuance of ordinary shares for share award scheme during the year | **–** | **–** | 1.01 | 6,570,360 |
| Repurchase of ordinary shares for share award scheme during the year | **0.89** | **6,348,743** | – | – |
| At 31 December | **0.95** | **16,809,403** | 0.98 | 10,460,660 |

## 34. RESERVES

(a) The amounts of the Group's reserves and the movements for the current and prior years are presented in the consolidated statement of changes in equity.

(b) Capital and other reserves

The capital and other reserves comprise the following:

(i) the par value of ordinary shares of the Company which had been repurchased and cancelled in prior years;

(ii) the excess of the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired, over the Company's cost of acquisition of the subsidiaries under common control; the capital contribution from the then holding companies of the Group's subsidiaries; and the deemed distributions to the Controlling Shareholder and the acquisition of subsidiaries through business combinations under common control; and

(iii) the premium paid on repurchase of the Company's own ordinary shares in prior years over their par values.

## 34. RESERVES (continued)

### (c) Reserve funds

Pursuant to the relevant laws and regulations, a portion of the profits of the Company's subsidiaries established in the PRC and other countries has been transferred to statutory reserve funds which are not distributable in the form of cash dividends.

## 35. BUSINESS COMBINATION

On 13 March 2018, the Group acquired an 80% equity interest in Dalian Hantong Logistics Company Limited ("Dalian Hantong") from two independent third parties. Dalian Hantong is engaged in the provision of depot and warehousing services. The acquisition was made as part of the Group's strategy to support the Group's depot and warehousing services. The purchase consideration for the acquisition amounted to US$3,244,000 in cash.

The fair values of the identifiable assets and liabilities of Dalian Hantong as at the date of acquisition were as follows:

| | **2018 Fair value recognised on acquisition** US$'000 |
|---|---|
| Property, plant and equipment (note 14) | 602 |
| Inventories | 56 |
| Trade receivables | 220 |
| Prepayments, deposits and other receivables | 123 |
| Cash and bank balances | 3,093 |
| Trade payables | (6) |
| Other payables and accruals | (30) |
| Income tax payable | (1) |
| Total identifiable net assets at fair value | 4,057 |
| Non-controlling interests | (813) |
| | 3,244 |
| Satisfied by cash | 3,244 |

The fair values of trade receivables and deposits and other receivables as at the date of acquisition amounted to US$220,000 and US$98,000, respectively.

The Group incurred transaction costs of US$44,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in profit or loss during the year ended 31 December 2018.

## 35. BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | 2018<br>US$'000 |
|---|---|
| Cash consideration paid | (3,244) |
| Cash and bank balances acquired | 3,093 |
| Net outflow of cash and bank balances included in cash flows from investing activities | (151) |
| Transaction costs of the acquisition included in cash flows from operating activities | (44) |
| | (195) |

Since the acquisition, Dalian Hantong contributed US$1,308,000 to the Group's revenue and US$69,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at 1 January 2018, the revenue of the Group and the profit of the Group for the year ended 31 December 2018 would have been US$1,449,209,000 and US$199,039,000, respectively.

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of US$69,033,000 and US$66,618,000, respectively, in respect of lease arrangements for land, offices and containers (2018: Nil).

### (b) Changes in liabilities arising from financing activities

| | | Bank borrowings | | Lease liabilities | | Dividend payables | |
|---|---|---|---|---|---|---|---|
| | Notes | **2019<br>US'000** | 2018<br>US'000 | **2019<br>US'000** | 2018<br>US'000 | **2019<br>US'000** | 2018<br>US'000 |
| At 31 December 2018 | | **313,665** | 415,423 | **–** | – | **–** | 33,964 |
| Effect of adoption of HKFRS 16 | 2.2(a) | **–** | – | **111,195** | – | **–** | – |
| At 1 January 2019 (restated) | | **313,665** | 415,423 | **111,195** | – | **–** | 33,964 |
| Changes from financing cash flows | | **(34,158)** | (105,458) | **(38,004)** | – | **(149,889)** | (152,805) |
| Non-cash changes: | | | | | | | |
| Dividend declared | 12 | **–** | – | **–** | – | **252,504** | 118,841 |
| New leases | 15(c) | **–** | – | **66,618** | – | **–** | – |
| Early termination of leases | 15(c) | **–** | – | **(1,088)** | – | **–** | – |
| Accretion of interest recognised during the year | 7 | **–** | – | **5,209** | – | **–** | – |
| Amortisation of issuance cost | | **(427)** | (571) | **–** | – | **–** | – |
| Exchange realignment | | **2,932** | 3,935 | **(776)** | – | **–** | – |
| At 31 December 2019 | | **282,012** | 313,665 | **143,154** | – | **102,615** | – |

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### (c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

| | **2019** |
|---|---|
| | **US$'000** |
| Within operating activities | **97,652** |
| Within financing activities | **38,004** |
| | **135,656** |

## 37. CAPITAL COMMITMENTS

(a) At 31 December 2019, the Group had capital commitments of US$146,750,000 (2018: US$249,516,000) in total, which are contracted, but not provided for, in respect of acquisition of vessels.

(b) The Group leased certain of its dry bulk vessels and land and buildings to third parties and/or joint ventures under operating lease arrangements. Leases for dry bulk vessels were negotiated for terms ranging from 10 months to 2 years and those for land and buildings were with terms ranging from 2 to 7 years.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

| | 2018 |
|---|---|
| | US$'000 |
| Within one year | 6,984 |
| In the second to fifth years, inclusive | 1,976 |
| | 8,960 |

## 38. RELATED PARTY DISCLOSURES

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| Companies controlled by the Controlling Shareholder: | | | |
| Container marine transportation service income* | (i) | **19,919** | 29,283 |
| Container vessel rental expenses* | (ii) | **7,348** | 2,349 |
| Container rental expenses | (ii) | **606** | 166 |
| Shipping agency fee expenses* | (iii) | **1,820** | 4,880 |
| Joint ventures: | | | |
| Container marine transportation service income | (i) | **92,347** | 166,660 |
| Freight forwarding service income for marine transportation | (i) | **4,383** | 1,217 |
| Warehousing expenses | (iii) | **1,295** | 706 |
| Freight forwarding service expenses | (iii) | **2,227** | 4,380 |
| Land and buildings rental income | (iv) | **1,670** | 1,640 |
| Shipping agency fee expenses | (iii) | **1,367** | 4,590 |
| Technology outsourcing service income | (iv) | **441** | 448 |
| Container maintenance income | (iv) | **629** | 296 |
| Depot service expense | (iii) | **–** | 502 |
| Associates: | | | |
| Container marine transportation service income | (i) | **174,968** | 149,147 |
| Shipping agency fee expenses | (iii) | **2,298** | 1,813 |

Notes:

(i) The service income from companies controlled by the Controlling Shareholder, joint ventures and associates was received according to the published prices and conditions similar to those offered to the major customers of the Group.

(ii) The container vessel rental expenses paid to companies controlled by the Controlling Shareholder are based on market prices.

(iii) These expenses paid and payable to companies controlled by the Controlling Shareholder, joint ventures and associates were charged according to the published prices and conditions similar to those offered by the major suppliers of the Group.

(iv) The income from joint ventures and associates are based on market prices.

* These transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Key management personnel of the Group are directors of the Company, details of whose emoluments are included in note 9 to the financial statements.

## 39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### At 31 December 2019

**Financial assets**

| | Financial assets at fair value through profit or loss – designated as such upon initial recognition US$'000 | Financial assets at fair value through other comprehensive income – debt investments US$'000 | Financial assets at amortised cost US$'000 | Total US$'000 |
|---|---|---|---|---|
| Trade receivables | – | – | 70,551 | 70,551 |
| Financial assets included in prepayments, deposits and other receivables | – | – | 15,286 | 15,286 |
| Derivative financial instruments | 266 | – | – | 266 |
| Principal-protected investment deposits at fair value through profit or loss | 7,410 | – | – | 7,410 |
| Cash and bank balances | – | – | 399,363 | 399,363 |
| | 7,676 | – | 485,200 | 492,876 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss – designated as such upon initial recognition US$'000 | Financial liabilities at amortised cost US$'000 | Total US$'000 |
|---|---|---|---|
| Trade payables | – | 137,862 | 137,862 |
| Financial liabilities included in other payables and accruals | – | 36,440 | 36,440 |
| Bank borrowings | – | 282,012 | 282,012 |
| Lease liabilities | – | 143,154 | 143,154 |
| Dividend payables | – | 102,615 | 102,615 |
| | – | 702,083 | 702,083 |

## 39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### At 31 December 2018

**Financial assets**

| | Financial assets at fair value through profit or loss – designated as such upon initial recognition US$'000 | Financial assets at fair value through other comprehensive income – debt investments US$'000 | Financial assets at amortised cost US$'000 | Total US$'000 |
|---|---|---|---|---|
| Debt investments at fair value through other comprehensive income | – | 9,430 | – | 9,430 |
| Trade receivables | – | – | 65,877 | 65,877 |
| Financial assets included in prepayments, deposits and other receivables | – | – | 13,065 | 13,065 |
| Derivative financial instruments | 260 | – | – | 260 |
| Principal-protected investment deposits at fair value through profit or loss | 16,665 | – | – | 16,665 |
| Cash and bank balances | – | – | 380,702 | 380,702 |
| | 16,925 | 9,430 | 459,644 | 485,999 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss – designated as such upon initial recognition US$'000 | Financial liabilities at amortised cost US$'000 | Total US$'000 |
|---|---|---|---|
| Trade payables | – | 138,767 | 138,767 |
| Financial liabilities included in other payables and accruals | – | 29,686 | 29,686 |
| Derivative financial instruments | 18 | – | 18 |
| Bank borrowings | – | 313,665 | 313,665 |
| | 18 | 482,118 | 482,136 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and dividend payables approximate to their carrying amounts largely due to the short term maturities of these instruments. In addition, management consider the Group's exposure to fair value and cash flow interest rate risks on the bank borrowings is insignificant as majority of the balances bear interest at variable interest rates which have not significantly fluctuated in recent years.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the Chief Financial Officer and the Audit Committee.

At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the Chief Financial Officer. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) The fair values of listed debt investments at fair value are based on quoted market prices.

(b) The Group enters principal-protected investment deposits with creditworthy banks, and their fair values are determined with reference to market observable inputs currently available for investments with similar terms and credit risk. The carrying amounts of principal-protected investment deposits are the same as their fair values.

(c) The Group enters into derivative financial instruments with various counterparties, principally financial institutions of creditworthy banks. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

The carrying amounts of forward currency contracts and interest rate swaps are the same are as their fair values.

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Assets measured at fair value

**At 31 December 2019**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) US$'000 | Significant observable inputs (Level 2) US$'000 | Significant unobservable inputs (Level 3) US$'000 | Total US$'000 |
| Debt investments at fair value through other comprehensive income | – | – | – | – |
| Derivative financial instruments | – | 266 | – | 266 |
| Principal-protected investment deposits at fair value through profit or loss | – | 7,410 | – | 7,410 |
| | – | 7,676 | – | 7,676 |

**At 31 December 2018**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) US$'000 | Significant observable inputs (Level 2) US$'000 | Significant unobservable inputs (Level 3) US$'000 | Total US$'000 |
| Debt investments at fair value through other comprehensive income | 9,430 | – | – | 9,430 |
| Derivative financial instruments | – | 260 | – | 260 |
| Principal-protected investment deposits at fair value through profit or loss | – | 16,665 | – | 16,665 |
| | 9,430 | 16,925 | – | 26,355 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Liabilities measured at fair value

**At 31 December 2018**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) US$'000 | Significant observable inputs (Level 2) US$'000 | Significant unobservable inputs (Level 3) US$'000 | Total US$'000 |
| Derivative financial instruments | – | 18 | – | 18 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2018: Nil) and no transfer into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2019, after taking into account the effect of the interest rate swaps, approximately 4% (2018: 2%) of the Group's borrowings are at fixed interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax US$'000 |
|---|---|---|
| **2019** | | |
| US$ | **100** | **(1,856)** |
| JPY | **100** | **(872)** |
| US$ | **(100)** | **1,856** |
| JPY | **(100)** | **872** |
| **2018** | | |
| US$ | 100 | (1,883) |
| JPY | 100 | (539) |
| US$ | (100) | 1,883 |
| JPY | (100) | 539 |

### Foreign currency risk

The Group has minimal transactional currency exposure as most of the Group's sales and purchases by operating units are denominated in the functional currencies of the relevant operating units. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

The Group shall use derivative contracts to hedge against its exposure to currency risk only when it is required. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. At 31 December 2019, the Group had hedged 11.0% (2018: 18.3%) of its foreign currency sales for which firm commitments existed at the end of the reporting period.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB and JPY exchange rates against US$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of certain bank borrowings designated as hedging instruments).

| | Increase/ (decrease) in rate % | Increase/ (decrease) in profit before tax US$'000 | Increase/ (decrease) in equity US$'000 |
|---|---|---|---|
| **2019** | | | |
| If US$ weakens against RMB | **(5.0)** | **(504)** | **–** |
| If US$ strengthens against RMB | **5.0** | **504** | **–** |
| If US$ weakens against JPY | **(5.0)** | **2,021** | **(5,527)** |
| If US$ strengthens against JPY | **5.0** | **(2,021)** | **5,527** |
| **2018** | | | |
| If US$ weakens against RMB | (5.0) | 2,184 | – |
| If US$ strengthens against RMB | 5.0 | (2,184) | – |
| If US$ weakens against JPY | (5.0) | 735 | (7,241) |
| If US$ strengthens against JPY | 5.0 | (735) | 7,241 |

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, debt investments at fair value through other comprehensive income, amounts due from related companies, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is that not more than 90% of borrowings should mature in any 12-month period. 20% (2018: 17%) of the Group's debts will mature in less than one year from 31 December 2019 based on the carrying values of borrowings included in the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | Within one year or on demand US$'000 | In the second year US$'000 | In the third to fifth years, inclusive US$'000 | In the sixth to tenth years, inclusive US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| Trade payables | 137,862 | – | – | – | 137,862 |
| Financial liabilities included in other payables and accruals | 36,440 | – | – | – | 36,440 |
| Bank borrowings | 60,448 | 52,157 | 114,561 | 77,790 | 304,956 |
| Lease liabilities | 43,663 | 36,739 | 60,707 | 17,227 | 158,336 |
| Dividend payables | 102,615 | – | – | – | 102,615 |
| | 381,028 | 88,896 | 175,268 | 95,017 | 740,209 |

| | Within one year or on demand US$'000 | In the second year US$'000 | In the third to fifth years, inclusive US$'000 | In the sixth to tenth years, inclusive US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | |
| Trade payables | 138,767 | – | – | – | 138,767 |
| Financial liabilities included in other payables and accruals | 29,686 | – | – | – | 29,686 |
| Derivative financial instruments | 18 | – | – | – | 18 |
| Bank borrowings | 83,879 | 53,280 | 135,531 | 76,386 | 349,076 |
| | 252,350 | 53,280 | 135,531 | 76,386 | 517,547 |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain a healthy ratio. Net debt includes bank borrowings, lease liabilities, trade and other payables and accruals, less cash and bank balances. Adjusted capital includes equity attributable to shareholders of the Company and cash flow hedge reserve. The gearing ratios as at the end of the reporting period were as follows:

| | **31 December 2019** | 1 January 2019 | 31 December 2018 |
|---|---|---|---|
| | **US$'000** | US$'000 (note) | US$'000 |
| Bank borrowings | **282,012** | 313,665 | 313,665 |
| Lease liabilities | **143,154** | 111,195 | – |
| Trade payables | **137,862** | 138,767 | 138,767 |
| Other payables and accruals | **60,315** | 52,471 | 52,471 |
| Less: Cash and bank balances | **(399,363)** | (380,702) | (380,702) |
| Net debt | **223,980** | 235,396 | 124,201 |
| Equity attributable to shareholders of the Company | **1,010,243** | 1,037,032 | 1,037,032 |
| Cash flow hedge reserve | **6,311** | 8,054 | 8,054 |
| Adjusted capital | **1,016,554** | 1,045,086 | 1,045,086 |
| Adjusted capital and net debt | **1,240,534** | 1,280,482 | 1,169,287 |
| Gearing ratio | **18%** | 18% | 11% |

Note: The Group has adopted HKFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's net debt and hence the Group's gearing ratio increased from 11% to 18% on 1 January 2019 when compared with the position as at 31 December 2018.

## 42. COMPARATIVE AMOUNTS

As further explained in note 2.2(a) to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company as at the end of the reporting period is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **US$'000** | US$'000 |
| NON-CURRENT ASSETS | | |
| Investment in a subsidiary | **59,413** | 59,413 |
| Total non-current assets | **59,413** | 59,413 |
| CURRENT ASSETS | | |
| Due from a subsidiary | **580,152** | 460,385 |
| Deposits and other receivables | **14** | – |
| Cash and bank balances | **2,763** | 1,001 |
| Total current assets | **582,929** | 461,386 |
| CURRENT LIABILITIES | | |
| Other payables | **3,677** | 533 |
| Dividend payables | **102,615** | – |
| Total current liabilities | **106,292** | 533 |
| NET CURRENT ASSETS | **476,637** | 460,853 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **536,050** | 520,266 |
| Net assets | **536,050** | 520,266 |
| EQUITY | | |
| Issued capital | **34,513** | 34,393 |
| Reserves (note) | **501,537** | 485,873 |
| Total equity | **536,050** | 520,266 |

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: A summary of the Company's reserves is as follows:

| | Notes | Share premium account US$'000 | Shares held under share award scheme account US$'000 | Share-based compensation award reserve US$'000 | Capital and other reserves US$'000 | Retained profits US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2018 | | 442,925 | (3,659) | 1,768 | 202 | 91,567 | 532,803 |
| Profit for the year and total comprehensive income for the year | | – | – | – | – | 65,161 | 65,161 |
| Issue of shares upon exercise of share options under the Pre-IPO share option scheme | 32(a) | 2,550 | – | (132) | – | – | 2,418 |
| Issue of shares upon exercise of share options under the Post-IPO share option scheme | 32(b) | 1,535 | – | (368) | – | – | 1,167 |
| Issue of shares under share award scheme | 33 | 6,529 | (6,613) | – | – | – | (84) |
| Share award expense | 33 | – | – | 3,249 | – | – | 3,249 |
| Transfer of share-based compensation reserve upon forfeiture or expiry of share options | | – | – | (13) | – | 13 | – |
| Final 2017 dividend declared | | – | – | – | – | (67,876) | (67,876) |
| Interim 2018 dividend declared | 12 | – | – | – | – | (50,965) | (50,965) |
| At 31 December 2018 and 1 January 2019 | | 453,539 | (10,272) | 4,504 | 202 | 37,900 | 485,873 |
| Profit for the year and total comprehensive income for the year | | – | – | – | – | 264,103 | 264,103 |
| Issue of shares upon exercise of share options under the Pre-IPO share option scheme | 32(a) | 3,401 | – | (177) | – | – | 3,224 |
| Issue of shares upon exercise of share options under the Post-IPO share option scheme | 32(a) | 1,462 | – | (373) | – | – | 1,089 |
| Repurchase of shares under the share award scheme | 33 | – | (5,661) | – | – | – | (5,661) |
| Share award expense | 33 | – | – | 5,413 | – | – | 5,413 |
| Transfer of share-based compensation reserve upon forfeiture or expiry of share options | | – | – | (5) | – | 5 | – |
| Final 2018 dividend declared | 12 | – | – | – | – | (88,558) | (88,558) |
| Interim 2019 dividend declared | 12 | – | – | – | – | (61,331) | (61,331) |
| Special dividend declared | 12 | – | – | – | – | (102,615) | (102,615) |
| At 31 December 2019 | | 458,402 | (15,933) | 9,362 | 202 | 49,504 | 501,537 |

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2020.

# Five Year Financial Summary

A summary of consolidated results and of the assets, liabilities and equity of SITC International Holdings Company Limited (the "Company") and its subsidiaries (together the "Group") for the last five financial years, as extracted from the published audited financial statements for the year ended 31 December 2019 and the annual report for the year ended 31 December 2018, is set out below.

The summary below does not form part of the audited financial statements.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **US$'000** | US$'000 | US$'000 | US$'000 | US$'000 |
| **RESULTS** | | | | | |
| REVENUE | **1,553,718** | 1,449,088 | 1,348,385 | 1,215,791 | 1,284,555 |
| Cost of sales | **(1,255,566)** | (1,196,489) | (1,096,679) | (1,016,256) | (1,102,463) |
| Gross profit | **298,152** | 252,599 | 251,706 | 199,535 | 182,092 |
| Other income and gains, net | **22,406** | 31,210 | 18,658 | 8,797 | 39,476 |
| Administrative expenses | **(80,246)** | (76,449) | (74,333) | (68,801) | (74,114) |
| Other expenses, net | **(4,344)** | (428) | (946) | (13,933) | (1,030) |
| Finance costs | **(14,482)** | (9,368) | (8,640) | (6,872) | (8,532) |
| Share of profits and losses of: | | | | | |
| Joint ventures | **8,585** | 9,961 | 11,093 | 11,504 | 9,913 |
| Associates | **442** | 171 | 481 | 442 | 617 |
| PROFIT BEFORE TAX | **230,513** | 207,696 | 198,019 | 130,672 | 148,422 |
| Income tax | **(8,998)** | (8,599) | (7,907) | (6,434) | (4,272) |
| PROFIT FOR THE YEAR | **221,515** | 199,097 | 190,112 | 124,238 | 144,150 |
| **Profit attributable to:** | | | | | |
| Shareholders of the Company | **219,977** | 197,514 | 188,613 | 122,790 | 143,247 |
| Non-controlling interests | **1,538** | 1,583 | 1,499 | 1,448 | 903 |
| | **221,515** | 199,097 | 190,112 | 124,238 | 144,150 |

# Five Year Financial Summary

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **US$'000** | US$'000 | US$'000 | US$'000 | US$'000 |
| **ASSETS, LIABILITIES AND EQUITY** | | | | | |
| TOTAL ASSETS | **1,749,544** | 1,551,891 | 1,608,363 | 1,455,638 | 1,377,441 |
| TOTAL LIABILITIES | **(729,974)** | (506,192) | (636,925) | (568,398) | (522,092) |
| NET ASSETS | **1,019,570** | 1,045,699 | 971,438 | 887,240 | 855,349 |
| Represented by: | | | | | |
| Equity attributable to shareholders of the Company | **1,010,243** | 1,037,032 | 963,518 | 879,997 | 848,442 |
| Non-controlling interests | **9,327** | 8,667 | 7,920 | 7,243 | 6,907 |
| TOTAL EQUITY | **1,019,570** | 1,045,699 | 971,438 | 887,240 | 855,349 |