中遠海運國際(香港)有限公司

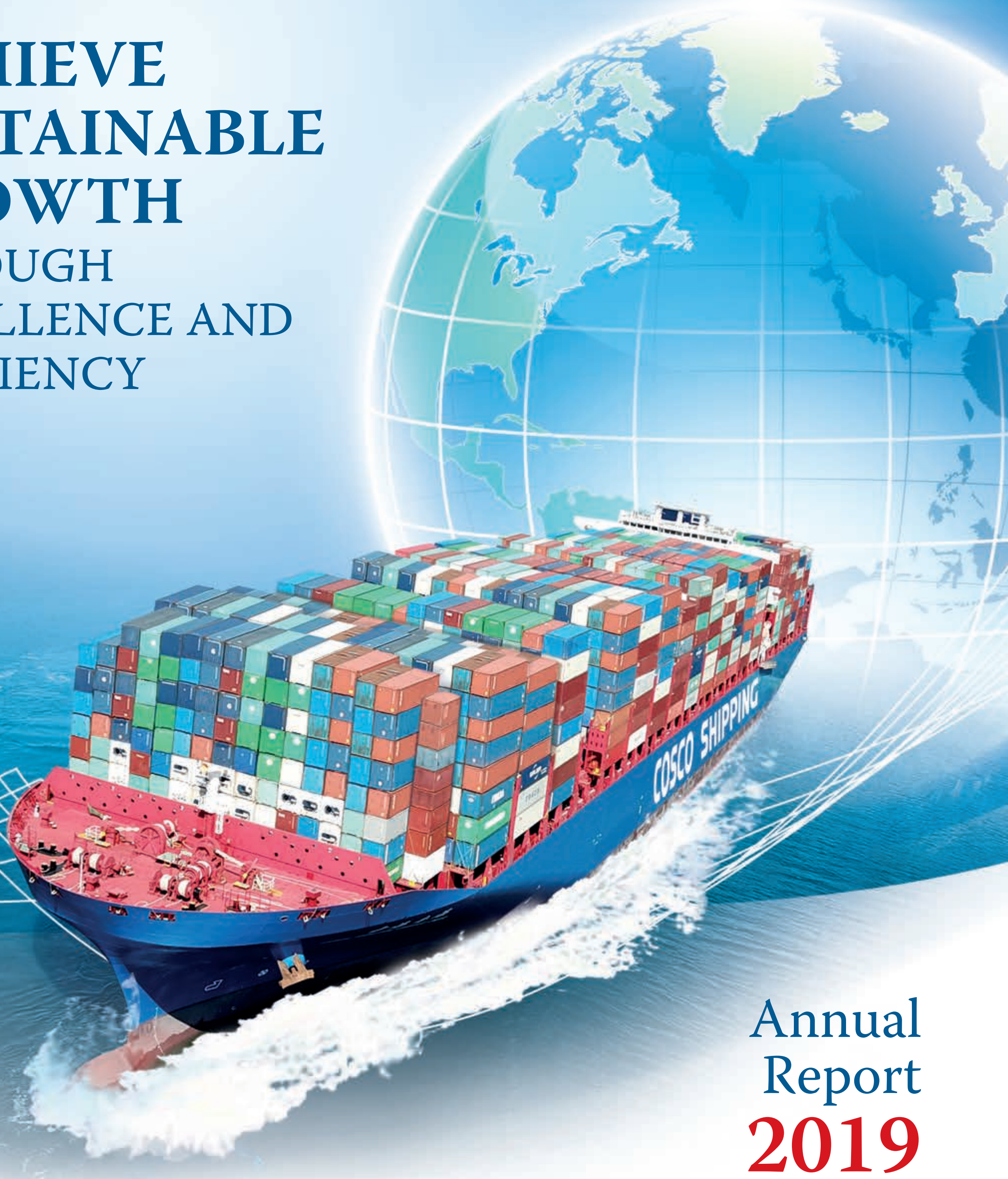
COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.

(Incorporated in Bermuda with limited liability)

Stock Code : 00517

ACHIEVE SUSTAINABLE GROWTH

THROUGH EXCELLENCE AND EFFICIENCY



Annual Report

2019

VISION

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

CORPORATE PROFILE

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

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

MISSION

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

CONTENTS

Definitions and Glossary

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

"associates"	the meaning ascribed to it in the Listing Rules;
"Board"	the board of Directors;
"connected person(s)"	the meaning ascribed to it in the Listing Rules;
"COSCO (Beijing) Marine Electronic"	中遠(北京)海上電子設備有限公司 (COSCO (Beijing) Marine Electronic Equipment Limited*), a wholly-owned subsidiary of the Company;
"COSCO SHIPPING Insurance Brokers"	HK COSCO SHIPPING Insurance Brokers and SZ COSCO Insurance Brokers collectively;
"COSCO Kansai Companies"	COSCO Kansai (Tianjin), COSCO Kansai (Shanghai), COSCO Kansai (Zhuhai) and COSCO Kansai Paint (Shanghai) collectively;
"COSCO Kansai Paint (Shanghai)"	中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*), a non-wholly owned subsidiary of the Company;
"COSCO Kansai (Shanghai)"	中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*), a non-wholly owned subsidiary of the Company;
"COSCO Kansai (Tianjin)"	COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd., a non-wholly owned subsidiary of the Company;
"COSCO Kansai (Zhuhai)"	COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd., a non-wholly owned subsidiary of the Company;
"COSCO SHIPPING"	中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*), a company established in the PRC and the holding company of COSCO SHIPPING (Hong Kong) and the ultimate holding company of the Company;
"COSCO SHIPPING Group"	COSCO SHIPPING, COSCO SHIPPING (Hong Kong) and their respective subsidiaries;
"COSCO SHIPPING (Hong Kong)"	COSCO SHIPPING (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability and the immediate holding company of the Company and a wholly-owned subsidiary of COSCO SHIPPING;
"COSCO SHIPPING International" or "Company"	COSCO SHIPPING International (Hong Kong) Co., Ltd., the shares of which are listed on the Stock Exchange;
"COSCO SHIPPING International Trading"	中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*), a wholly-owned subsidiary of the Company;
"COSCO SHIPPING Ship Trading"	COSCO SHIPPING (Hong Kong) Ship Trading Company Limited and 北京中遠海運船舶貿易有限公司 (Beijing COSCO SHIPPING Ship Trading Company Limited*), wholly-owned subsidiaries of the Company;
"COSCO Yuantong Operation Headquarters"	composed of Yuantong and other subsidiaries of the Company (including Shin Chung Lin, Xing Yuan, Hanyuan, Shanghai Yuantong, COSCO (Beijing) Marine Electronic, Yuan Hua and CSHT Marine);
"CSHT Marine"	CSHT Marine Machinery Suppliers Limited, a wholly-owned subsidiary of the Company;
"dead weight tonnage"	the unit of measurement of weight capacity of vessels, which is the total weight (usually in metric tonnes) the ship can carry, including cargo, bunkers, water, stores, spares, crew, etc. at a specified draft;

"Director(s)"	the director(s) of the Company;
"Double Rich"	Double Rich Limited, an associate of the Company;
"Group"	the Company and its subsidiaries;
"Hanyuan"	Hanyuan Technical Service Center GmbH, a wholly-owned subsidiary of the Company;
"HK COSCO SHIPPING Insurance Brokers"	COSCO SHIPPING (Hong Kong) Insurance Brokers Limited, a wholly-owned subsidiary of the Company;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Jotun COSCO"	Jotun COSCO Marine Coatings (HK) Limited, a joint venture of the Company;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Nasurfar Changshu"	常熟耐素生物材料科技有限公司 (Nasurfar Biomaterial Technology (Changshu) Co., Ltd.*), an associate of the Company;
"PRC"	the People's Republic of China;
"Shanghai Yuantong"	遠通海務貿易(上海)有限公司 (Yuantong Marine Trade (Shanghai) Co., Ltd.*), a wholly-owned subsidiary of the Company;
"Share(s)"	the share(s) of HK$0.10 each in the capital of the Company;
"Shareholders"	the holders of the Share(s) of the Company;
"Shin Chung Lin"	新中鈴株式會社 (Shin Chung Lin Corporation*), a wholly-owned subsidiary of the Company;
"Sinfeng"	Sinfeng Marine Services Pte. Ltd., a wholly-owned subsidiary of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"substantial shareholder(s)"	the meaning ascribed to it in the Listing Rules;
"SZ COSCO Insurance Brokers"	深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited*), a non-wholly owned subsidiary of the Company;
"United States"	the United States of America;
"Xing Yuan"	Xing Yuan (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Company;
"Yuantong"	Yuantong Marine Service Co. Limited, a wholly-owned subsidiary of the Company; and
"Yuan Hua"	Yuan Hua Technical & Supply Corporation, a non-wholly owned subsidiary of the Company.

* *for identification purposes only*

Company Information

DIRECTORS

Executive Directors

Mr. Zhu Jianhui *(Chairman and Managing Director)*
Mr. Liu Gang

Non-executive Directors

Mr. Ma Jianhua
Mr. Feng Boming
Mr. Chen Dong

Independent Non-executive Directors

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

COMPANY SECRETARY

Ms. Chiu Shui Suet

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

STRATEGIC DEVELOPMENT COMMITTEE

Mr. Zhu Jianhui *(committee chairman)*
Mr. Feng Boming
Mr. Liu Gang

RISK MANAGEMENT COMMITTEE

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

INDEPENDENT AUDITOR

PricewaterhouseCoopers
(Certified Public Accountants and Registered Public Interest Entity Auditor)

LEGAL ADVISERS

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

PRINCIPAL BANKERS

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

Company Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

LISTING INFORMATION

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

INVESTOR RELATIONS

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

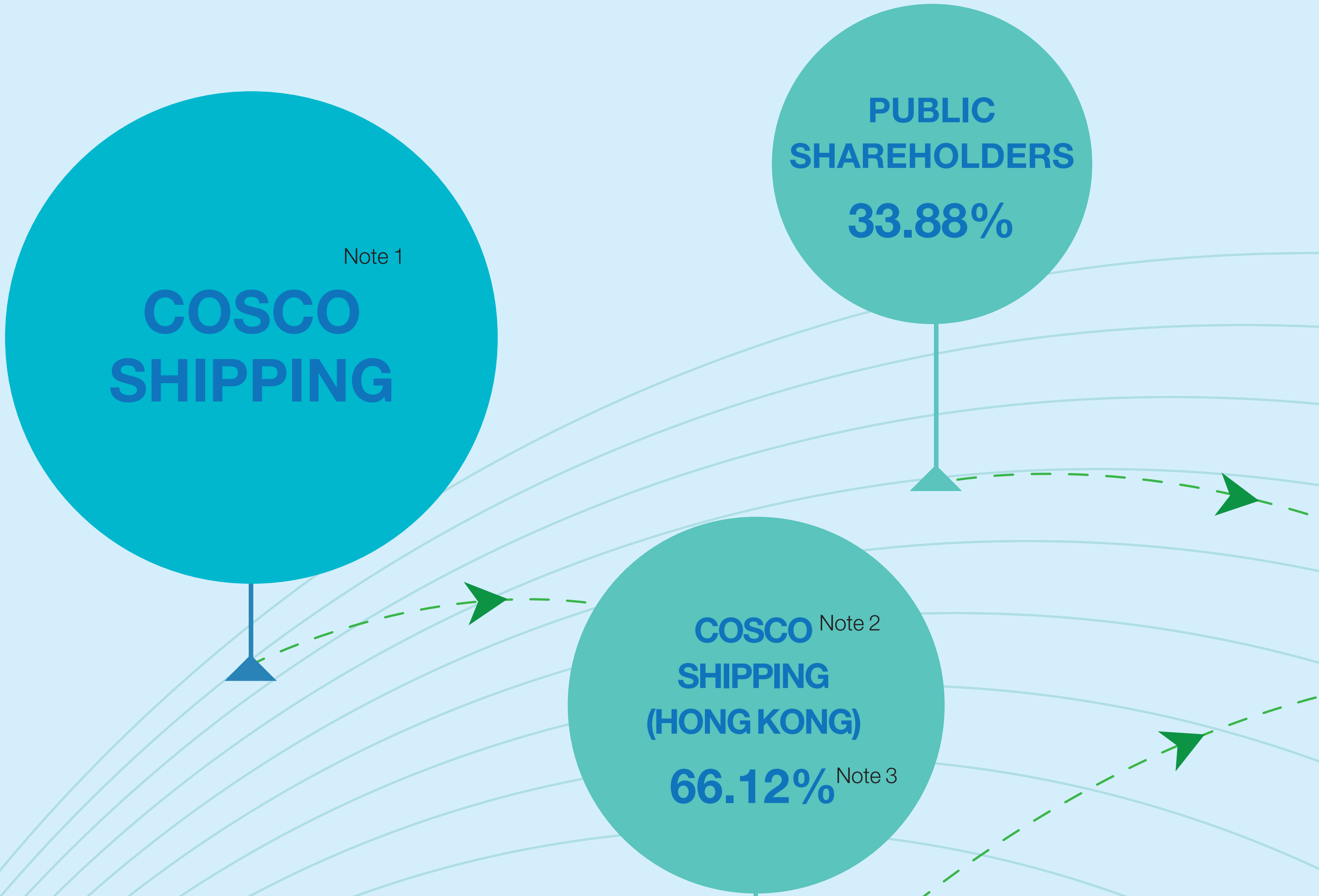
FINANCIAL CALENDAR

2019 Annual General Meeting	: 31st May 2019
Announcement of 2019 Interim Results	: 20th August 2019
Announcement of 2019 Annual Results	: 23rd March 2020
2020 Annual General Meeting	: 29th May 2020

DIVIDENDS

2019 Interim Dividend	: 7 HK cents per share
Proposed 2019 Final Dividend	: 9.5 HK cents per share
Dividends for the year 2019	: 16.5 HK cents per share

Corporate Structure



SHIPPING SERVICES

Ship Trading Agency Services	COSCO SHIPPING (Hong Kong) Ship Trading Company Limited 100% 北京中遠海運船舶貿易有限公司 (Beijing COSCO SHIPPING Ship Trading Co., Ltd.*) 100%
Marine Insurance Brokerage Services	COSCO SHIPPING (Hong Kong) Insurance Brokers Limited 100%
Supply of Marine Equipment and Spare Parts	Yuantong Marine Service Co. Limited 100% CSHT Marine Machinery Suppliers Limited 100%
Production and Sale of Coatings	COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd. 64.71% COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. 63.07% 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*) 63.07% 中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*) 63.07% Jotun COSCO Marine Coatings (HK) Limited 50% 常熟耐素生物材料科技有限公司 (Nasurfar Biomaterial Technology Changshu Co., Ltd.*) 33%
Trading and Supply of Marine Fuel and Related Products	Sinfeng Marine Services Pte. Ltd. 100% Double Rich Limited 18%

GENERAL TRADING

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

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

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

Note 3
To the best of the knowledge and belief of the Directors, COSCO SHIPPING (Hong Kong) held 66.12% issued share capital of the Company as at 31st December 2019.

* *for identification purposes only*

PURSUIT OF EXCELLENCE

The Group pursues exellence on its operations and the development of its two platforms, aims to become a global leading shipping services company.


PCT
QC31
ZPMC

Financial Highlights

	2019 HK$'000	2018 HK$'000	Change
ANNUAL RESULTS HIGHLIGHTS			
For the year ended 31st December			
Revenue	**3,265,745**	9,521,575	–66%
Gross profit	**555,210**	566,127	–2%
Operating profit	**84,662**	181,593	–53%
Profit before income tax	**385,748**	336,661	+15%
Profit attributable to equity holders	**330,607**	286,140	+16%
Basic earnings per share (HK cents)	**21.57**	18.67	+16%
Dividends per share (HK cents)	**16.50**	14.00	+18%
Dividend payout ratio (%)	**76**	75	+1pt

	2019 HK$'000	2018 HK$'000	Change
BALANCE SHEET HIGHLIGHTS			
As at 31st December			
Total assets	**9,376,946**	9,256,725	+1%
Total liabilities	**1,158,727**	1,102,025	+5%
Net assets attributable to shareholders	**7,926,405**	7,853,935	+1%
Net cash	**6,258,342**	6,330,010	–1%
Net assets per share (HK$)	**5.17**	5.12	+1%
Net cash per share (HK$)	**4.08**	4.13	–1%
Return on total assets (%)	**3.55**	3.03	+0.52pt
Return on shareholders' equity (%)	**4.19**	3.63	+0.56pt

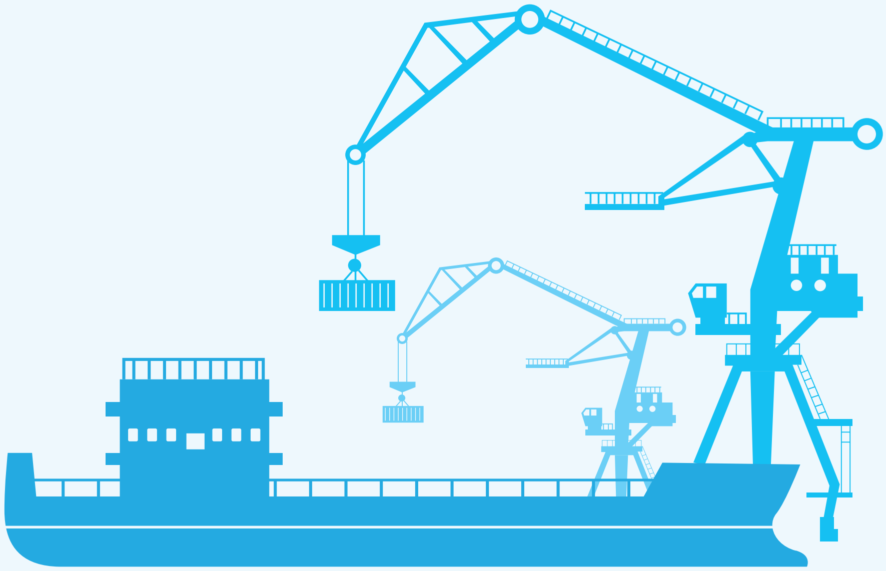
	2019	2018
KEY FINANCIAL RATIOS		
For the year ended 31st December		
Gross profit margin	**17.0%**	5.9%
Interest coverage	**97.6 times**	103.2 times
Current ratio	**7.5 times**	7.8 times
Liquidity ratio	**7.2 times**	7.5 times
Total liabilities/total assets	**12.4%**	11.9%
Total borrowings/total assets	**0.7%**	0.5%

	2019 HK$'000	2018 HK$'000	Change
SEGMENT REVENUE*			
For the year ended 31st December			
Shipping Services			
Coatings	**1,002,416**	959,576	4%
Marine equipment and spare parts	**1,262,058**	1,100,453	15%
Ship trading agency	**84,978**	109,625	–22%
Insurance brokerage	**83,396**	80,513	4%
Marine fuel and other products	**47,033**	6,504,137	–99%
	2,479,881	8,754,304	–72%
General Trading	**785,864**	767,271	2%
Total	**3,265,745**	9,521,575	–66%

* external customers only

	2019 HK$'000	2018 HK$'000	Change
SEGMENT PROFIT/(LOSS) BEFORE INCOME TAX			
For the year ended 31st December			
Shipping Services			
Coatings	**49,068**	11,045	344%
Marine equipment and spare parts	**67,077**	66,153	1%
Ship trading agency	**56,008**	91,316	–39%
Insurance brokerage	**58,459**	58,157	1%
Marine fuel and other products	**42,475**	(10,492)	505%
	273,087	216,179	26%
General Trading	**6,742**	16,958	–60%
Corporate and others	**105,919**	103,524	2%
Total	**385,748**	336,661	15%

Highlights of the Year 2019



MARCH

26th

The Company announced the 2018 annual results. The profit attributable to equity holders of the Company was HK$286 million and the basic and diluted earnings per share was 18.67 HK cents.

MAY

31st

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

Website of the Company changed from www.coscointl.com to hk.coscoshipping.com.

10 years+ 商界展關懷 caringcompany
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

NOVEMBER

1st

The ceremony for renewal of shareholder agreement in respect of Jotun COSCO, a joint venture formed by the Company and Jotun A/S, Norway, was held at the headquarters of COSCO SHIPPING Group in Shanghai. At the ceremony, it is announced that the cooperation between COSCO SHIPPING Group and Jotun Group will be deepened. Both companies will support the joint venture for maintaining its leading position, thus bringing promising returns for shareholders.

AUGUST

20th

The Company announced the 2019 interim results. The profit attributable to equity holders of the Company was HK$150 million and the basic and diluted earnings per share was 9.79 HK cents.

Awards and Recognitions

1 The Asset's 2019 ESG Corporate Gold Award, Best Investor Relations Team Award.

2 2019 Best Shipping Services Provider by Business Tabloid.

3 Certificate of Excellence in 2019 HKIRA's Awards.

4 Top 50 Reports in Asia Pacific Region, Top 80 Chinese Reports, Gold Award of Vision Awards, Technical Achievement Award in LACP Competition

5 Gold Award for brilliant participation in the "Sowers Action Challenging 12 Hours Charity Marathon 2019".

6 Granted "Corporate Citizenship Logo" in the Enterprise Category and Volunteer Category in 10th Hong Kong Outstanding Corporate Citizenship Logo by Hong Kong Productivity Council.

Chairman's Statement

COSCO SHIPPING International remained committed to its goal of becoming a global leading shipping services company, and persisted in improving its technical standards, operating efficiency, sales and service efforts of its existing shipping services in order to take the initiative to maintain its relationship with existing customers within COSCO SHIPPING Group and make great efforts to develop external markets and new customers, thus delivering tremendous results.

Zhu Jianhui
Chairman

To all shareholders,

On behalf of the Board of the Company, I am pleased to report to you the 2019 annual results and future directions.

The profit attributable to equity holders of the Company for 2019 was HK$330,607,000 (2018: HK$286,140,000), representing a year-on-year increase of 16%. The basic earnings per share were 21.57 HK cents (2018: 18.67 HK cents). The Board recommended the payment of a final dividend of 9.5 HK cents. The dividend per share for the year 2019, including the interim dividend and final dividend per share, will amount to 16.5 HK cents (2018: 14 HK cents) in total, a dividend payout ratio of 76% (2018: 75%).

BUSINESS DEVELOPMENT AND PERFORMANCE

In 2019, the global economy slowed down to the lowest level in a decade from a moderate deceleration that originally estimated at the beginning of the year. Volatility in global market was far beyond expectation, whereas the fluctuations in BDI was surpassed only by that of 2008, investor confidence was impacted in shipping industry, investment in new build vessel recorded dramatic decline as transactions of new build vessel order down 32% worldwide and new build container down 40%. Amid such an unfavourable environment, COSCO SHIPPING International remained committed to its goal of becoming a global leading shipping services company, and persisted in improving its technical standards, operating efficiency, sales and service efforts of its existing shipping services in order to take the initiative to maintain its relationship with customers within COSCO SHIPPING Group and make great efforts to develop external markets and new customers, thus delivering tremendous results.

For ship trading services, we actively explored new models in ship trading business, by developing external businesses, broadening its scope of business and achieving higher profitability. For marine insurance brokerage services, by exerting synergies and seizing key projects, we successfully expanded the reinsurance business of external customers, thus further increasing the proportion of external customers. For marine spare parts business, we actively responded to the needs of ship-owners, and successfully opened up new businesses such as overseas ship maintenance service for external customers. For coating business, COSCO Kansai Companies achieved breakthrough in water-based coatings and optimised their marketing strategy and put greater efforts on business expansion, resulting in significant increase in their market share as compared to 2018. Jotun COSCO leveraged on its marketing services and data system to create value for its customers and enhance customer satisfaction. By building up a loyal customer base, Jotun COSCO achieved improvements in revenue and gross profit margin, thus ensuring its steady development. For marine fuel business, the Company made advanced arrangements and procurement of low-sulphur fuel, thus achieving considerable profit levels.

CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

As one of the large-scale Chinese enterprises based in Hong Kong, COSCO SHIPPING International pays attention to its role as an exemplar and has established a sound corporate governance system as well as a comprehensive management mechanism to promote corporate social responsibility.

The Company always strives to maintain high standard of corporate governance. In 2019, the Company continuously put forward its financial management, strengthened its financial control in the course of various business reforms, enhanced financial monitoring in customer management, and implemented strict financial evaluation and access mechanism. The Company continuously optimised its internal control and risk management system, made effective use of information technology, and enhanced the risk control process, thereby further promoting management awareness of compliance operations. The Company continuously pays close attention to cost control and achieved significant results in reducing expenses while enhancing efficiency.

The Company continues to monitor the environment, social and governance ("ESG") issues. Since 2018, the Company has appointed consultants to provide professional advice on its ESG-related regulatory framework, data calculation and reporting, and actively improved its ESG standard, thus further improving its works on sustainable development. During the year, the Company was awarded the Asset's ESG Corporate Gold Award by the Asset, a well-known financial magazine in Asia, indicating that the Company's continuous efforts and outstanding performance in environmental protection, social responsibility and governance had been recognised by the capital market.

In fulfilling corporate social responsibility, the Company attaches great importance to internal operating issues such as production safety and employee welfare, as well as external civil responsibilities such as environmental protection and charity. Dedicated divisions are responsible for facilitating works in relation to employees and social welfare. The Company actively participates in numerous community building and voluntary activities, committing to making contribution to the society. In 2019, the Company was awarded, among others, the "Corporate Citizenship Logo — Enterprise" and the "Corporate Citizenship Logo — Volunteer Team" granted by the Hong Kong Productivity Council, and the 10 Year Plus Caring Company Logo granted by the Hong Kong Council of Social Service, highlighting the high level of public recognition of the Company's performance of social responsibility.

PROSPECTS

Stepping into 2020, the accelerated evolution of the changing global landscape is becoming more prominent. There will be significant increase in turbulence and risks worldwide. The outbreak of the Coronavirus Disease 2019 ("COVID-19") will further slow down global economic growth in the first half of the year to a large extent. It is expected that global investors will sit on the fence, which will further exacerbate the global economic slowdown. However, China's economy will maintain a stable trend overall with a long-run positive outlook. China's economic development exhibits great resilience, potential and manoeuvrability. A solid foundation that conditioned well tremendous resources and advanced technology that resulted from the reform and open policy, an ultra-large market and domestic demand, as well as the enormous human capital and talented people, are providing potential opportunities for the Company's development.

As for the shipping industry, the supply pressure in the shipping market has been alleviated to a certain extent but the market recovery will depend on the rebalancing between excessive stock momentum and the weak demand growth.

We believe that, under such macro-background, the corporate value of COSCO SHIPPING International will become more prominent. The Group's operating businesses have excellent counter-cyclical and operational resilience and have been maintaining stable cash flow with strong financial foundation. These are the unique advantages of the Company in exploring good development opportunities amid challenges.

COSCO SHIPPING International persists in strategic orientation and focuses on long-term development. The Company pursues its goal to become a leading international shipping services company. With ample internal resources and strong support from its parent company, COSCO SHIPPING, the Company will adhere to the two strategic directions for development, namely "a shipping services industrial cluster unified platform" and the "non-financial business investment platform", in order to accomplish sustainable business development and create greater returns for shareholders.

In relation to the establishment of the "a shipping services industrial cluster unified platform", we will continue to strengthen and elevate the Company's position in the international shipping services industry, and promote the upgrade of the Company's shipping services platform business while maintaining and enhancing the profitability of existing businesses. We will further integrate into the entire industrial chain of shipping development, striving for the effective business extension at both ends. At the same time, the Company will further enhance synergy between various business units, promote the diversification of business interaction, and put greater efforts into efficient cooperation among business segments, aiming to become a leading international shipping services company. In respect of the "non-financial business investment platform", the Company will continue to adhere to the principle of prudent financial management and investment, aim at enhancing shareholder returns, target at optimising resource allocation, take advantage of the favourable opportunities arising from China's economic transformation, state-owned enterprise reform and the development of Guangdong-Hong Kong-Macao Greater Bay Area, and actively seek for both domestic and overseas investment in non-financial sectors to create new profit growth momentum for the Company.

Finally, on behalf of the Board, I would like to express my sincere gratitude to all shareholders and stakeholders of COSCO SHIPPING International for their supports and trusts in the Company. I would also like to express my gratitude to the highly committed and diligent group of colleagues, including my fellow directors, the management team and all employees for their invaluable contribution to the Company's success and long-term development.

Zhu Jianhui
Chairman

Hong Kong, 23rd March 2020

Management Discussion and Analysis

OVERALL ANALYSIS OF RESULTS

In 2019, the Group achieved progressive results in market expansion and cost control through continuously leveraging on its excellence in professionalism and economy of scale. During the year, profit attributable to equity holders of the Company was HK$330,607,000 (2018: HK$286,140,000), representing an increase of 16% as compared to 2018. The basic earnings per share was 21.57 HK cents (2018: 18.67 HK cents), representing an increase of 16% as compared to 2018.

FINANCIAL REVIEW

Revenue

The Group's revenue in 2019 decreased by 66% to HK$3,265,745,000 (2018: HK$9,521,575,000) as compared to 2018. Revenue from the core business of shipping services decreased by 72% to HK$2,479,881,000 (2018: HK$8,754,304,000) and accounted for 76% (2018: 92%) of the Group's revenue. In consideration of the associated risk factors, the Group had deliberately trimmed down the marine fuel trading business, resulting in the decrease of segment revenue from marine fuel and other products. Revenue of general trading segment increased by 2% to HK$785,864,000 (2018: HK$767,271,000) and accounted for 24% (2018: 8%) of the Group's revenue.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year decreased by 2% to HK$555,210,000 (2018: HK$566,127,000) as compared to 2018. The decrease in gross profit was mainly attributable to the decrease in segment revenues from marine fuel and other products and ship trading agency. The overall average gross profit margin was 17.0% (2018: 5.9%). The increase in overall gross profit margin was mainly attributable to the decrease in revenue from low-gross-profit-margin marine fuel and other products segment.

Management Fee Income

During the year, there was a management fee income of HK$107,726,000 (2018: HK$74,665,000) arising from the provision of management services by the Company in relation to the day-to-day business operations and management of COSCO SHIPPING (Hong Kong) and its subsidiaries (other than those relating to the Group and Piraeus Port Authority S.A.) according to the Management Services Master Agreement dated 7th February 2018.

Other Income and (Losses)/Gains — Net

Other income and (losses)/gains — net loss for the year of HK$23,587,000 (2018: net gain of HK$90,145,000) primarily included net exchange losses of HK$41,966,000 (2018: net exchange gains of HK$21,994,000). In addition, there were a reversal of provision for impairment of other receivables of HK$17,228,000 and a specific government subsidy income of HK$11,826,000 recorded in 2018 but not for this year. The specific government subsidy in 2018 was granted by the Shanghai Baoshan District Government to COSCO Kansai (Shanghai), as a compensation for the relevant costs and expenses incurred in relocating the production plant and settling the impacted staff.

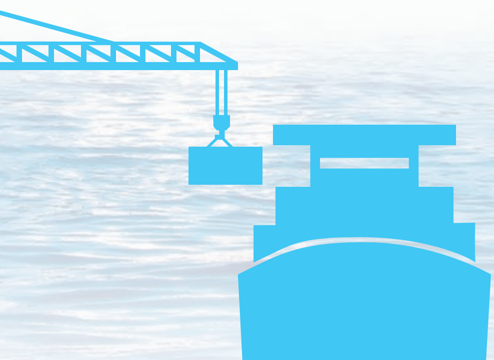
Selling, Administrative and General Expenses

During the year, selling, administrative and general expenses increased by 1% to HK$554,687,000 (2018: HK$549,344,000), which was mainly due to the increase in employee benefit expenses.


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

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

Core Business Coverage



Operating Profit

Since losses was recorded for other income and (losses)/gains — net, the Group's operating profit decreased by 53% to HK$84,662,000 (2018: HK$181,593,000).

Finance Income

Finance income, which primarily represented interest income on the Group's bank deposits, increased by 28% to HK$207,849,000 (2018: HK$161,997,000) as a result of the increase in interest rate of cash deposit as compared to 2018.

Finance Costs

Finance costs, which mainly represented interest expenses on short-term borrowings and other finance charges, increased by 21% to HK$3,992,000 (2018: HK$3,293,000).

Share of Profits of Joint Ventures

The Group's share of profits of joint ventures increased by 392% to HK$48,798,000 (2018: HK$9,925,000). This item primarily represented the share of profits of Jotun COSCO of HK$41,252,000 (2018: HK$7,200,000) and Nasurfar Changshu of HK$6,028,000 (2018: HK$2,022,000) which were included in the coatings segment.

Share of Profits/(Losses) of Associates

The Group's share of profits of associates was HK$48,431,000 (2018: share of losses of HK$13,561,000). This item primarily comprised the share of profit of Double Rich of HK$47,070,000 (2018: share of loss of HK$14,442,000) which was included in the marine fuel and other products segment.

Income Tax Expenses

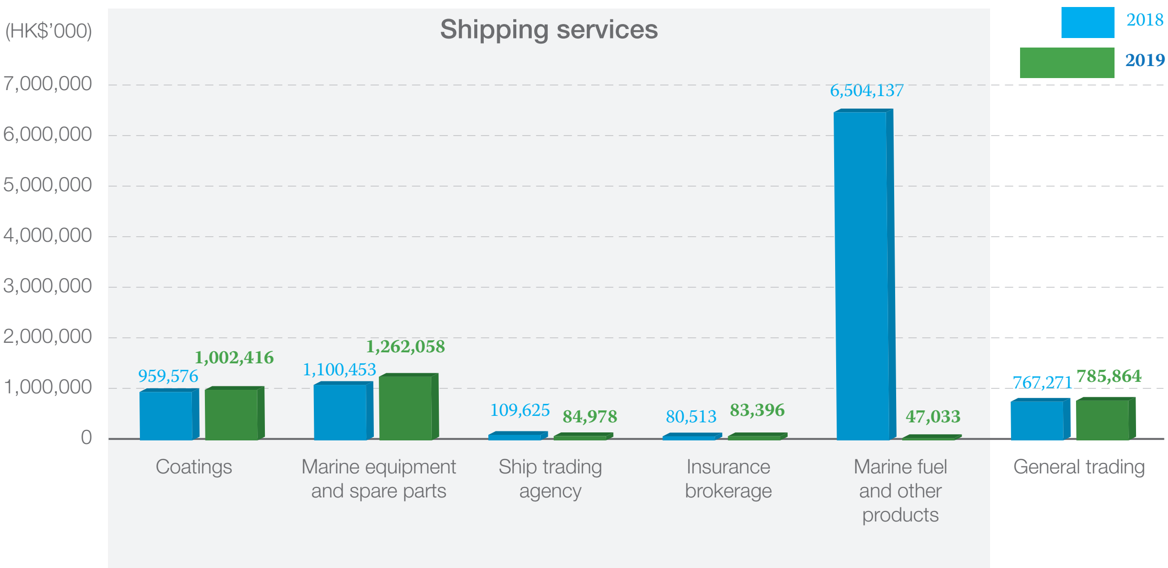
The Group's income tax expenses for the year increased by 14% to HK$52,440,000 (2018: HK$45,916,000). The ratio of income tax expenses to profit before income tax, excluding the share of profits/(losses) of joint ventures and associates, increased from 13% in 2018 to 18% mainly attributable to the increase in deferred income tax charge — net for the year.

Profit Attributable to Equity Holders

Profit attributable to equity holders of the Company during the year increased by 16% to HK$330,607,000 (2018: HK$286,140,000), mainly due to the significant increase in the share of profits of Jotun COSCO and Double Rich and the increase in finance income.

FINANCIAL RESULTS

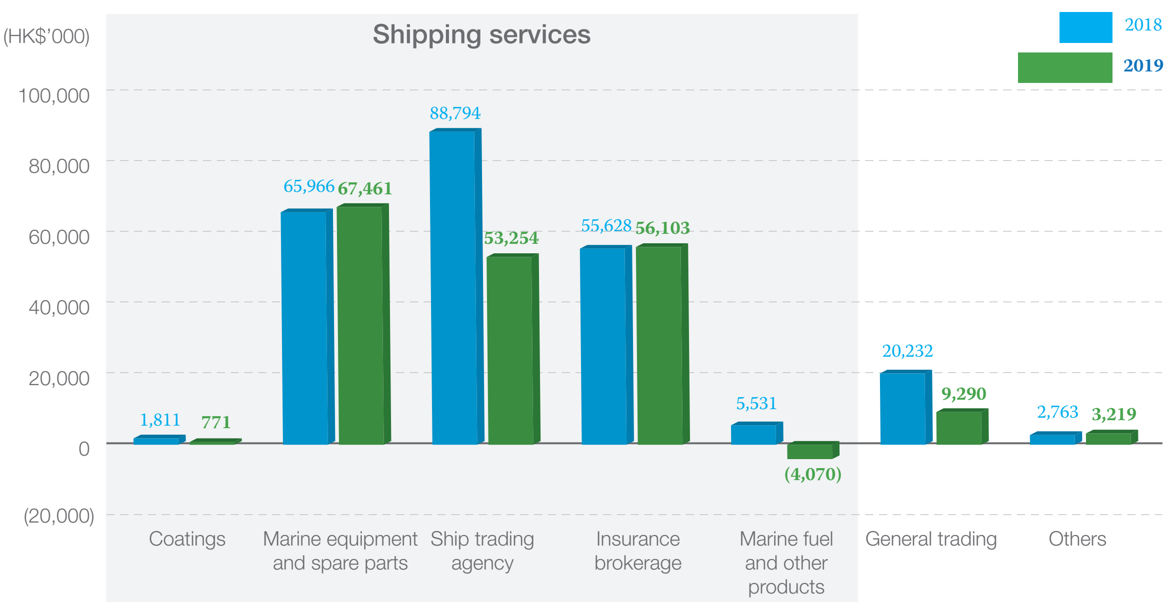
SEGMENT REVENUE*



* external customers only

Revenue from the core shipping services businesses decreased by 72% to HK$2,479,881,000 (2018: HK$8,754,304,000) and accounted for 76% (2018: 92%) of the Group's revenue, with the major decrease coming from marine fuel and other products segment.

SEGMENT OPERATING PROFIT



Segment operating profit from shipping services was HK$173,519,000 (2018: HK$217,730,000), representing a decrease of 20% as compared to 2018. It was mainly due to decrease in segment operating profit from ship trading agency as compared to 2018.

FINANCIAL RESULTS (Continued)

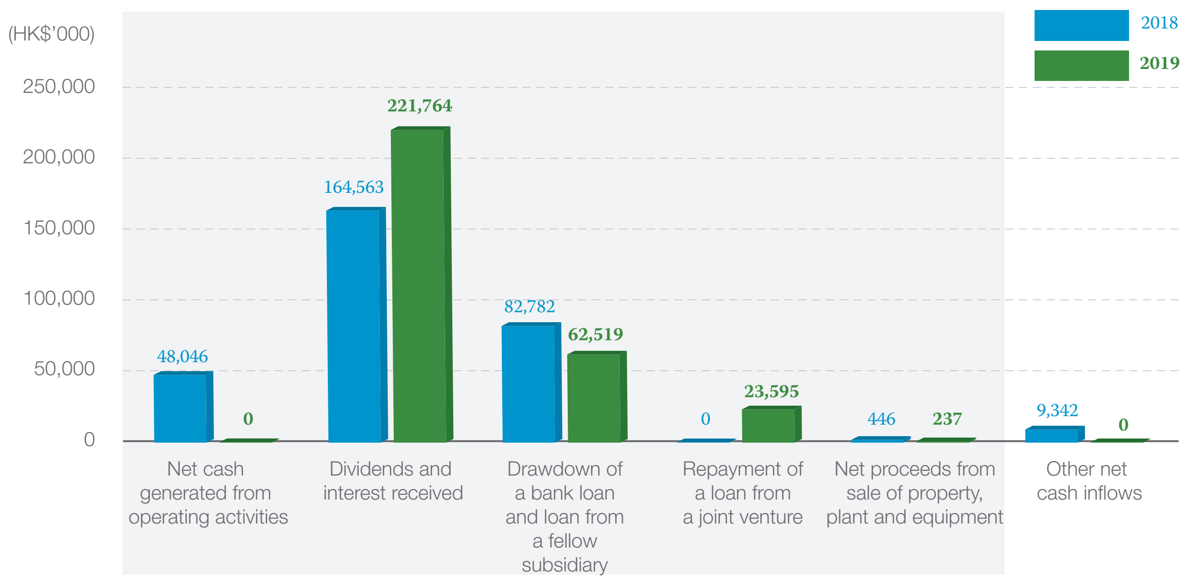
For the year ended 31st December	**2019 HK$'000**	2018 HK$'000	Change HK$'000	%	Remark
Shipping services	**173,519**	217,730	(44,211)	(20)	It was mainly attributable to the decrease in operating profit from ship trading agency segment as compared to 2018.
General trading	**9,290**	20,232	(10,942)	(54)	It was mainly attributable to the absence of reversal of provision for impairment of other receivables of approximately HK$17,228,000 recorded in 2018.
Others	**3,219**	2,763	456	17	
Corporate expenses, net of income	**(100,924)**	(58,948)	(41,976)	71	
Elimination of segment income from corporate headquarters	**(442)**	(184)	(258)	140	
Operating profit	**84,662**	181,593	(96,931)	(53)	
Finance income-net	**203,857**	158,704	45,153	28	It was mainly attributable to the increase in interest rate of bank deposits as compared to 2018.
Share of profits of joint ventures	**48,798**	9,925	38,873	392	As a result of the significant improvement in gross profit margin of Jotun COSCO as compared to 2018.
Share of profits/(losses) of associates	**48,431**	(13,561)	61,992	457	It was mainly attributable to the increase in gross profit of Double Rich as compared to 2018, which was mainly due to the increase in low-sulphur fuel price as a result of the International Maritime Organisation 2020 Regulation ("IMO 2020 Regulation").
Profit before income tax	**385,748**	336,661	49,087	15	
Income tax expenses	**(52,440)**	(45,916)	(6,524)	14	The ratio of income tax expenses to profit before income tax, excluding the share of profits/(losses) of joint ventures and associates, increased from 13% in 2018 to 18% mainly attributable to the increase in deferred income tax charge — net for the year.
Profit for the year	**333,308**	290,745	42,563	15	

FINANCIAL RESULTS (Continued)

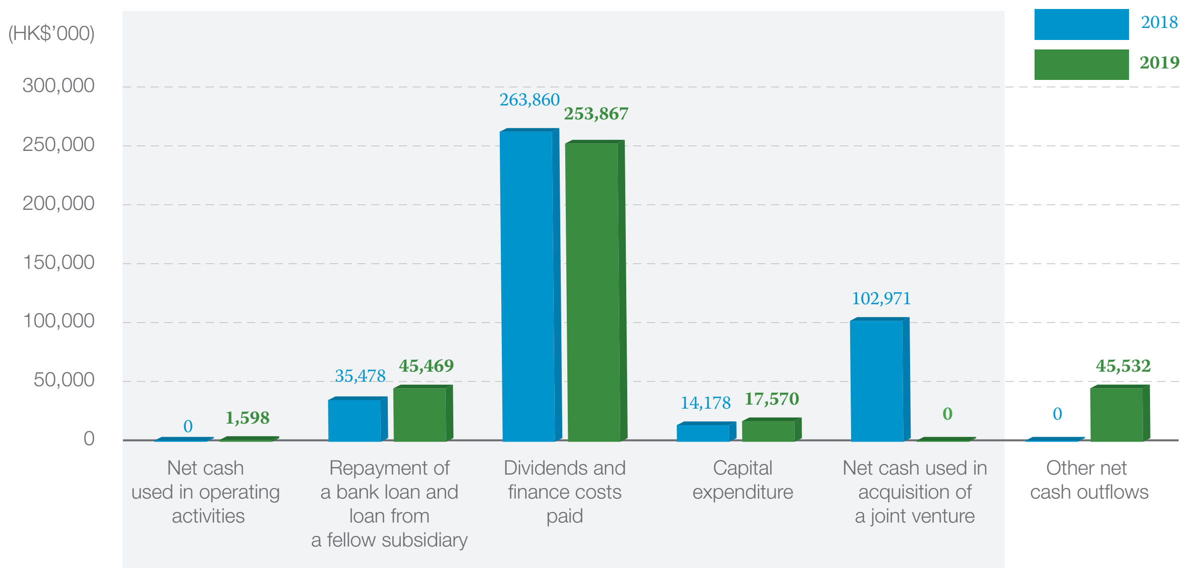
As at 31st December	2019 HK$'000	2018 HK$'000	Change HK$'000	%	Remark
Intangible assets	**105,617**	103,448	2,169	2	
Property, plant and equipment, right-of-use assets, prepaid premium for land leases and investment properties	**442,388**	439,966	2,422	1	
Investments in joint ventures	**437,419**	396,709	40,710	10	
Investments in associates	**147,693**	96,651	51,042	53	
Other non-current assets	**119,555**	130,939	(11,384)	(9)	
Inventories	**305,997**	337,187	(31,190)	(9)	
Trade receivables — net	**689,626**	618,560	71,066	11	
Other receivables	**805,188**	750,245	54,943	7	
Cash (including restricted bank deposits and current deposits and cash and cash equivalents)	**6,319,741**	6,375,662	(55,921)	(1)	(a), (b)
Other current assets	**3,722**	7,358	(3,636)	(49)	
Total assets	**9,376,946**	9,256,725	120,221	1	
Deferred income tax liabilities	**67,743**	64,269	3,474	5	
Trade and other payables and contract liabilities	**1,007,490**	972,716	34,774	4	
Current income tax liabilities	**13,778**	19,388	(5,610)	(29)	
Short-term borrowings	**61,399**	45,652	15,747	34	
Lease liabilities	**8,317**	—	8,317	N/A	
Non-controlling interests	**291,814**	300,765	(8,951)	(3)	
Total liabilities and non-controlling interests	**1,450,541**	1,402,790	47,751	3	
Net assets attributable to equity holders	**7,926,405**	7,853,935	72,470	1	

(a) MAJOR SOURCES AND USE OF CASH

CASH INFLOWS



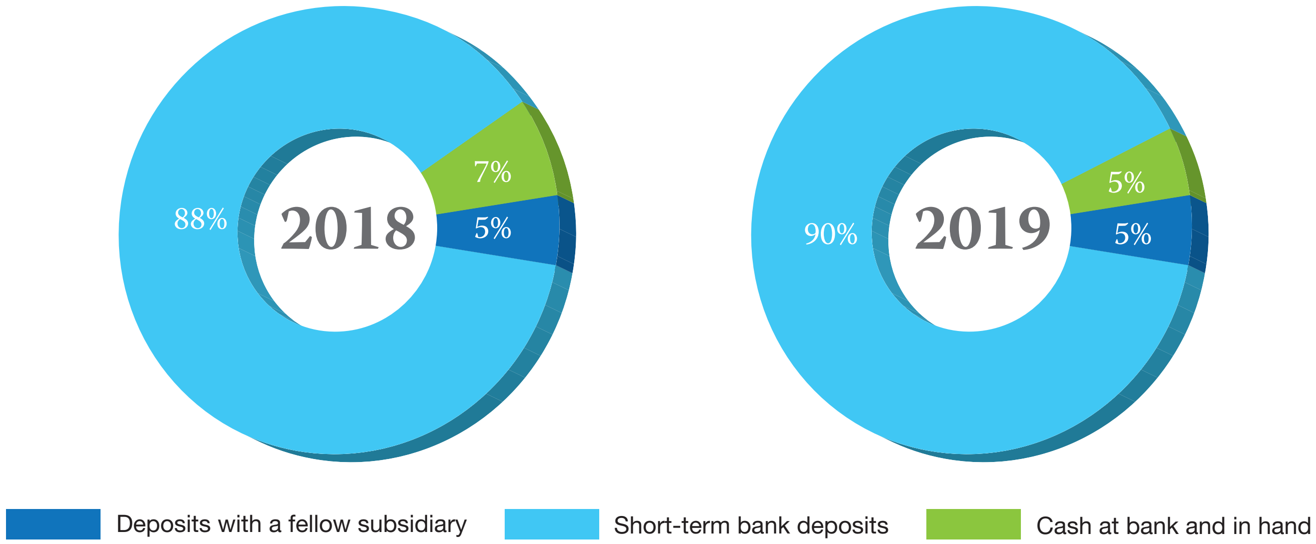
CASH OUTFLOWS



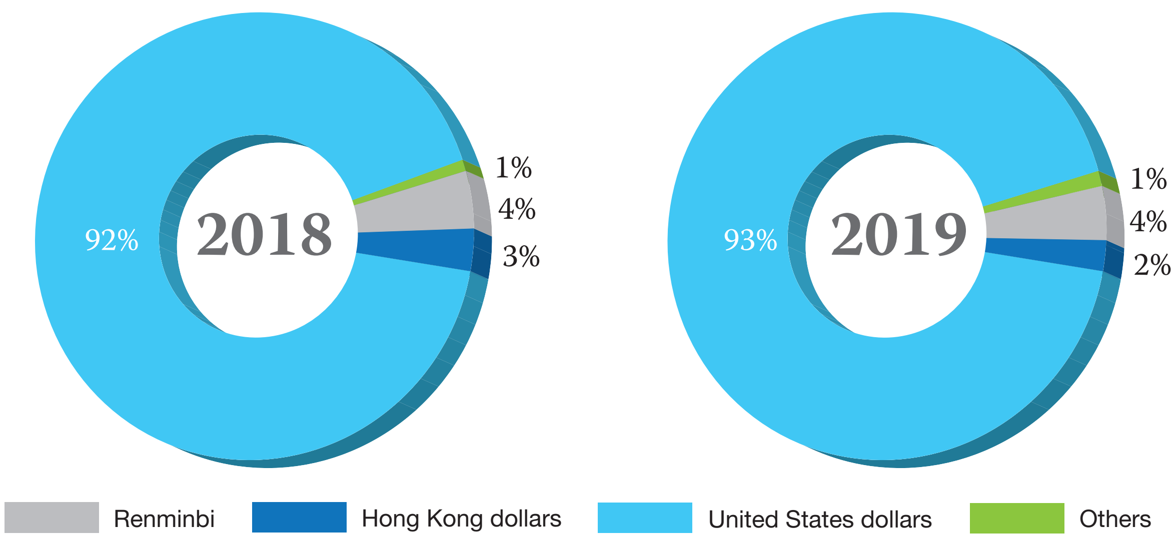
Cash (including restricted bank deposits and current deposits and cash and cash equivalents) decreased by HK$55,921,000 in aggregate during the year. Sources of cash principally included dividends and interest received of HK$221,764,000, drawdown of a loan from a fellow subsidiary of HK$62,519,000, repayment of a loan from a joint venture of HK$23,595,000 and net proceeds from sale of property, plant and equipment of HK$237,000. Use of cash principally included net cash used in operating activities of HK$1,598,000, repayment of a loan from a fellow subsidiary of HK$45,469,000, payment of dividends and finance costs totalling HK$253,867,000, capital expenditure of HK$17,570,000 and other net cash outflows of HK$45,532,000.

(b) ANALYSIS OF CASH

CLASSIFIED BY NATURE



CLASSIFIED BY CURRENCY



CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

The Group's main sources of liquidity comprised cash, bank balances and non-committed unutilised banking facilities. The liquidity is primarily for financing of general working capital requirements, dividend payments and future capital expenditure. As at 31st December 2019, deposits and cash and cash equivalents held by the Group accounted for 78% (2018: 79%) of the Group's total current assets.

As at 31st December 2019, the Group's total assets increased by 1% to HK$9,376,946,000 (2018: HK$9,256,725,000). Total liabilities increased by 5% to HK$1,158,727,000 (2018: HK$1,102,025,000). The Group remained cautious about potential credit risks that surrounded the shipping services industry. All business units focused on internal management, receivables management, working capital management and costs control.

Net asset value attributable to shareholders was HK$7,926,405,000 (2018: HK$7,853,935,000). Net asset value per share was HK$5.17 (2018: HK$5.12), increased by 1% as compared to the end of 2018.

As at 31st December 2019, the Group's total short-term borrowings were HK$61,399,000 (2018: HK$45,652,000), which were mainly for the purpose of working capital requirement for general trading business. For the maturity profile, please refer to the table below. The Group's total cash on hand decreased by 1% to HK$6,319,741,000 (2018: HK$6,375,662,000) and non-committed unutilised standby banking facilities decreased by 43% to HK$409,665,000 (2018: HK$713,381,000) respectively. The gearing ratio, which represented total borrowings over total assets, was 0.7% (2018: 0.5%).

Debt Analysis

	31st December 2019 HK$'000	%	31st December 2018 HK$'000	%
Classified by maturity:				
— repayable within one year	**61,399**	**100**	45,652	100
Classified by type of loan:				
— unsecured	**61,399**	**100**	45,652	100
Classified by currency:				
— Renminbi	**61,399**	**100**	45,652	100

The Group had restricted bank deposits of HK$5,582,000 (2018: HK$5,706,000) for meeting the statutory requirement of its insurance brokerage services business in China.

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

TREASURY POLICY

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

The Group continued to monitor and adjust its debt portfolio from time to time in light of market conditions, the objective of which is to reduce potential interest rate risk exposure, improve debt structure and lower interest expenses.

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

The Group maintained a healthy cash position. As at 31st December 2019, the Group had net cash, which represented total cash and deposits net of short-term borrowings, of HK$6,258,342,000 (2018: HK$6,330,010,000). To enhance the Group's finance income and to ensure availability of cash at appropriate times to meet the Group's commitments and needs, the Group, on the basis of balancing risk, return and liquidity, invested in a mixture of stable and conservative financial products, including overnight deposits, term deposits and offshore fixed deposits. Cash and deposits of the Group were placed with highly reputable financial institutions in Hong Kong, China, Singapore, Japan, Germany and the United States. During the year, the Group strengthened its funds management and had actively negotiated with banks to strive for higher deposit yields for the huge sum of liquid funds on hand. The Group achieved a 3.3% rate of return on the Group's cash for the year, representing an increase of 80 basis points as compared to 2018. The Group had no financial instruments for interest rate hedging purposes.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2019, sales to the largest customer and aggregate sales to the five largest customers accounted for 4% and 16% respectively (2018: 63% and 70% respectively) of the total revenue of the Group, while purchases from the largest supplier and aggregate purchases from the five largest suppliers accounted for 4% and 13% respectively (2018: 67% and 74% respectively) of the total cost of sales of the Group.

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

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

EMPLOYEES

As at 31st December 2019, excluding joint ventures and associates, the Group had 901 (2018: 876) employees, of which 168 (2018: 196) were Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments, were HK$406,220,000 (2018: HK$383,198,000). Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to market conditions and individual performance. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme or recognised occupational retirement scheme. No share option scheme is in operation and no share options of the Company are outstanding.

REVIEW OF BUSINESS OPERATIONS

In 2019, the global economy grew at the slowest pace since the financial tsunami in 2008. Factors including rising trade barriers and geopolitics adversely affected global business confidence and economic activities, resulting in a notably decelerating trend in economic growth. As the uncertainties of global economy increased, shipping enterprises and ship-owners were cautious about capital expenditures and slowed down their paces of procurement of vessels and spare parts, which put some pressure on the growth of the Group's businesses.

In the face of adversities in the macro market, the Group adhered to its positive attitude and was committed to the market expansion and cost control of business, meanwhile, share of profits of joint ventures from the coatings segment experienced substantial growth, leading to a significant increase in profit. Besides, price of low-sulphur fuel rose as a result of the IMO 2020 Regulation. Although the business volume of Sinfeng within the Group's marine fuel and other products segment decreased substantially, Double Rich, an associate of the Group, recorded higher gross profit, which drove a year-on-year increase in the profit before income tax of the Group's marine fuel and other products segment.

1. Core Business — Shipping Services

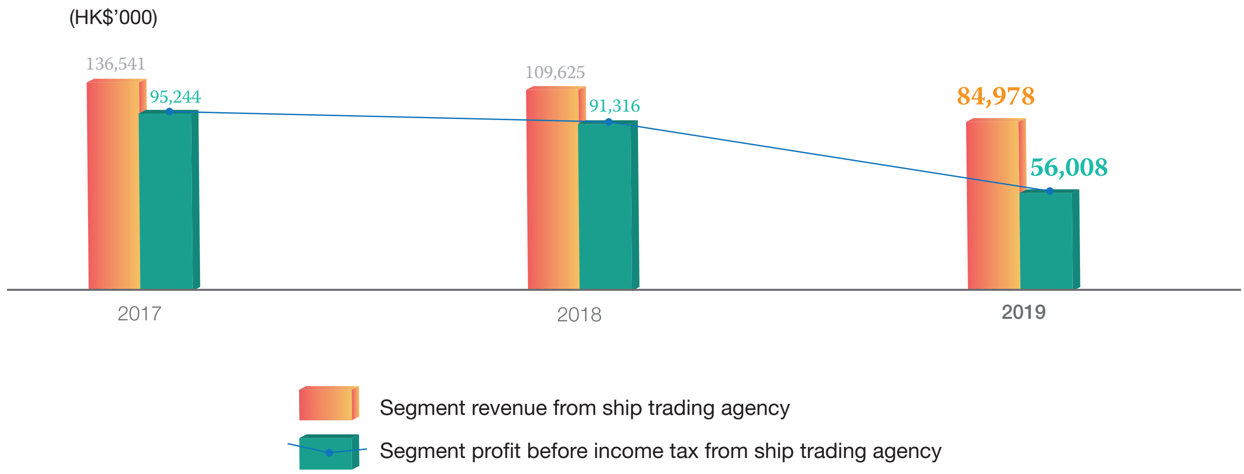
The Group's shipping services mainly include ship trading agency services, marine insurance brokerage services, supply of marine equipment and spare parts, production and sale of coatings, and trading and supply of marine fuel and related products.

During the year, revenue from the Group's shipping services was HK$2,479,881,000 (2018: HK$8,754,304,000), representing a decrease of 72% as compared to 2018. The decrease in revenue was mainly due to the purposely trimming down of Sinfeng's business by the Group after taking into account the risk factors. Excluding the impacts of factors relating to Sinfeng, the revenue from the Group's shipping services increased by 8% year-on-year. Profit before income tax from shipping services was HK$273,087,000 (2018: HK$216,179,000), representing an increase of 26% as compared to 2018.

Ship Trading Agency Services

1.1 Ship Trading Agency Services

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



During the year, revenue from the ship trading agency segment of the Group decreased by 22% to HK$84,978,000 (2018: HK$109,625,000) as compared to 2018. Segment profit before income tax was HK$56,008,000 (2018: HK$91,316,000), representing a decrease of 39% as compared to 2018. The sluggish performance in ship trading agency was mainly attributable to the decrease in the number of new build vessels delivery, as well as the decrease in commission income from the trading of second-hand vessels. In addition, the decline in exchange gains also led to a decrease in the segment profit before income tax.

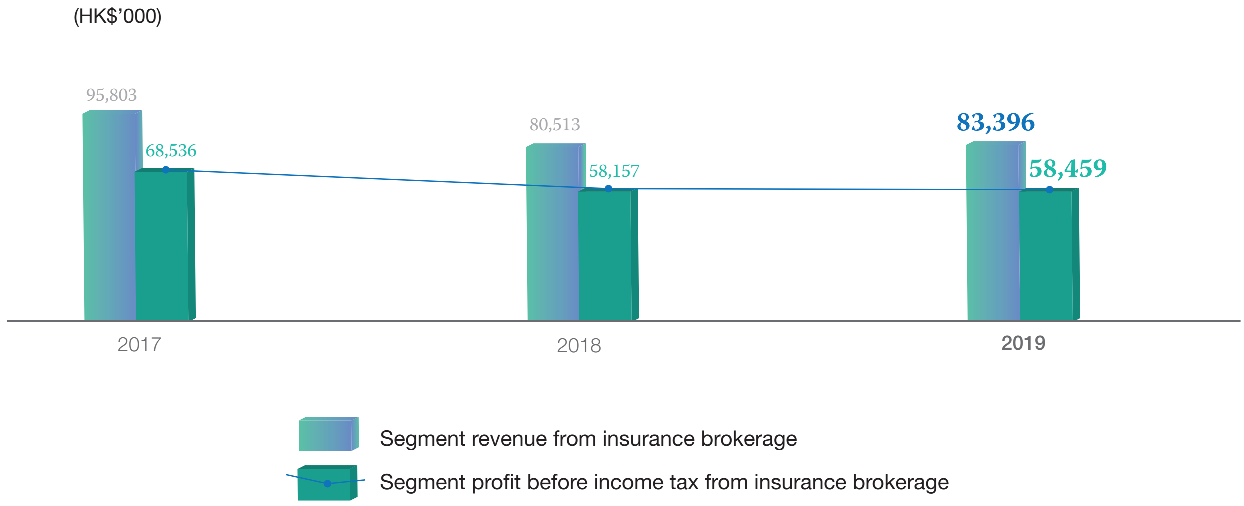
During the year, the Group's aggregate number of new build vessels delivery was 28 (2018: 33), totalling 2,830,750 dead weight tonnages (2018: 5,535,500 dead weight tonnages). A total of 22 (2018: 40) new build vessels have been ordered through the Group, totalling 3,260,780 dead weight tonnages (2018: 1,757,700 dead weight tonnages). In addition, the sale and purchase of a total of 34 (2018: 24) second-hand vessels through the Group were recorded, totalling 1,579,110 dead weight tonnages (2018: 650,000 dead weight tonnages).

Marine Insurance Brokerage Services

1.2 *Marine Insurance Brokerage Services*

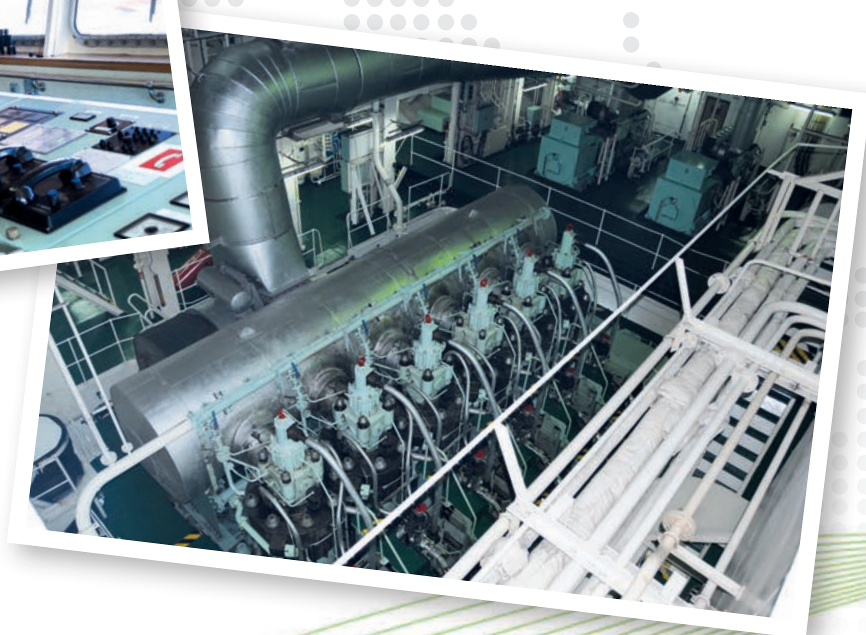
COSCO SHIPPING Insurance Brokers are primarily engaged in the insurance and reinsurance intermediary services of marine and non-marine insurance, including the provision of professional insurance brokerage services such as risk assessment and analysis, designing insurance and reinsurance programmes,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

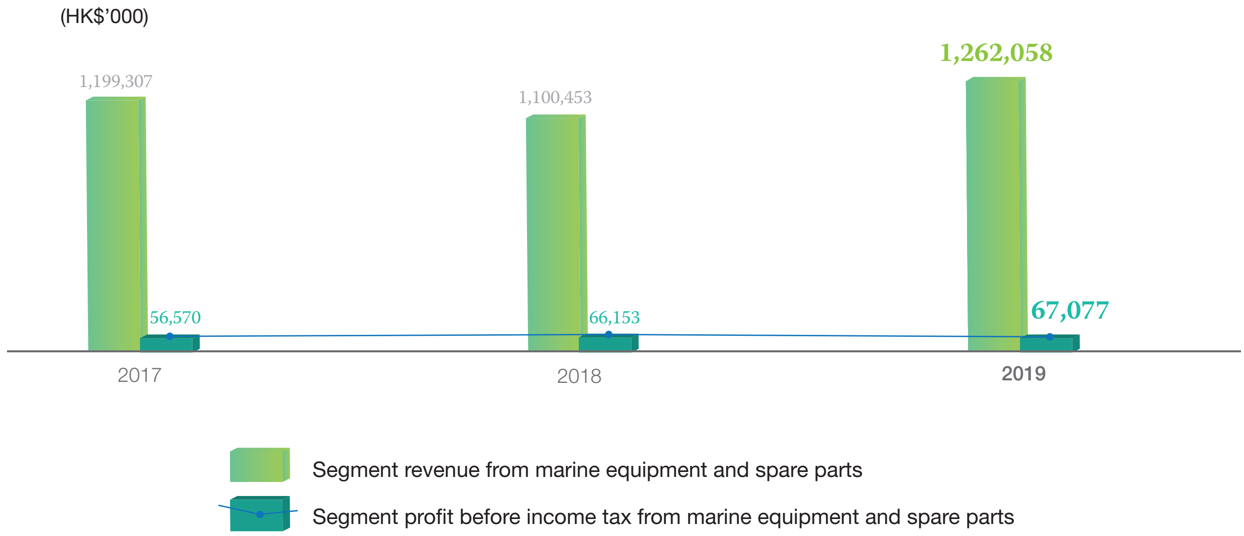
During the year, the revenue from insurance brokerage services segment of the Group was HK$83,396,000 (2018: HK$80,513,000), increased by 4% as compared to 2018. Segment profit before income tax was HK$58,459,000 (2018: HK$58,157,000), representing an increase of 1% as compared to 2018. This was partly due to the rising geopolitics risks, resulting in an increase in the premium rates of insurance products against war insurance and kidnap & ransom insurance. Moreover, the Group continued to actively develop non-marine insurance brokerage services, resulting in continuous growth in revenue from the relevant types of insurance.


(HK$'000)
95,803
68,536
80,513
58,157
83,396
58,459
2017
2018
2019
Segment revenue from insurance brokerage
Segment profit before income tax from insurance brokerage


COSCO SHIPPING

Supply of Marine Equipment and Spare Parts





1.3 Supply of Marine Equipment and Spare Parts

COSCO Yuantong Operation Headquarters is principally engaged in the sale and installation of equipment and spare parts for existing and new build vessels, as well as equipment of radio communications systems, satellite communications and navigation systems for ships, offshore facilities, coastal stations and land users; marine materials supply and voyage repair. Its existing business network covers cities such as Hong Kong, Shanghai and Beijing and countries such as Japan, Singapore, Germany and the United States, etc..

During the year, the Group's revenue from marine equipment and spare parts segment was HK$1,262,058,000 (2018: HK$1,100,453,000), representing an increase of 15% as compared to 2018, which was mainly attributable to the fact that the Group increased its efforts on exploitation of customers of non-COSCO SHIPPING Group, resulting in larger customer base and higher business volume from such customers as compared to 2018. However, exchange losses of HK$5,354,000 were recorded in 2019, as compared to exchange gains of HK$7,890,000 in 2018, resulting in segment profit before income tax only slightly increased by 1% to HK$67,077,000 (2018: HK$66,153,000) as compared to 2018.

Production and Sale of Coating

1.4 Production and Sale of Coatings

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

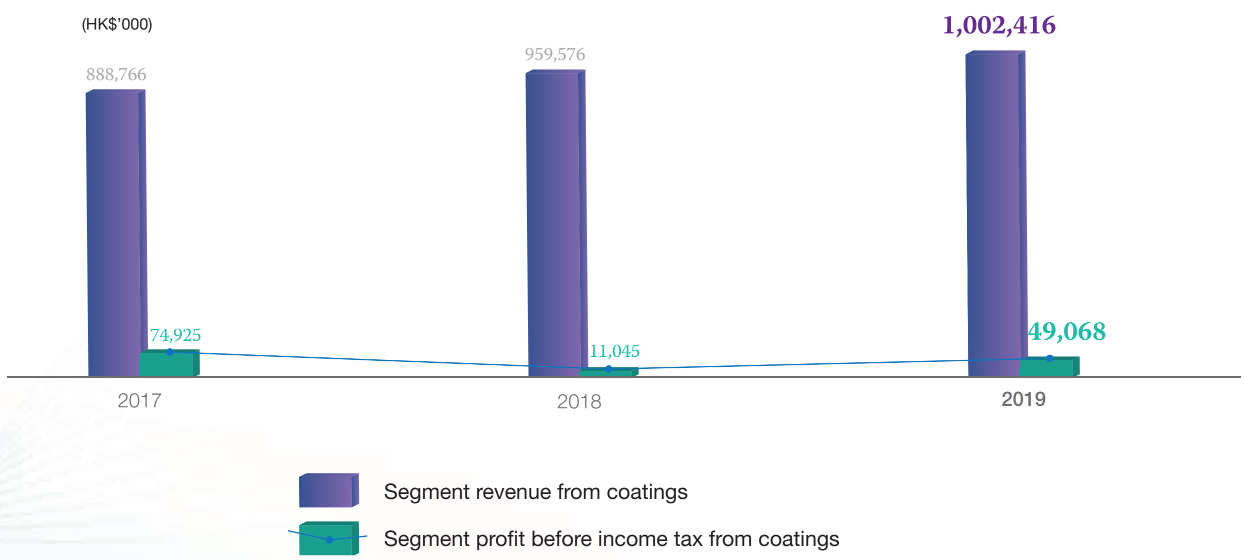
During the year, the Group's revenue from coatings segment was HK$1,002,416,000 (2018: HK$959,576,000), representing an increase of 4% as compared to 2018. Segment profit before income tax was HK$49,068,000 (2018: HK$11,045,000), representing an increase of 344% as compared to 2018, which was mainly due to the significant increase in the share of profit from Jotun COSCO.

For container coatings, as the Group's water-based coatings have gained market recognition gradually, and the sales volume and market share of container coatings business continued to grow. Moreover, the gross profit margin improved as a result of the Group's strict management and control of production costs. During the year, the sales volume of container coatings increased by 30% to 24,772 tonnes (2018: 19,035 tonnes) as compared to 2018.

For heavy-duty anti-corrosion coatings, the Group achieved breakthroughs in port facilities, bridges and other businesses. During the year, the delivery of the coatings for the immersed tube tunnel of Shenzhen-Zhongshan Link was successful, driving up the overall business volume. During the year, the sales volume of industrial heavy-duty anti-corrosion coatings together with workshop primer amounted to 17,655 tonnes (2018: 17,262 tonnes), representing an increase of 2% as compared to 2018.

For marine coatings, the sales volume of Jotun COSCO's coatings for new build vessels amounted to 45,050,000 litres (2018: 44,509,000 litres), representing an increase of 1% as compared to 2018. Sales volume of coatings for repair and maintenance was 25,144,000 litres (2018: 22,843,000 litres), up by 10% as compared to 2018. The sales volume of Jotun COSCO's marine coatings amounted to 70,194,000 litres (equivalent to approximately 94,762 tonnes) (2018: 67,352,000 litres (equivalent to approximately 90,925 tonnes)), up by 4% as compared to 2018. During the year, the Group's share of profit from Jotun COSCO was HK$41,252,000 (2018: HK$7,200,000), representing an increase of 473% as compared to 2018. It was mainly attributable to the significant improvement in gross profit margin as compared to 2018. In addition, Jotun COSCO reinforced the management on procurement of raw materials, which effectively strengthened the overall profitability and stability.

Nasurfar Changshu, in which the Company completed the subscription of 33% equity interest in the third quarter of 2018, is principally engaged in the research and development, production and sales of biochemical products, which is beneficial to the extension of the Group's industry chain of coatings and related products. During the year, the Group's share of profit from Nasurfar Changshu was HK$6,028,000 (2018: HK$2,022,000).



Trading and Supply of Marine Fuel and Related Products

1.5 Trading and Supply of Marine Fuel and Related Products

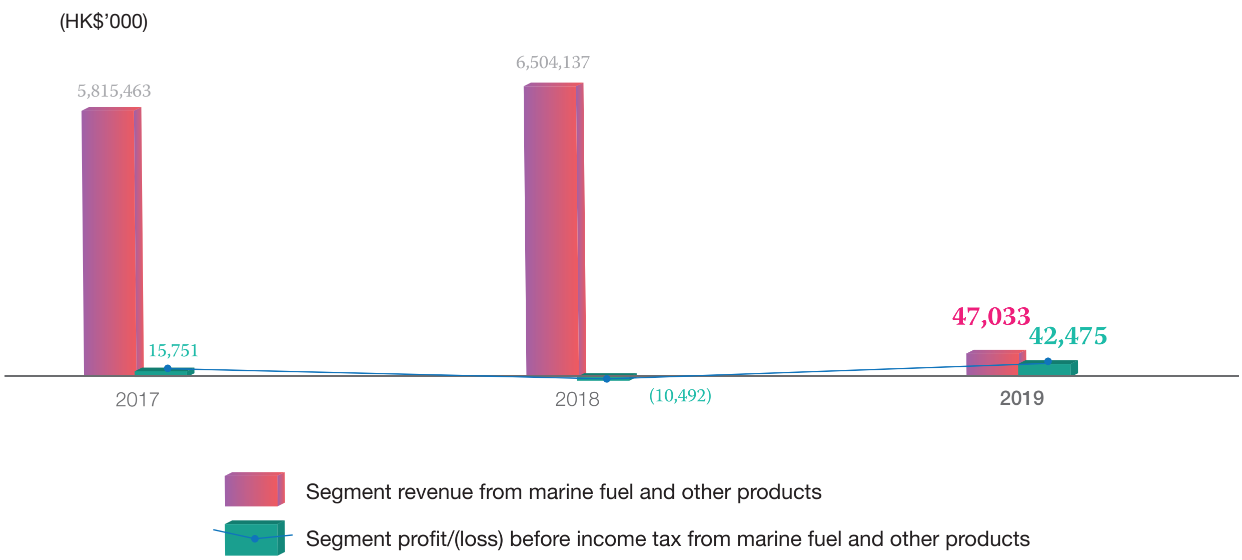
Sinfeng is primarily engaged in the supply, trading and brokerage services of marine fuel and related products with business network covering major oil ports such as Singapore and Malaysia, etc..

During the year, revenue from marine fuel and other products segment of the Group was HK$47,033,000 (2018: HK$6,504,137,000), and total sales volume of marine fuel products was 12,805 tonnes (2018: 1,927,346 tonnes), representing a decrease of 99% as compared to 2018. In view of the liquidation filed by Coastal Oil Singapore Pte Ltd, a major supplier of Sinfeng, at the end of 2018 ("Coastal Oil's Liquidation"), the Group deliberately trimmed down Sinfeng's business as a measure of further risk control. For details of information in relation to Coastal Oil's Liquidation and the matters arising subsequent to Coastal Oil's Liquidation, please refer to the announcement of the Company dated 4th January 2019. Management is of the view that this event would not have a material impact to the Group's financial information for the year ended 31st December 2019 after taking into account of the professional opinion of Sinfeng's legal adviser in respect of the aforesaid matters.

Double Rich, in which the Group owns 18% equity interest, is principally engaged in the trading of fuel and oil products and marine fuel supply services in Hong Kong and also at the same time, in sourcing products such as light diesels and fuel oil, etc.. Its major customers are ship-owners and ship operators.

During the year, the Group's share of profit from Double Rich was HK$47,070,000 (2018: share of loss of HK$14,442,000), which was primarily due to the increase in low-sulphur fuel price as a result of the IMO 2020 Regulation. The significant growth as compared to 2018 was mainly due to the fact that many vessels successively started to use low-sulphur fuel in the third quarter due to the IMO 2020 Regulation, and the increase in the price of low-sulphur fuel led to an increase in gross profit. Meanwhile, the inventory impairment provision made as a result of drastic fall in the oil price at the end of 2018, which did not occur in 2019.

During the year, profit before income tax from marine fuel and other products segment was HK$42,475,000 (2018: loss before income tax of HK$10,492,000), which was mainly due to the significant increase in the share of profit from Double Rich.



2. General Trading

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

During the year, the Group consciously trimmed down asphalt retail business to enhance operational efficiency. The sales volume of asphalt decreased by 13% to 167,166 tonnes (2018: 192,000 tonnes) as compared to 2018. However, due to the year-on-year rise in asphalt price, revenue from general trading segment of the Group increased by 2% to HK$785,864,000 (2018: HK$767,271,000) as compared to 2018. Segment profit before income tax was HK$6,742,000 (2018: HK$16,958,000), representing a decrease of 60% as compared to 2018, mainly due to absence of reversal of provision for impairment of other receivables of approximately HK$17,228,000 recorded in 2018.

EVENTS AFTER THE BALANCE SHEET DATE

(a) As disclosed in the Company's announcement dated 21st January 2020, the Directors have proposed a share option incentive scheme (the "Scheme") under Chapter 17 of the Listing Rules for approval by the shareholders of the Company. The purpose of the Scheme is to, inter alia, attract, retain and incentivise senior management and core backbone personnel of the Company, promote the realization of the strategic targets of the Company, and serve as the driving force for the long-term development of the Company. As at 23rd March 2020, the Scheme is subject to approval by the shareholders of the Company. Management is of the view that this event would not have a material impact to the Group's financial statements for the year ended 31st December 2019.

(b) The wide spread of COVID-19 since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

MOVING FORWARD FOR SUSTAINABLE DEVELOPMENT

COSCO SHIPPING International persists in strategic orientation and focuses on long-term development. The Company pursues its goal to become a leading international shipping services company. With ample internal resources and strong support from its parent company, COSCO SHIPPING, the Company will adhere to the two strategic directions for development, namely “unified operational platform for shipping services industrial cluster” and the “non-financial business investment platform”, in order to accomplish sustainable business development and create greater returns for shareholders.

Profile of Directors and Senior Management

DIRECTORS

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

aged 57, has been the Chairman of the Board of the Company since March 2020, the Managing Director of the Company since January 2018 and the Executive Director of the Company since August 2016. He also had been the Vice Chairman of the Board of the Company from August 2016 to March 2020. Mr. Zhu is chairman of Corporate Governance Committee, Strategic Development Committee, Risk Management Committee, member of Remuneration Committee and Nomination Committee of the Company. Mr. Zhu leads overall management and operation, strategic development and human resources management of the Company. He is director of two subsidiaries of the Company. He is also director and president of COSCO SHIPPING (Hong Kong) Co., Limited and non-executive director of Piraeus Port Authority S.A. (listed on Athens Stock Exchange) and the director of Hainan Harbor & Shipping Holding Co., Ltd. He had been the manager of China Ocean Shipping Agency Nantong (Penavico Nantong), the deputy general manager of China Ocean Shipping Agency (Shanghai), the deputy general manager of China Ocean Shipping Agency head office, the deputy general manager of COSCO Logistics Co., Ltd., the general manager of China Ocean Shipping Tally Company and the general manager of Dalian Ocean Shipping Company. Mr. Zhu possesses extensive professional knowledge in ocean shipping and logistics management and also has rich experience in corporate operation and management. Mr. Zhu graduated from Shanghai Maritime College and obtained a Master's degree. He is a senior economist.

Profile of Directors and Senior Management

Mr. Ma Jianhua

aged 57, has been the Non-executive Director since October 2018. He is also Deputy General Manager of the Company and director and vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Ma was the non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Hong Kong and the PRC) until his resignation in July 2018. He was also the deputy head of the human resources and labor department and the research officer of the Ministry of Transport of the PRC, the deputy party secretary and the leader of the discipline inspection team of Shenzhen Maritime Safety Administration, the deputy director of the general office and the deputy secretary of Chongqing municipality of the PRC, the party secretary and the deputy general manager of COSCO Logistics Co., Ltd., the party secretary and the deputy general manager of COSCO Shipbuilding Industry Company Limited, the supervisor, party secretary and deputy general manager of COSCO SHIPPING Holdings Co., Ltd.. Mr. Ma has extensive experience in transportation and logistics management, human resources management and modern corporate governance, etc.. Mr. Ma graduated from the Party School of the Central Committee of the Communist Party of China majoring in economics and management and is a senior engineer.

Mr. Feng Boming

aged 50, has been the Non-executive Director and member of Strategic Development Committee of the Company since January 2018. He is also director of COSCO SHIPPING (Hong Kong) Co., Limited, executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Hong Kong and the PRC), executive director and chairman of COSCO SHIPPING Ports Limited (listed in Hong Kong), executive director of Orient Overseas (International) Limited (listed in Hong Kong), non-executive director of COSCO SHIPPING Development Co., Ltd. (listed in Hong Kong and the PRC), COSCO SHIPPING Energy Transportation Co., Ltd. (listed in Hong Kong and the PRC) and Piraeus Port Authority S.A. (listed on Athens Stock Exchange), and director of COSCO SHIPPING Bulk Co., Ltd., COSCO SHIPPING Financial Holdings Co., Limited and Hainan Harbor & Shipping Holding Co., Ltd. He was the supervisor of the Strategic Management Implementation Office of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company) and COSCO SHIPPING Holdings Co., Ltd., the manager of the Commercial Section of the Trade Protection Division of COSCO SHIPPING Lines Co., Ltd., the general manager of COSCO (Cayman) Mercury Co., Ltd., the general manager of the Management and Administration Department of COSCO Holdings (Hong Kong) Co., Ltd., the general manager of COSCO International Freight (Wuhan) Co., Ltd., and the general manager of the Strategy and Corporate Management Division of 中國遠洋海運集團有限公司 (China COSCO SHIPPING Corporation Limited). He was also non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Hong Kong and the PRC) until his resignation in April 2019. Mr. Feng has over 20 years of work experience in the shipping industry and has extensive experience in corporate strategy management, business management and container shipping management. He graduated from Wuhan Institute of Water Transportation Engineering, major in Transportation Administrative Engineering and from The University of Hong Kong with a master's degree in Business Administration, and is an economist.

Profile of Directors and Senior Management

Mr. Chen Dong

aged 45, has been the Non-executive Director and member of Risk Management Committee of the Company since January 2018. He is also general manager of Finance and Accounting Division of 中國遠洋海運集團有限公司 (China COSCO SHIPPING Corporation Limited), director of COSCO SHIPPING (Hong Kong) Co., Limited and non-executive director of COSCO SHIPPING Ports Limited (listed in Hong Kong), and director of COSCO SHIPPING Specialized Carriers Co., Ltd. (listed in the PRC), COSCO SHIPPING Bulk Co., Ltd. and COSCO SHIPPING Financial Holdings Co., Limited. Mr. Chen was the deputy head of Risk Control Section under the Planning and Finance Department, the deputy head of the Finance Section under Planning and Finance Department and senior manager of the Finance and Taxation Management Office, the assistant to the general manager of the Finance Department and the deputy general manager of the Finance Department of 中國海運(集團)總公司 (China Shipping (Group) Company). He had been the non-executive director of COSCO SHIPPING Development Co., Ltd. (listed in Hong Kong and the PRC) until his resignation in March 2018 and non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Hong Kong and the PRC) until his resignation in April 2019. Mr. Chen has over 20 years of working experience in shipping enterprises and has extensive experience in risks control, taxation management and finance. Mr. Chen obtained a Master's degree in Economics from Shanghai University of Finance and Economics and is a senior accountant.

Mr. Liu Gang

aged 60, has been the Executive Director of the Company since September 2016 and had been the Managing Director of the Company from September 2016 to January 2018. He is also the Deputy General Manager, member of Strategic Development Committee and Risk Management Committee of the Company. He is director of various subsidiaries of the Company and the vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Liu was the deputy general manager of COSCO Tianjin Freight Co., the general manager of COSCO Tianjin International Freight Co., Ltd., the general manager of COSCO International Freight Co., Ltd. and the general manager of COSCO Africa (Pty) Ltd.. Mr. Liu has over 30 years of experience in logistics management and shipping industry and also has extensive experience in corporate operational management, strategic operation and management of international cargo transportation and modern logistics. He obtained a Master's degree in Naval and Ocean Engineering from Tianjin University, and is a senior engineer.

Profile of Directors and Senior Management

Mr. Tsui Yiu Wa, Alec

aged 70, has been the Independent Non-executive Director of the Company since February 2004 and is chairman of Nomination Committee, member of Audit Committee, Remuneration Committee and Corporate Governance Committee of the Company. Mr. Tsui is director of Industrial and Commercial Bank of China (Asia) Limited and also independent non-executive director of a number of listed companies in Hong Kong, namely, Pacific Online Limited, DTXS Silk Road Investment Holdings Company Limited, Hua Medicine as well as independent director of certain companies listed overseas including ATA Creativity Global (formerly known as ATA Inc.) (listed on NASDAQ), Melco Resorts & Entertainment Limited (listed on NASDAQ). and Melco Resorts and Entertainment (Philippines) Corporation (listed in the Republic of Philippines in December 2012 and delisted in June 2019). Mr. Tsui graduated from the University of Tennessee, the United States and was awarded a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering and had completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University, the United States. He was the chairman of Hong Kong Securities Institute from 2001 to 2004 and the chief operating officer of Hong Kong Exchanges and Clearing Limited in 2000 and the adviser and council member of the Shenzhen Stock Exchange from July 2001 to June 2002. He has numerous years of experience in finance and administration, corporate and strategic planning, information technology and human resources management. Mr. Tsui was the chairman and director of WAG Worldsec Corporate Finance Limited and previously served as the independent non-executive director of the listed companies in Hong Kong, namely, China Power International Development Limited until his resignation in December 2016, Summit Ascent Holdings Limited until his resignation in September 2018 and Kangda International Environmental Company Limited until his resignation in April 2019.

Mr. Jiang, Simon X.

aged 66, has been the Independent Non-executive Director of the Company since April 2007 and is chairman of Remuneration Committee, member of Audit Committee, Nomination Committee and Corporate Governance Committee of the Company. He is chairman of Cyber City International Limited. Mr. Jiang is also a director of China Foundation for Disabled Persons and a senior associate at the Judge Business School of Cambridge University of England. He is currently a member of the United Nations Investments Committee. Mr. Jiang received his Bachelor's degree from Beijing Foreign Studies University, Master's degree from Australian National University and Doctorate's degree in Economics from Cambridge University of England. Mr. Jiang was the deputy chief of United Nations Joint Staff Pension Fund Investment Management Service, a trustee of Cambridge China Development Trust, a director of Zi Corporation, the advisory board member of Capital International Inc. of United States and Rothschild Investment Bank of England and a member of the 11th and 12th Sessions of the National Committee of the Chinese People's Political Consultative Conference, the independent non-executive director of Nokia Corporation (listed on Nasdaq Helsinki and New York Stock Exchange) until his retirement in June 2016 and the independent non-executive director of China Petroleum & Chemical Corporation (listed in Hong Kong and the PRC) until his retirement in May 2018. He has experience in fund management.

Profile of Directors and Senior Management

Mr. Alexander Reid Hamilton

aged 78, has been the Independent Non-executive Director of the Company since June 2011 and is chairman of Audit Committee, member of Remuneration Committee, Nomination Committee and Corporate Governance Committee of the Company. He previously served as the independent non-executive director of JPMorgan China Region Fund, Inc. (a USA registered closed end fund quoted on the New York Stock Exchange) until his retirement in July 2016, the independent non-executive director of Shangri-La Asia Limited (listed in Hong Kong) until his retirement in June 2019 and the independent non-executive director of Esprit Holdings Limited (listed in Hong Kong) until his retirement in December 2019. Mr. Hamilton is a member of the Institute of Chartered Accountants of Scotland, a fellow member of the Hong Kong Institute of Certified Public Accountants and Institute of Directors. He was a partner of Price Waterhouse for 16 years and has more than 20 years of audit and accounting experience.

The Directors' interests in shares and underlying shares of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as at 31st December 2019 which were required to be notified the Company and the Stock Exchange, are disclosed in the section headed "Directors' Interests in Securities" of the Directors' Report.

Mr. Zhu Jianhui is director and president of COSCO SHIPPING (Hong Kong). Mr. Ma Jianhua is director and vice president of COSCO SHIPPING (Hong Kong). Mr. Chen Dong is general manager of Finance and Accounting Division of COSCO SHIPPING and director of COSCO SHIPPING (Hong Kong). Mr. Liu Gang is vice president of COSCO SHIPPING (Hong Kong). COSCO SHIPPING (Hong Kong) is the substantial shareholder of the Company and the wholly-owned subsidiary of COSCO SHIPPING. As such, COSCO SHIPPING (Hong Kong) and COSCO SHIPPING is deemed to have, an interest in the shares of the Company which would fall to be discussed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO respectively, details of which are disclosed in the section headed "Substantial Shareholders" of the Directors' Report.

Save as disclosed in the Directors' respective biographical details under "Profile of Directors and Senior Management" and other part in this annual report, the Directors (a) have not held any directorships in other listed public companies whether in Hong Kong or overseas in the past three years; (b) do not hold any other positions in the Company and its subsidiaries; and (c) do not have any other relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company as at 31st March 2020.

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

The Directors referred to under "Profile of Directors and Senior Management" (except (a) Non-executive Directors and (b) the then Chairman of the Board) received the Directors' emoluments for the year 2019 which will be determined with reference to the prevailing market conditions, director's experience, qualifications and responsibilities involved in the Company. The details of the emoluments of the Directors for the year ended 31st December 2019 on a named basis are disclosed in note 25 to the financial statements.

SENIOR MANAGEMENT

Mr. Liu Xianghao

aged 47, has been the Deputy General Manager of the Company since April 2018. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Liu had been the deputy manager of Secretariat of Executive Division, the deputy manager of Secretarial Office of Executive Division, the deputy director and director of Executive Division, the director of Office of Board of Directors/General Manager's Office of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the deputy director and director of General Manager's Office, the director of Office of Board of Directors/General Manager's Office of China COSCO Holdings Company Limited and the executive director and managing director of the Company. Mr. Liu is familiar with the operation of listed companies and has extensive experience in auditing and corporate management. Mr. Liu obtained a Bachelor's degree in Economics from Nankai University and a Master's degree in Business Administration from China Europe International Business School, and is an accountant.

Mr. Wang Wei

aged 48, has been the Deputy General Manager of the Company since April 2018. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Wang had been the deputy manager of Executives Management Department of Organisation Division/Human Resources Division, the manager of Executives Management Department of Organisation Division/Human Resources Division and the deputy general manager of Organisation Division/Human Resources Division of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the deputy general manager of Organisation Division/Human Resources Division, general manager of Organisation Division/Human Resources Division of China COSCO Holdings Company Limited, the director of COSCO (Hong Kong) Group Limited, the director of COSCO Shipping Co., Ltd. and the non-executive director of COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited) and the non-executive director of the Company. Mr. Wang is familiar with the operation of listed companies and has extensive experience in human resources management. Mr. Wang graduated from Renmin University of China, major in Human Resources Management.

Mr. Zhou Liliang

aged 58, has been the Deputy General Manager of the Company since April 2018. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. He had been the deputy division chief of Safety Supervision Bureau of Ministry of Transport of the PRC; the vice consultant, the consultant of the General Office of Ministry of Transport of the PRC; deputy general manager of COSCO International Freight CO., LTD; deputy general manager of China COSCO Logistics Co., Ltd; general manager of COSCO West Asia FZE and general manager of COSRACO L.L.C.. Mr. Zhou Liliang has extensive experience in corporate management, strategic operation and logistics, also in transportation management and traffic infrastructure construction aspects. He obtained a Master's degree in Dalian Maritime University.

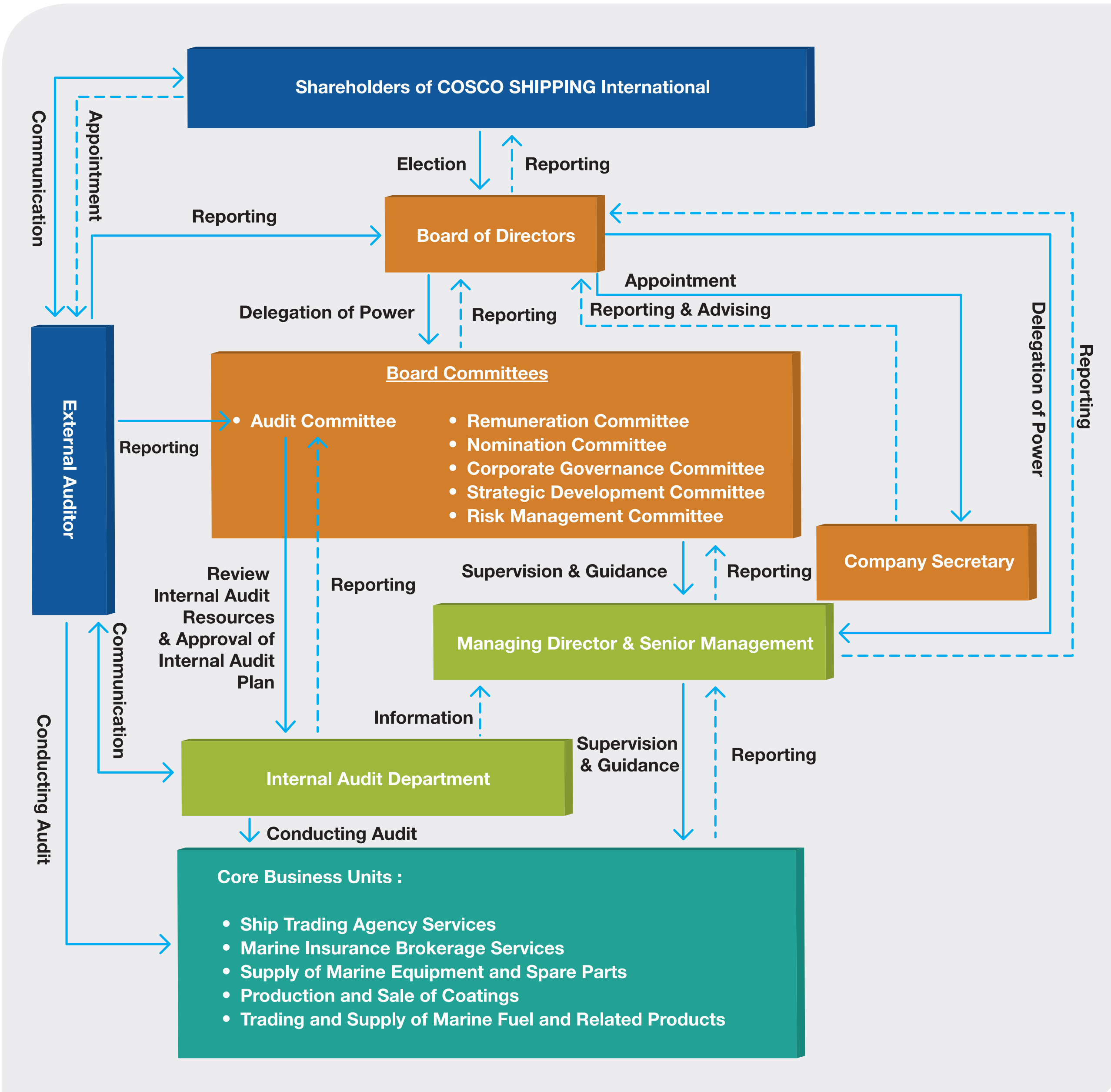
Ms. Chiu Shui Suet

aged 53, has been the Company Secretary of the Company since October 2005. She is also the secretary of six Board Committees of the Company and the company secretary of various subsidiaries of the Company. Ms. Chiu is in charge of corporate governance, legal, company secretarial, investor relations and related matters of the Company. Ms. Chiu obtained a Bachelor of Laws degree from the University of Wolverhampton in 1996 and completed her Postgraduate Certificate in Laws at the City University of Hong Kong in 1998. Ms. Chiu was admitted as a solicitor in Hong Kong in 2000. Besides being a member of the Law Society of Hong Kong, she is also a fellow member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Prior to joining the Company, Ms. Chiu had worked for various entities including accounting firms, legal firm and listed companies. She is well conversant with business law and company law and has extensive experience and solid knowledge in dealing with the company secretarial, corporate governance and legal matters for private and listed companies.

Corporate Governance Report

THE COMMITMENT AND COMPLIANCE OF THE COMPANY

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



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

The Company also maintains an employee handbook providing guidance to employees on matters such as ethical standards, business conduct, employees conduct and reporting any misconduct within the Group. The employee handbook applies to all employees of the Group who must ensure strict compliance with the policies therein. Through the establishment of a performance charter for the management and appropriate appraisal mechanisms, the Company has been able to align the interests of the management and all the staff with the growth and performance of the Company. The Company pays particular attention to the establishment of an optimal corporate culture. With the support of all staff, the Company has identified, formulated and implemented a corporate culture that is considered appropriate for its special circumstances, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Group. In addition to complying with applicable statutory requirements, the Company aims to continually review and enhance its corporate governance practices in light of local and international best practices. The Company had applied the principles and complied with the CG Code throughout the year ended 31st December 2019, except (i) Mr. Wang Yuhang, the then Chairman has delegated the Vice Chairman to have a meeting with independent non-executive directors without the presence of other directors due to other business engagement, a deviation from the provision A.2.7 of the CG Code; (ii) Mr. Feng Boming, the Non-executive Director was unable to attend the annual general meeting and the special general meeting held on 31st May 2019 and 30th December 2019 respectively, both of Mr. Chen Dong, the Non-executive Director and Mr. Jiang, Simon X., the Independent Non-executive Director were unable to attend the special general meeting held on 30th December 2019 due to other business engagement, a deviation from the provision of A.6.7 of the CG Code; and (iii) Mr. Wang Yuhang, the then Chairman, was unable to attend the annual general meeting held on 31st May 2019 due to other business engagement, a deviation from the provision of E.1.2 of the CG Code, there is no other matter deviated from the CG Code.

THE BOARD

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

During the year, the position of the Chairman was held by Mr. Wang Yuhang, and the positions of the Vice Chairman and the Managing Director were held by Mr. Zhu Jianhui. In order to reinforce their respective independence, accountability and responsibility, the role of the Chairman was definitely separated from that of the Managing Director (who was also the Vice Chairman). The Chairman was responsible for formulating the overall strategies and policies of the Company while the Managing Director (who is also the Vice Chairman) was responsible for the day-to-day operation and management of the Company in accordance with the objectives and directions, and internal control policies and procedures laid down by the Board. Division of responsibilities between the Chairman the Managing Director (who is also the Vice Chairman) was clearly defined and set out in writing. Executive Directors are mainly responsible for the day-to-day operation and management of the Company. Non-executive Directors (including Independent Non-executive Directors) are well aware of their functions and have been actively performing their functions including but not limited to bringing an independent judgment at the Board meetings, taking the lead where potential conflicts of interests arise and scrutinising the Company's performance. Non-executive Directors and Independent Non-executive Directors have from time to time contributed to the Board their constructive and valuable advice on the development of the Company's strategy, in particular the internal controls of the

Company. Besides, Independent Non-executive Directors serve as member of Board Committee(s), details of which are set out in the sub-section of "Board Committees" under the section headed "The Board" of this report. Annual written confirmation from each of Independent Non-executive Directors confirming his independence in accordance with Rule 3.13 of the Listing Rules was received by the Company. The Company has assessed their independence and considers that all the Independent Non-executive Directors are independent based on the independence criteria in accordance with the requirements of the Listing Rules set out in the confirmation letters, the non-involvement of Independent Non-executive Directors in the day-to-day operation and management of the Group and the absence of any relationship which would interfere with the exercise of their independent judgment.

During the year, the then Chairman has delegated the Vice Chairman to have a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of other Directors. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters were openly discussed.

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

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

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

Remuneration of Directors

The Company's Human Resources Division assists Remuneration Committee to discharge its duties by providing relevant remuneration data and market conditions information for Remuneration Committee's consideration. The remuneration of Executive Directors and the senior management of the Company is determined with reference to the Company's performance as well as remuneration benchmarks in the industry and the prevailing market conditions. Emoluments paid to Directors and the senior management of the Company by band for the year are disclosed in notes 24 to 25 to the financial statements of this annual report.

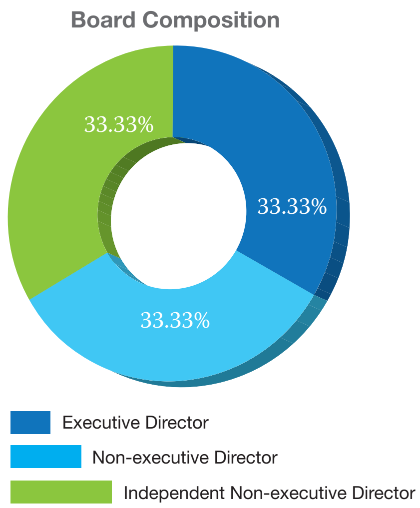
Nomination, Appointment and Re-election of Directors

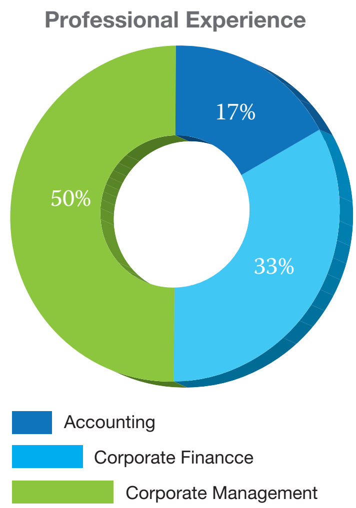
The Company adopted the Director Appointment Policy (available on the Company's website) which provides framework and standards for the appointment of high calibre directors who should have the capacity and ability to lead the Company towards achieving sustainable development. The Nomination Committee is responsible for identifying and nominating suitable candidates for the Board's consideration. Pursuant to the bye-laws of the Company, any Director appointed to fill vacancy shall hold office until the next following general meeting or annual general meeting of the Company and shall then be eligible for re-election at that meeting, and every Director is subject to retirement by rotation at least once every three years and shall be eligible for re-election at such annual general meeting of the Company. Any further re-appointment of an Independent Non-executive Director, who has served the Board for more than nine years, will be subject to separate resolution to be approved by the Shareholders. In addition, Nomination Committee recommended the proposal of Directors' re-election in the 2020 annual general meeting of the Company. Mr. Ma Jianhua, being the Non-executive Director, has entered into a letter of appointment with the Company on 30th October 2018 for a term commencing from 30th October 2018 to the conclusion of the 2020 annual general meeting of the Company. Each of Mr. Feng Boming and Mr. Chen Dong, being the Non-executive Director, has entered into a letter of appointment with the Company on 15th January 2018 for a term commencing from 15th January 2018 to the conclusion of the 2020 annual general meeting of the Company. Each of Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton, being the Independent Non-executive Director, has entered into a letter of appointment with the Company on 30th May 2018 for a term commencing from 30th May 2018 to the conclusion of the 2020 annual general meeting of the Company. Each of the above letters of appointment is subject to termination by either party giving one month's prior notice in writing or such other shorter notice period as may be agreed by both parties. In addition to the Independent Non-executive Directors and the Non-executive Directors, all Executive Directors were appointed for a specific term and letters of appointment setting out the key terms and conditions of appointment were entered into between the Company and each of the Directors, details of which are set out in the "Directors' Report" of this annual report.

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

Board Diversity

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





Induction and Continuous Professional Development

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

Directors' Responsibilities for Financial Reporting and Disclosures

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

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

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

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

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

Securities Transactions Of Directors And Relevant Employees

The Company has adopted a Code of Conduct regarding Securities Transactions of Directors and Employees (the "Securities Code") (available on the Company's website) no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. In order to ensure Directors' dealings in the securities of the Company are conducted in accordance with the Model Code and the Securities Code, a committee comprising the Chairman, the Managing Director and a Director was set up to deal with such transactions. The Company had made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Securities Code during the year of 2019, all Directors confirmed that they had complied with the required standards as set out in the Model Code and the Securities Code during the year.

Board Meetings

The Board met regularly and held four regular meetings in 2019. Notice of meeting was given to the Directors at least 14 days prior to each regular Board meeting. The Directors were invited to include any matters which they thought appropriate in the agenda. Agenda and board papers with adequate information were sent to all Directors at least 3 days before the meeting in order to ensure that they had sufficient time to review the board papers and prepare for the meeting. At each regular Board meeting, the Directors were properly briefed on the Company's current situation and issues arising at such meeting. Executive Director(s) and/or chairman of Board Committees and/or the senior management of the Company reported to the Board on various aspects, including the business performance, financial performance, corporate governance, risk management and internal control, etc.. Queries raised by the Directors were responded promptly by the senior management of the Company. Directors were encouraged to make an active contribution to the Board's affairs and express their views and concerns. Sufficient time was allowed for the Directors to discuss matters about which they were concerned. For Director who was unable to attend the regular Board meeting, he was properly briefed the matters to be discussed in advance and his view expressed prior to the meeting was reported to the Board.

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

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

	Annual General Meeting	Special General Meeting	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	Strategic Development Committee Meeting	Risk Management Committee Meeting
Executive Directors									
Mr. Zhu Jianhui[(1)]	1/1	1/1	4/4	N/A	2/3	1/1	2/2	1/1	1/1
Mr. Liu Gang	1/1	1/1	4/4	N/A	N/A	N/A	N/A	1/1	1/1
Non-executive Directors									
Mr. Ma Jianhua	1/1	1/1	4/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Feng Boming	0/1	0/1	3/4	N/A	N/A	N/A	N/A	1/1	N/A
Mr. Chen Dong	1/1	0/1	2/4	N/A	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors									
Mr. Tsui Yiu Wa, Alec	1/1	1/1	4/4	3/3	3/3	1/1	2/2	N/A	N/A
Mr. Jiang, Simon X.	1/1	0/1	4/4	3/3	3/3	1/1	2/2	N/A	N/A
Mr. Alexander Reid Hamilton	1/1	1/1	3/4	3/3	3/3	1/1	2/2	N/A	N/A
Ex-Director									
Mr. Wang Yuhang[(2)]	0/1	0/1	0/4	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

(1) Mr. Zhu Jianhui was re-designated as Chairman on 4th March 2020. After the re-designation, he is the Executive Director, Managing Director and Chairman.

(2) Mr. Wang Yuhang resigned as Executive Director and Chairman on 4th March 2020.

Board Committees

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

(a) Audit Committee

Members	Three Independent Non-executive Directors, namely, Mr. Alexander Reid Hamilton (committee chairman), Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X..
Major responsibilities	— reviewing the accounting policies and supervising the Company's financial reporting process; — monitoring the performance of both the internal and external auditors; — monitoring the effectiveness of the financial reporting, risk management and internal control systems; — ensuring compliance with applicable statutory accounting and reporting requirements; — reviewing the financial information of the Company; and — acting as the key representative body responsible to oversee the relationship between the Company and the external auditor, include the relationships involving the provision of non-audit services.
Major work performed during the year 2019	— reviewing and making recommendations for the Board's approval on 2018 annual results announcement, the audited consolidated financial statements for the year ended 31st December 2018, 2019 interim results announcement, interim report 2019 and the unaudited condensed consolidated financial information for the six months ended 30th June 2019; — reviewing the report of external auditor; — reviewing the effectiveness of the risk management and internal control systems; — reviewing the continuing connected transactions of the Group for the year ended 31st December 2018 and for the period ended 30th June 2019 respectively; — making recommendations to the Board, subject to the Shareholders' approval at the 2019 annual general meeting, the re-appointment of PricewaterhouseCoopers as the external auditor of the Company; — reviewing the internal audit plan for the year 2020 and external audit plan for the year ended 31st December 2019; and — reviewing the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting function, and their training programmes and budget.

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

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

(b) Remuneration Committee

Members	Three Independent Non-executive Directors, namely, Mr. Jiang, Simon X. (committee chairman), Mr. Tsui Yiu Wa, Alec and Mr. Alexander Reid Hamilton; and an Executive Director, namely, Mr. Zhu Jianhui.
Major responsibilities	— making recommendations to the Board on the policy for the remuneration of the Directors and senior management of the Company; — ensuring the remuneration offered to the Directors and senior management of the Company is appropriate for the duties and in line with market practice; — determining the remuneration packages of individual Executive Directors and senior management of the Company with delegated responsibility by the Board; and — making recommendations to the Board on the remuneration of Non-executive Directors.
Major work performed during the year 2019	— reviewing and making the recommendation to the Board on the proposed share option incentive scheme; — reviewing and making recommendations to the Board on the Directors' fees of Independent Non-executive Directors for the year 2019; and — reviewing the remuneration report of the Group including determining the salary package for senior management of the Company.

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

(c) Nomination Committee

Members	Three Independent Non-executive Directors, namely, Mr. Tsui Yiu Wa, Alec (committee chairman), Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton; and an Executive Director, namely, Mr. Zhu Jianhui.
Major responsibilities	— reviewing the structure, size and composition of the Board; — making recommendations to the Board on the appointment and succession planning for the Directors; — assessing the independence of Independent Non-executive Directors; — monitoring the annual checks and assessment on the members of the Board, including the suitability and the sufficiency of time commitment of Non-executive Directors; and — monitoring and reviewing the implementation of the Board Diversity Policy.
Major work performed during the year 2019	— conducting a review of the Board diversity, assessing the independence of Independent Non-executive Directors and the contributions of the Board members and recommending the submission of the proposal on Directors' re-election at the annual general meeting of 2020.

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

(d) Corporate Governance Committee

Members	An Executive Director, namely, Mr. Zhu Jianhui (committee chairman); and three Independent Non-executive Directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton.
Major responsibilities	— formulating and reviewing the Company's policies and practices on corporate governance; — reviewing and monitoring the training and continuous professional development of Directors and/or senior management of the Company; and — reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the annual report.
Major work performed during the year 2019	— reviewing the continuous professional development of Directors, the Company's compliance status of the CG Code for the year ended 31st December 2018 and the disclosure of the corporate governance report in the annual report of 2018; and — reviewing the Company's compliance status of the CG Code for the six months ended 30th June 2019.

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

(e) Strategic Development Committee

Members	Two Executive Directors, namely, Mr. Zhu Jianhui (committee chairman) and Mr. Liu Gang; and a Non-executive Director, namely Mr. Feng Boming.
Major responsibilities	— reviewing the annual strategic development plan of the Company and monitoring the implementation of strategies; — reviewing the major investment projects and financing proposals; — reviewing the major capital deployment and project on operation of assets; — reviewing the strategic direction of the Company's business and operational management; and — reviewing and evaluating the project evaluation system(s).
Major work performed during the year 2019	— reviewing and discussing the report on the implementation of strategic development plan for the year 2018 and the strategic development plan for 2019.

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

(f) Risk Management Committee

Members	Two Executive Directors, namely, Mr. Zhu Jianhui (committee chairman) and Mr. Liu Gang; and a Non-executive Director, namely, Mr. Chen Dong.	
Major responsibilities	—	monitoring the risk management framework to identify and deal with risks faced by the Group (including operational, regulatory and financial risks etc.);
	—	reviewing and assessing the Group's risk management framework; and
	—	monitoring the implementation of risk control.
Major work performed during the year 2019	—	reviewing and discussing the risk management report for 2019 in relation to the analysis on risks identified, improvement of internal control and risk management system and the risk management plan for 2020.

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

INTERNAL CONTROL AND RISK MANAGEMENT

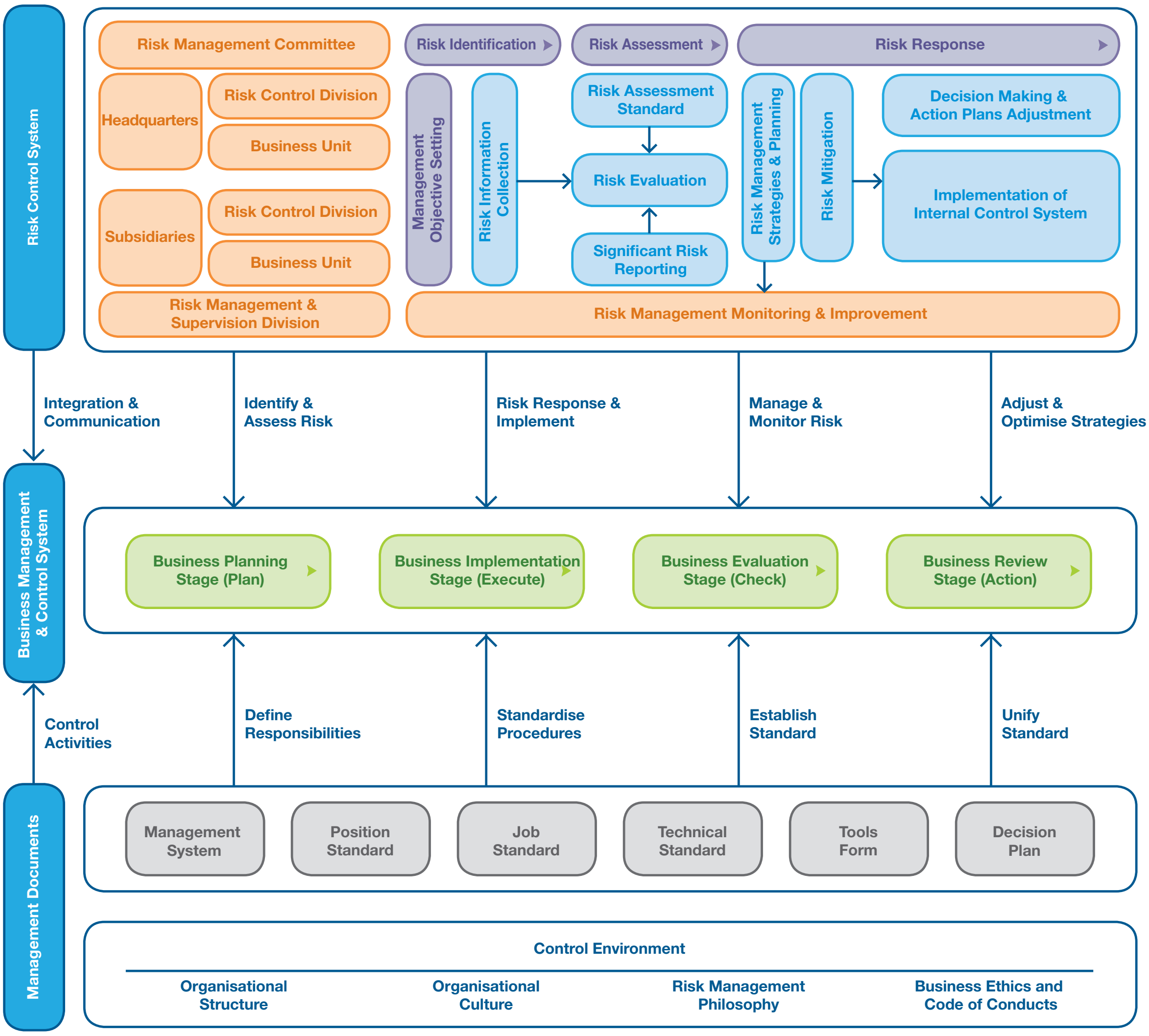
Responsibility

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

Framework and Approach

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

Risk Management Framework of the Group



Control Environment

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

Control Activities

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

— the design of an organisational structure with defined lines of responsibility and delegation of authority;

— the setup and adherence of authorisation and approval limits of the Company and each business unit;

— the establishment of policies and procedures to support deployment of management's directives;

— the systems and procedures to identify and mitigate risks on an ongoing basis; and

— the application of Enterprise Resource Planning (ERP) systems and other relevant information technology in business processes to strengthen internal controls and promote internal efficiency. The Information Management Method regulates the information management of the Company and ensures inside information being properly disseminated and timely disclosed.

Risk Management Process

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

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

Major Operational Risk Factors and Measures

In 2019, according to the Company's risk assessment, top five risks were identified as macroeconomic risks, trade receivable risk, market competition risk, product risk, human resources risk.

For macroeconomic risk, as a result of the dramatic changes in both domestic and foreign macroeconomic environment, the Company's operational and financial performance have been adversely affected. The management has analysed the business environment from a variety of perspectives in combination with their industry experience to adjust the Group's strategy in a timely manner and to improve the internal management capabilities and anti-risk capabilities in order to reduce the adverse effects caused by environmental changes.

For trade receivable risk, the Finance & Accounting Division regularly holds receivable meeting with the business units in order to strengthen the collection of receivables. Each business unit assigns designated person to follow up the receivables, continuously improves and enhances the receivables management capabilities to avoid risks through various means including conduct reconciliation with high risk customers irregularly, adopt various degree of collection mode for short-term, mid-term and long-term debtors, establish receivables communications and feedback mechanisms and arrange monthly follow up to mitigate bad debts risk.

For market competition risk, continuous expansion of the existing competitors and potential competitors has intensified competition in the market which has a significant impact on business and operating performance. The Company and its subsidiaries has laid a good foundation for its sustainable and healthy development and coped with the market competition risks by paying close attention on industry trends, adopting flexible communication mechanisms, timely grasping market trends, maintaining quality customers, steadily expanding the market, and striving to reduce management costs, which result a good foundation for the Company's sustainable and healthy development to cope with market competition risks.

For product risk, the regulation of replacing the traditional oil-based coatings with water-based coatings sets higher R&D and product quality standard for COSCO Kansai Companies. Since water-based coating products are greatly affected by weather, construction environment and construction technology, the storage conditions are also demanding. As such, COSCO Kansai Companies actively participated in the technical specification and research and development of water-based container coatings. In the meantime, the process management and quality control of production are continuously optimised to ensure the risks are minimised.

For human resources risk, enterprises rely on professional management staff for business strategy and overall development, construction, operation and management. The Company has always adopted a people-oriented development strategy and upheld four principles in employee management, including management in accordance with procedures, establishing a fair and open system, meritocracy, and emphasising both rights and obligations in employee management. In addition, the Company does care about the personal career development of employees, encourages continuous training, develops training content for employees with different qualifications, businesses and positions, and also provides employees with training assistance provided by third parties.

Internal Audit and Control Effectiveness

The Company has an internal audit function. It performs regular reviews of the Company's internal controls based on the annual audit plan approved by the Audit Committee.

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

The management of the business units is responsible for ensuring the agreed-upon action plans be implemented within an appropriate timeframe. The management must also confirm annually to Audit & Supervision Division that business units under their control have taken or are in the process of taking the appropriate actions to deal with all significant recommendations made by Audit & Supervision Division.

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

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

EXTERNAL AUDITOR

During the year, the remuneration paid or payable to the Company's external auditor, PricewaterhouseCoopers, in respect of audit and non-audit services provided to the Group were approximately HK$4,190,000 and HK$1,406,000 respectively. These amounts excluded remuneration paid or payable to other external auditors of subsidiaries of the Company which were included in Auditors' remuneration disclosed in note 23 to the financial statements.

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

COMPANY SECRETARY

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

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

COMMUNICATION WITH SHAREHOLDERS

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

The Board believes that the general meetings provide an opportunity for communication between the Shareholders and the Board members. During the year, an annual general meeting of the Company was held on 31st May 2019 (the "2019 AGM"). Shareholders were given at least 20 clear business days' notice of the 2019 AGM. Besides, a special general meeting of the Company was held on 30th December 2019 (the "2019 SGM"). Shareholders were given at least 10 business days' notice of the 2019 SGM. The Vice Chairman (delegated by the then Chairman) and the chairmen of relevant committees attended the 2019 AGM. The representative from PricewaterhouseCoopers, the external auditor of the Company attended the 2019 AGM to answer questions if necessary about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence. The representatives of the independent financial adviser and the legal adviser attended the 2019 SGM to answer questions if necessary about the annual caps of 2020-2022 continuing connected transactions. Q&A sessions had been provided to the Shareholders to raise their concern at the 2019 AGM and the 2019 SGM respectively. The chairman of each of the 2019 AGM and the 2019 SGM explained the detailed procedures for conducting a poll at such meetings. At the 2019 AGM and the 2019 SGM, separate resolution for each substantially separate issue was proposed in order to avoid bundling resolutions. The poll voting results of the 2019 AGM and the 2019 SGM were published on the websites of the Stock Exchange and the Company on the same day after the meeting.

Shareholders' Rights

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

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

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

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

Shareholders' Enquiries

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

Procedures for Shareholders to make proposals at general meeting

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

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

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

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

CONSTITUTIONAL DOCUMENTS

There was no change to the memorandum of association and bye-laws of the Company during the year ended 31st December 2019.

INFORMATION DISCLOSURE

The Company adheres to high standards with respect to the disclosure of its financial statements. To foster regular and contribute two-way communications amongst the Company, its shareholders and potential investors, Public Relations Division is designated to respond to enquiries from the Shareholders and the public. In addition, the Company is committed to maximising the use of its website as a channel to provide updated information in a timely manner and strengthen the communications with both the public and the Shareholders.

By order of the Board

CHIU Shui Suet
Company Secretary

Hong Kong, 23rd March 2020

Prospects

In view of the macroeconomic environment, the Organization for Economic Co-operation and Development has lowered its 2020 global trade growth forecast from 3.7% to 2.6% because of the COVID-19 outbreak and other factors. However, the phrase one trade deal that signed by the United States and China may support trade growth, stabilize market expectation and retrieve investors' confidence. Meanwhile, the major economies are implementing monetary easing measures that may stimulate stronger economic activities and promote a stable macroeconomic environment.

As for China, the COVID-19 outbreak will have impact on the domestic economic growth and the demand for commodity export in the first half of 2020. However, the overall momentum of China's economic development remains stable and positive in the long-run, and there is still substantial potential if its economy, bringing opportunities to relevant industries.

In view of the trend in shipping industry, overcapacity in shipping industry will continue, together with the impacts from the new regulations regarding low-sulphur fuels, geopolitical issues and other unexpected incidents, will hold up the structural rebound of the industry.

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

For the ship trading agency services, the IMO 2020 Regulation relating to low sulphur pushes up the vessel operating cost. Even though the shipping companies may be more prudent in capital investment, it accelerates the process of disassembling old ship-carrying capacity at the same time, which further relieving supply pressure. The Group will seek continuous improvements in implementing innovative business model and strive for breakthroughs by proactively enriching services scopes, expanding geographical coverage of business, improving service quality and technological elements and strengthening market research and the construction of information technology systems.

For marine insurance brokerage services, the Group is actively participating in the internal businesses of COSCO SHIPPING Group related to domestic and international port projects and will continue to explore the demand for reinsurance business and non-marine insurance business to broaden its comprehensive business scope.

For the supply of marine equipment and spare parts, the Group will continue to optimise the scope of spare part services, further expand its supplier network and enhance its capacity of procurement and logistics united services, maintaining a high level of customer satisfaction. Looking forward, leveraging its advantages in overseas channels and network coverage, the Group will focus on developing customers of non-COSCO SHIPPING Group, as well as actively explore and expand customer base.

For container coatings, the Group will insist on innovation, continue to optimise the product formula for water-based coatings, accelerate market expansion, strive to gain market share and put efforts in enhancing the profitability and gross profit margin of container coatings through optimisation.

For industrial heavy-duty anti-corrosion coatings, the Group has prepared in advance and built a research and development system for water-based industrial coatings to support the market development of water-based industrial coatings. It will also continue to explore a well-diversified supplier chain while maintaining a steady gross profit level.

For marine coatings, the annual supply for marine coatings in 2020 is estimated to be lower than that in 2019 due to slump of new build vessels delivery in the market. The Group will make efforts to achieve balance between project profitability and market share, allocate resources for new business development, strive to upgrade our products and develop more advanced and eco-friendly marine coatings with improved performance, thus further consolidating our market position.

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

Investor Relations

INVESTOR RELATIONS MANAGEMENT STRATEGY

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

The Company attaches great importance to prompt communication with all participants in the capital market. We communicate timely and comprehensively with wide-ranging investors through diversified communication channels. Besides answering enquiries and concerns from investors promptly as a daily routine, the Company proactively initiates regular activities, including roadshows, meetings with fund managers, media gathering, etc.. In 2019, the Company met with investors and relevant persons for a total of 143 attendances (2018: 138 attendances), of which, institutional investors of 83 attendances, sell-side analysts of 11 attendances, media of 49 attendances.

COMPREHENSIVE INVESTOR RELATIONS MAINTENANCE

In 2019, the Federal Reserve of the United States has lowered its interest rates by three times and which supported global capital market to perform positively, China's and global stock markets as well as commodities recorded positive returns. Among the MSCI sector indexes, information technology sector was the top performer with a 47.7% year-on-year increase in stock price. In particular, the performance of shipping industry was supported by the first phase of US-China trade deal at the yearend. However, stepping into 2020, tremendous fluctuations in capital markets were caused by the COVID-19 outbreak and the sharp fall in oil prices. The Company recognised the concerns of investors and has been committed to responding promptly to investors' enquiries and initiating marketing and interactive campaigns, for the purpose of actively promoting our corporate culture which places emphasis on shareholders returns, as well as the investment value and prospects of COSCO SHIPPING International to the potential investors.

The Company performs regular analysis of shareholders structure, measuring the shareholding distribution between institutional and retail shareholders as well as their investment orientations and origins and closely monitoring the changes of their equity interests, in order to identify the Company's position in the capital market and facilitate daily maintenance of investors relations management. According to the Bloomberg Terminal, as at the end of 2019, the top 10 institutional shareholders' shareholding in COSCO SHIPPING International accounted for 5.50% (as at the end of 2018: 5.69%) of the total issued share capital of the Company. These institutional shareholders are based in Hong Kong, the United States, Canada, Japan and Luxembourg, all of which focus on long-term value investing and are large investment institutions with high reputation in the industry.

DIVERSIFIED, REAL-TIME AND TRANSPARENT COMMUNICATION CHANNELS

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

As time progresses, the Company adheres to a diversified and real-time communication culture, provides immediate access to the latest updates of the Company to capital market through comprehensive channels, including the Company's website, WeChat, corporate periodicals, etc.. During the year, 41 pieces of news release were published on the Company's website and 210 pieces of latest updates of the Company were pushed on WeChat. Besides, the Company has revamped its website this year, providing a even more concise and clearer layout for all stakeholders. The revamped website in particular highlights the unity on management and operation of COSCO SHIPPING (Hong Kong) and the Company, as well as the profile of being a streamlined corporate.

KEY CONCERNS BY SHAREHOLDERS AND INVESTORS IN 2019

- The performance of the five shipping service, segments of the Company
- Capital expenditure plan and investment direction
- Future dividend distribution plan and the possibility of share repurchase
- The KPIs and the timeline for the launch of share incentive scheme
- The conditions and potential losses regarding the Company's fuel business

SHARE PRICE PERFORMANCE

On the last trading day of 2019, the closing share price of COSCO SHIPPING International was HK$2.05 (2018: HK$2.69) per share, which represented a decrease of 23.8% year-on-year. The number of shares in issue of COSCO SHIPPING International was 1,532,955,429 shares (2018: 1,532,955,429 shares). The market capitalisation of the Company was HK$3,142,559,000 (2018: HK$4,123,650,000). During the year, the highest share price was HK$2.75 and the lowest share price was HK$1.95. The daily average trading volume and daily average trading turnover were 578,000 shares (2018: 605,000 shares) and HK$1,323,000 (2018: HK$1,884,000), respectively.

DIVIDEND POLICY

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

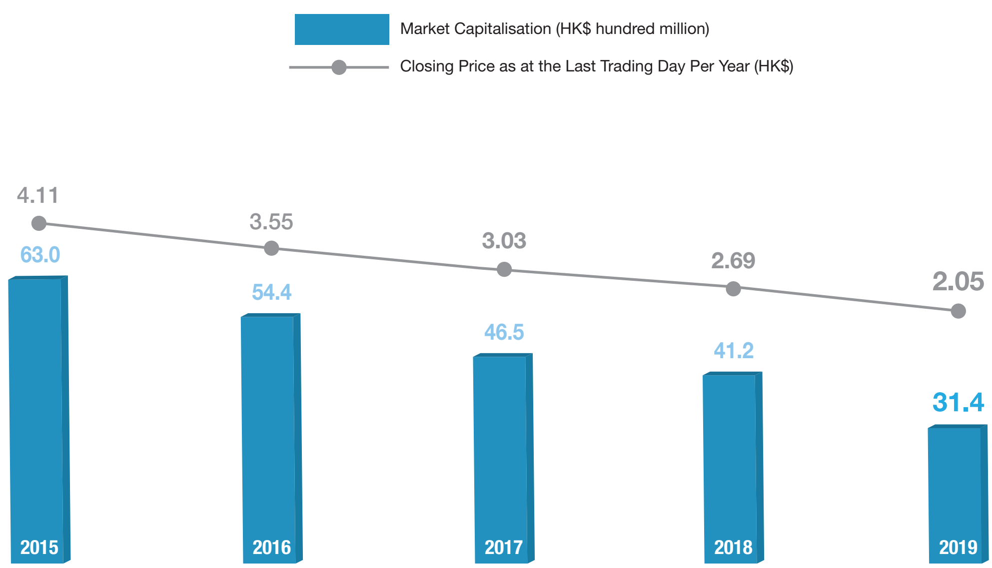
EARNINGS PER SHARE AND DIVIDENDS PER SHARE

The basic and diluted earnings per share of the Company for 2019 was 21.57 HK cents (2018: 18.67 HK cents). The Board proposed the 2019 final dividend of 9.5 HK cents (2018: 9 HK cents) per share, together with the interim dividend of 7 HK cents (2018: 5 HK cents) per share paid, annual dividends per share for 2019 were 16.5 HK cents (2018: 14 HK cents).

The annual dividend payout ratio of 2019 was 76% (2018: 75%).

COSCO SHIPPING INTERNATIONAL'S SHARE PRICE PERFORMANCE VS HANG SENG INDEX IN 2019

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



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

	2015	2016	2017	2018	**2019**
Basic earnings per share (HK cents)	21.91	15.47	23.26	18.67	**21.57**
Total annual dividends per share (HK cents)	16.00	14.50	18.00	14.00	**16.50**
Dividend payout ratio[Note 2] (%)	73	61	77	75	**76**

A GLANCE AT FIVE-YEAR FINANCIAL STATISTICS

For the year ended and as at 31st December	2015	2016	2017	2018	**2019**
Total number of shares issued (million)	1,533	1,533	1,533	1,533	**1,533**
Closing price[Note 1] (HK$)	4.11	3.55	3.03	2.69	**2.05**
Market capitalisation[Note 1] (HK$ hundred million)	63.0	54.4	46.5	41.2	**31.4**
Basic earnings per share (HK cents)	21.91	15.47	23.26	18.67	**21.57**
Price/earnings ratio[Note 1] (times)	18.8	23.0	13.0	14.4	**9.5**
Dividends per share (HK cents)	16.0	14.5	18.0	14.0	**16.5**
Dividend payout ratio[Note 2] (%)	73%	61%	77%	75%	**76%**
Net assets value per share (HK$)	5.04	5.02	5.16	5.12	**5.17**
Return on total assets (%)	3.5%	2.5%	3.8%	3.0%	**3.6%**
Return on shareholders' equity (%)	4.3%	3.1%	4.6%	3.6%	**4.2%**
Cash-to-shareholders' equity ratio (%)	80%	86%	82%	81%	**80%**
Current ratio (times)	6.1	6.4	6.4	7.8	**7.5**
Liquidity ratio (times)	5.9	6.2	6.1	7.5	**7.2**
Interest coverage (times)	115.3	69.9	85.7	103.2	**97.6**

Notes:

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

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

1.1 Scope of Disclosure

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

This report covers the main business segments of the Group, including ship trading agency services, marine insurance brokerage services, supply of marine equipment and spare parts, production and sale of coatings, and general trading services. The general disclosure of this report includes the above business segments, and the company scope covered by the key performance indicators includes all subsidiaries and presents the data in aggregate. In particular, certain key performance indicators of the production of marine coatings and container coatings have higher materiality. This report focuses on the operations of the headquarters and the business units of the core business of shipping services, especially coating productions.

1.2 Reporting Period

Unless otherwise stated, this report describes the performance and measures of the Group's sustainable development from the period between 1st January 2019 and 31st December 2019.

1.3 Reference to ESG Reporting Guide of the Stock Exchange

This report aims to review the performance and achievements of COSCO SHIPPING International's implementation of sustainable development strategies in 2019 and is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This report complies with the "comply or explain" provisions and reports on all recommended disclosures of the Guide. This report covers the quality of the work environment, environmental protection, operational practices and community involvement, such as improving the efficiency of natural resources used, reducing the air emissions and environmental impacts, strengthening the safety culture, awareness of employees safety and environmental risks. The Group actively creates a sustainable operating environment, builds a solid foundation for enhancing long-term shareholder returns, and strives to pay back our communities where we operate, as well as fulfils our corporate social responsibilities.

2. PHILOSOPHY AND POLICIES OF CORPORATE SUSTAINABLE DEVELOPMENT

2.1 Environmental, Social and Governance Management Strategies

In response to the consultation conclusions on "Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules" published in December 2019 by the Stock Exchange, the Group emphasised the responsibilities of the Board.

The Board is responsible for and delegating the Group's management to timely discuss environmental, social and governance issues and review the governance codes to enable the Group to keep abreast of and comply with the latest regulatory requirements in prior to the approval of this report. This system monitors the management to design, implement and continuously monitor risk management and internal control systems and to assure the suitability and effectiveness of the relevant systems and to assure timely implementation of the Group's sustainable development measures, the accuracy and reliability of the data presented.

2.2 Our Sustainability Management Policies

The Company's sustainable management strategies are developed in considerations of ESG factors upon our daily operations. Our policies respond to corresponding business models and segments. At the same time, the production segments and office operations are assessed individually for sustainability risks. We will continue to monitor and review the management and policies to stay in line with the market trend, evolving business landscape and regulatory supervision.

Our environmental protection policies strictly complied with the Environmental Management System Certification's management measures established by the International Organisation for Standardization ("ISO"). Our coatings production and sale segments, COSCO Kansai Companies and Jotun COSCO have implemented efficient waste reduction measures and energy-saving and emission reduction technologies to mitigate the impacts on environmental and community from our daily production and operations.

The Group strive to transform through constant innovation on green products to fulfil the stringent regulations and market demand for the environmentally-friendly coatings. During the year, the Company participated in the solicitation opinion of national standard "Technical requirement for low volatile organic compound content coating product (國家標準低揮發性有機化合物含量塗料產品技術要求的徵求意見)", which will help to promote volatile organic compounds ("VOCs") emission reduction, technological innovation and guide the coating industry to healthy and orderly development.

We seek accreditation where relevant to help us minimise the impacts on our corporate operations on occupational health and safety ("OHS") management and to drive improvements. The Group is certified the Quality Management System Certification (ISO9001), Occupational Health and Safety Management System Certification (OHSAS18001) and Environmental Management System Certification (ISO14001). To enhance the current healthy, safe and stable working environment, our Safety Committee is also present to monitor safety risk of our daily operations, management system in order to issue work reports for relevant measures.

3. DETERMINATION OF MATERIALITY

3.1 Stakeholder Engagement

We value opinions from all of our stakeholder groups and use comprehensive channels to engage with them as well as receive their feedbacks. Their feedbacks are fundamental to our success as they help us drive our sustainability strategies and initiatives. We identify stakeholders as groups that have an impact or have the potential to be impacted by our business, as well as those external organisations that have expertise in aspects that we consider material. Meanwhile, the materiality can have an immediate or future impact on our value creation, and hence our business performance over time.

Communication channels with stakeholders at our daily operations are identified as follow:

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

3.2 Process and Approaches of Stakeholder Engagement

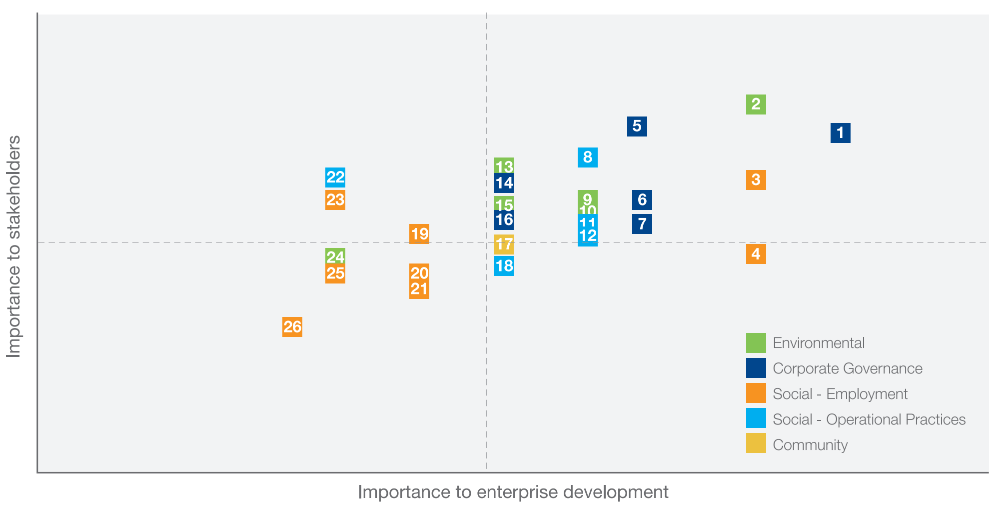
To identify the relevant ESG material issues, we commissioned external professional consultants to carry out a stakeholder engagement and materiality assessment via questionnaires and telephone interviews in 2019. We engaged with both internal and external stakeholders (including the Group's employees, management, government agencies, industry associations, suppliers, contractors, shareholders and investors and NGOs). The process allowed us to understand the perspectives and expectations from our stakeholders and our sustainability performance which subsequently determined the material aspects as well as the scope and boundaries of the Report.

To recognise material issues our society and customers face, we continually pursue sustainable development of society and the Company through dialogue with and proactive information disclosure to our stakeholders. While reinforcing the Group's management level of sustainable development, we take into consideration of evolving business landscape, emerging global and domestic trends, regulatory development, as well as stakeholder expectations to keep ourselves abreast with the industry.

3.3 Materiality Assessment

We have further reviewed and discussed our ESG material issues based on the previous stakeholder engagement result and due to stable diverse business nature and operation, we have prolonged our materiality assessment cycle where the materiality issues remain unchanged in financial year 2019. The 26 ESG topics identified from the stakeholder engagement covers corporate governance, resource management, employee benefits and policies, customer services and product liability, supply chain management, business ethics and social welfare. The following materiality matrix and the list summarize the material issues and their boundaries.

2019 Materiality Matrix of ESG Topics of COSCO SHIPPING International



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

4. PROTECTING OUR ENVIRONMENT

The Group recognises its role as a responsible business to minimise the negative impacts of our operations on the environment by promoting green and healthy shipping industry to achieve long-term sustainability. In many cases, we go above and beyond legal compliance, we translate our effort to be more proactive on emission and energy reduction optimisation of resource use and preservation of marine biodiversity. We also leverage technological advances and innovative solutions to provide environmentally-friendly products and strive to develop a corporate culture of sustainability through a series of employee environmental awareness training.

To stay on par with international requirements, the Group implemented an environmental management system and environmental policies in line with the requirements of ISO14001. In 2019, Jotun COSCO acquired ISO14001 certification for its environmental management system. Coupling with our internal risk control and management framework, we identify environmental risks arising from our daily operation and adopt a top-down management approach to manage our environmental impact in every corner of our business. Under the Group's guidance, our subsidiaries also develop their own environmental management plans in alignment with the Group's environmental management framework to continuously improve their environmental performance. To affirm our commitment to sustainable development, we invited a third-party verification institution to conduct an independent audit on our environmental performance on wastewater, exhaust gas and noise aspects. We also set ambitious environmental protection targets internally every year with diverse focuses including waste management, noise, wastewater etc. to closely monitor our environmental progress at regular intervals.

2019 Environmental Protection Targets	Progress
Waste disposed rate: 100%	100% of waste disposed rate
Environmental pollution accident: Nil	Zero environmental pollution accident
Stakeholder complaint rate: <1%	0% stakeholder complaint rate

In response to potential environmental accidents, COSCO Kansai Companies has established an "Environmental Emergency Response Plan (環境應急預案)" and set up emergency units with defined responsibilities. It also organised regular safety drills for relevant departments to improve our preparedness of environmental accidents.

The Group strictly abides with the relevant environmental laws and regulations, such as the "Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法)", the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法)", the "Water Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國水污染防治法)", the "Law of the People's Republic of China on the Promotion of Clean Production (中華人民共和國清潔生產促進法)", the "Law of the People's Republic of China on Environmental Impact Assessment (中華人民共和國環境影響評價法)", the "Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法)", the "Law of the People's Republic of China on the Prevention and Control of Pollution by Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法)" and the "Environmental Protection Tax Law of the People's Republic of China (中華人民共和國環境保護稅法)" as well as a range of local rules and standards in relation to prevention and control of environmental pollution by discarded dangerous chemicals, standards of air pollutants and integrated wastewater discharge standards in all locations it operates.

In 2019, there was no case of non-compliance concerning our operating practices.

4.1 Green Initiatives in Operation

The Group considers environmental aspects in decisions and daily activities and make every effort to minimize the environmental impact through holistic management approaches, substantial resources invested in emissions control, responsible use of energy and waste management, and supporting our consumers' efforts to mitigate the environmental burden.

4.1.1 Air Emission Reduction

The major air emission originated from the coating production are VOCs such as benzene, toluene and xylene volatiles and particulate matters, which attributable to air pollution and environmental health risk. We are determined to control VOCs emission in the production process by a variety of practices such as promoting water-based coatings, selecting high-quality raw materials, employing sophisticated production techniques, and adopting well-developed an emission control system.

Apart from further upscaled its water-based coating production line, COSCO Kansai Companies were equipped with multiple exhaust gas after-treatment facilities to achieve more systematic emission control. For exhaust gas in coating workshop, we introduced bag type dust collectors and integrated exhaust gas treatment equipment with spray remove dust, primary and medium filter, zeolite runner and catalytic oxidation features to effectively remove VOCs and particulate matters from exhaust gas, working together with confined production system with all completely closed workshop entrances and a dedicated forklift induction automatic access control system. While exhaust gas from laboratories is captured by our activated carbon absorbers to ensure that our VOCs emission level fulfils the requirements in "Emission Control Standard of Volatile Organic Compounds for Industrial Enterprises (工業企業揮發性有機物排放控制標準)".

Meanwhile, both COSCO Kansai Companies and Jotun COSCO employed regenerative thermal oxidizers (RTO) technology, further decomposing exhaust gas before emission with a combustion efficiency of above 97% to achieve a purification degree of 99.5%.

To support the government initiatives of "Three-Year Action Plan to Win the Blue Sky Defence War", we formulated our VOCs emission management plan with clear timelines under the guidance of local environmental protection department and the evaluation by relevant experts. We also follow the government instructions to implement appropriate emission control measures under different weather alerts. At the same time, the plants receive supervision and inspection by government agencies from time to time to ensure our compliance with legal and regulatory requirements on environmental protection emissions.

4.1.2 *Waste management*

COSCO Kansai Companies formulated a hazardous waste management plan with defined responsibility to govern a proper treatment, disposal, and recycling of hazardous waste. We recycle and reuse materials in a manner that is safe to employee health and the environment, including residues from exhaust gas treatment, wastes from manufacturing workshops and R&D laboratories, cleaning solvents, chemical raw materials and their packaging, to minimise the amount of hazardous waste. In 2019, COSCO Kansai Companies and Jotun COSCO recycled and reused packaging drums of raw material and cleaning solvents and further optimize the use of raw materials in refined production models to effectively reduce hazardous wastes generated. COSCO Kansai Companies also established a specific on-site warehouse with anti-seepage and corrosion prevention design for temporary and classified storage of hazardous waste and it assigns designated staff to carry out the daily management and regular waste counting. The hazardous waste is then disposed of through government qualified service agencies. The entire waste management process is monitored by the Safety Management Department with reference to relevant regulations. During the year, we hosted various waste management training to enhance employee awareness and competency of hazardous wastes handling.

4.1.3 *Resources Conservation*

The Group manages our use of resources to ensure we are resource-efficient in a sustainable manner. In our coating manufacturing business, we strive to increase our energy efficiency by means of increasing adoption of energy-saving technologies, phasing out of energy-inefficient electric machinery and making available to all employees training on energy conservation. COSCO Kansai Companies formulated “Energy Resource Conservation Control Procedure (能源資源節約控制程序)” to set out requirements for the use of resources such as water, electricity and stream in the production process and details of rewards and accountability system as a means to facilitate more effective use of these valuable resources. To promote the use of clean energy, Jotun COSCO introduces machinery driven by renewable energy such as solar energy and wind energy to gradually replace electrical equipment.

Our non-production businesses are committed to pursuing green office practices through energy and water and paper saving measures. To prevent the excessive consumption of electricity, the companies regulate air conditioners to maintain optimal temperature and conduct regular inspection to turn off unused electrical appliances to lower energy consumption. The Group also promotes green commuting by encouraging employees to use public transport, reinforcing business travel management, and maintain a record on vehicle fuel consumption. Besides, educational posters are posted on conspicuous spots to deliver the message of resources conservation to improve the environmental awareness of employees. All these efforts further improved the operational performance of the Group. During the reporting period, we have consumed 80,805 litre of diesel (2018: 72,304 litre), 45,271 litre of petrol (2018: 50,427 litre) and 108,863 cubic metre of natural gas (2018: 42,413 cubic metre) respectively.

4.1.4 *Wastewater Management*

Although our business generated limited wastewater in manufacturing operations, we consider proper discharge of wastewater as a material issue given water is a scarce resource.

Our coating plants will continue to recycle and reuse the wastewater to reduce the amount of freshwater consumption and wastewater discharge. We conduct a quarterly wastewater analysis, monitor the wastewater discharge with reference to emission standard of wastewater in “Integrated Wastwater Discharge Standard (污水綜合排放標準)” and appoint qualified service agencies for proper treatment before discharging it back into the environment.

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

	Unit	**2019**	2018	2017
Wastewater				
Wastewater[Note 1]	metric tons	**27,374**	20,227	21,013
Waste gas				
Volatile Organic Compounds ("VOCs") and Benzene[Note 2]	metric tons	**3.38**	10.88	4.73
Toluene[Note 2]	metric tons	**0.13**	0.37	0.12
Xylene[Note 2]	metric tons	**0.19**	0.73	1.70
Particulate matter[Note 2]	metric tons	**1.38**	1.71	20.14
Other exhaust gas emission	metric tons	**0**	0	2.4
Wastes				
Solid wastes (Hazardous)	metric tons	**1,484**	1,332	1,420
Solid wastes (Non-hazardous)	metric tons	**277.5**	274.9	363.2
Package materials				
Coating package materials[Note 1]	metric tons	**5,100**	4,014	5,036

Notes:

1. The increase in production quantity in 2019 resulting from the increase in corresponding emission.

2. In 2019, we strengthened our confined production system and integrated exhaust gas treatment equipment to remove emission from exhaust gas generated in production process, which resulted in a decrease in VOCs, Toluene, Xylene and Particulate matter emission as compared with that of 2018.

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

	Unit#	**2019**	2018	2017
Scope 1				
Total emissions	metric tons	**572.07**	419.84	311.63
Petrol	metric tons	**122.59**	136.55	103.65
Diesel	metric tons	**214.10**	191.58	207.98
Natural gas[Note 1]	metric tons	**235.38**	91.71	N/A
Scope 2				
Total emissions[Note 2]	metric tons	**5,457**	5,206	3,858
Electricity	metric tons	**5,457**	5,206	3,858
Scope 3				
Total emissions[Note 3]	metric tons	**597.10**	625.27	419.31
Business travel	metric tons	**336.11**	290.57	251.85
Paper consumption	metric tons	**260.99**	334.70	167.46
Total GHG				
Total GHG emissions (Scopes 1, 2 and 3)	metric tons	**6,626**	6,251	4,589
GHG emissions per m^2 of floor area (Scopes 1, 2 and 3)	metric tons/m^2	**0.15**	0.14	0.15
GHG emissions per employee (Scopes 1, 2 and 3)	metric tons/employee	**7.35**	7.14	5.42

\# GHG emissions data are presented in carbon dioxide equivalent.

Notes:

1 The regenerative thermal oxidizers (RTO) device with the use of natural gas in COSCO Kansai (Zhuhai) plant was officially put in operation in 2019, which resulted in an increase in natural gas consumption and corresponding greenhouse gas emission.

2 The office of 北京中遠海運船舶貿易有限公司 (Beijing COSCO SHIPPING Ship Trading Company Limited*) ("Beijing COSCO SHIPPING Ship Trading"), had its power supply controlled by the local property management office who did not provide sub-meters for the units occupied. Hence, the emissions data relating to electricity does not include Beijing COSCO SHIPPING Ship Trading.

3 The emissions data relating to business travel excludes the business travel of management nominated by Japanese shareholder of COSCO Kansai Companies.

Energy Consumption of the Group

	Unit	**2019**	2018	2017
Energy consumption				
Total electricity consumption[Note 1]	kWh	**6,437,058**	6,124,244	4,620,545
Electricity consumption density per m^2 of floor area	kWh/m^2	**143.44**	136.84	154.74
Electricity consumption density per employee	kWh/employee	**7,144.35**	6,991.15	5,676.35
Water consumption				
Total water consumption[Note 2]	metric tons	**37,707**	27,523	43,303
Water consumption density per m^2 of floor area	metric tons/m^2	**1.03**	0.73	1.82

Notes:

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

2 The increase in total water consumption resulting from the increase in production quantity in 2019 and water supply in members of the Group was controlled by their respective property management offices who did not provide sub-meters for the units that the members occupied. Hence, the reporting on water consumption amount and density in 2019 only covers COSCO Kansai Companies.

* *for identification purposes only*

4.2 Protect Biodiversity and Marine Environment

Biofouling is being considered as a critical challenge for causing extra marine fuel consumption, Jotun COSCO has been devoting itself to improve its energy-saving and low-consumption green hydrolysing antifouling coatings — Sea Quantum, which containing no biocides or metal toxins with solvent-free and low VOCs materials. Being recognised as the leading green anti-fouling coatings globally, Sea Quantum adopts advanced polymer technology and optimised formulation to performs excellent fouling protection up to 90 months but causing no negative impact on the marine ecosystem.

In compliance in Performance Standard for Protective Coatings ("PSPC") by the International Maritime Organization ("IMO") and the International Convention on the Control of Harmful Anti-fouling Systems on Ships (the "AFS Convention"), we provide tine-free proof and material safety data sheet (MSDS) of our coating products, and also commission environmental testing agencies to conduct annual VOCs testing to assure that the products comply with requirement in the relevant safety standards.

By signing the "Responsibility for Prevention and Control of Soil Pollution (土壤污染防止責任書)" with the Government, COSCO Kansai Companies and Jotun COSCO continually seek help from qualified third parties in drafting corporate land use survey planning and ground-water quality testing in pursuance of minimising its impact on land use and ecosystem. In the interest of further controlling and preventing soil pollution caused by our business, Jotun COSCO has written a "JCMC Soil Self-Testing Scheme (中遠佐敦土壤自行監測方案)" to self-monitor diverse soil pollutants concerned by the soil pollution prevention responsibility.

4.3 Green Products and Services Innovation

By leveraging the Group's prolonged presence in the market landscape, we are committed to offering sustainable solutions to ship owners with an aim to promote sustainable development in the shipping industry.

In addition to our success in environmental-friendly antifouling coatings, we also introduce Hull Performance Solutions ("HPS") coupling with big data analysis and high-tech coating technology. The solutions combine state-of-the-art antifouling and application technologies to maximise hull performance. HPS is expected to deliver a 15% propulsion efficiency gain and a 8.5% fuel cost and GHG emission saving as compared to an average market alternative. In 2019, Jotun COSCO continued to put forth dedicated efforts in optimising HPS and provide hull performance reports under the ISO19030 standard for its customers on a regular basis.

Our marine insurance brokerage services offer environmental liability insurance and professional consultation to enhance ship owners awareness of distinct environmental issues and assist them in implementing relevant environmental policies. To support our customers to maximize their positive impact and commitment to sustainability, we also hosted different value-added customers training and seminars. We invited Protection and Indemnity Club and lawyers to organise seminars for ship owners to share more insight into international policy and industry best practices on low-sulphur fuel initiatives.

5. ENSURING OUR HEALTH AND SAFETY

Employee safety and health is always the Group's highest priority. With this in mind, the Group strives to ensure a safe working environment with properly monitored manufacturing procedures to minimise workplace accidents. We as an investment holding company are tied with lower safety risk in daily operations while COSCO Kansai Companies and Jotun COSCO, engaging in coating products manufacturing in Mainland China, are associated with relatively significant safety concerns. To measure OHS performance, we review and update internal OHS targets annually. This year, we have successfully achieved all 2019 targets, namely zero significant fire accidents, traffic accidents, equipment accidents, work-related fatality, and occupational disease and annual work-related injury rate less than 5%.

As we acknowledge our responsibility in safeguarding a stable and safe production for stakeholders, beyond abiding compliance with the applicable safety laws and legislation such as the Law of the PRC on Prevention and Control of Occupational Diseases, the Production Safety Law of the PRC, and the Fire Protection Law of the PRC, the Group adopts a wide ranges of risk precaution and control measures to secure our production safety. An OHSAS18001 certified occupational health and safety management system is also in place at Jotun COSCO to confirm our alignment with international standard.

To achieve the common goal of workplace safety, the Group has formulated safety production and supervision management policies with a clear accountability system. Under the fundamental principles of "Share Responsibilities in One Post, Joint Management and Accountability for Delinquency (一崗雙責、齊抓共管、失職追責)" and "Safety as an Essential Component in Managing the Industry, Business, as well as Manufacturing and Operation (管行業必須管安全、管業務必須管安全、管生產經營必須管安全)", all employees share responsibility of cultivating a safety workplace culture to improve behaviour and performance in the workplace while effectiveness of product safety is held accountable to respective divisions and managed by heads of safety production department and monitored by the Group's headquarters.

5.1 Safety Committee

With the dedicated mission of "Safety First, Precaution as Crucial and Consolidated Governance (安全第一、預防為主、綜合治理)", the Group set up the Safety Committee in 2006. The Committee comprises of the Company's major responsible officers, a director of the Company (responsible for safety production) as the head of the Safety Committee and the general managers from other divisions of the headoffice, such as human resources, finance & accounting and audit & supervision shall be the members of the Committee.

The primary responsibilities of the Safety Committee are:

- Overseeing the safety-related issues of the Group and formulating overall production safety plan and provide safe production guidance for the Group;

- Reviewing and defining Group-level annual goals of safe production, making recommendations on major production safety measures, and addressing significant production safety issues; and

- Overseeing and advising the Group on key progress in executing safety production plan developed by superior departments, the Safe Production Committee and its office.

5.2 Production Safety Management

The Group believes that our robust production safety management brings along long-term business success. We are committed to promoting our long-term safety goal of "zero casualties" and establishing a more comprehensive safety management system.

5.2.1 Occupational Health and Safety

As a responsible employer, the Group is working to build a safety culture. Our primary goals include preventing workplace injuries, accidents during product manufacturing and disruptions at plants, as well as safeguarding the health of all employees in the workplace and during work-related activities. We adopted a series of measures, ranging from coating design, plant and warehouse management, production process, monitoring, inspection to emergency response policies, to demonstrate our strong commitment to protecting our employees.

COSCO Kansai Companies have formulated "Occupational Health and Safety Management Procedure" to direct proper OHS management procedures in various operating activities by corresponding policies specified with accountability of various department, ensuring the effective implementation of safety management. To detect and control OHS hazards at an early stage, they also regularly conduct OHS risk identification and evaluation for manufacturing processes and job positions at plants led by each department head. In the meantime, Jotun COSCO has formulated an OHS manual that identifies and assesses all potential OHS hazards and set out corresponding precautionary measures to prevent and control foreseeable workplace accidents. It also codifies an OHS risk control handbook that set out procedures and management measure to prevent employees from exposing to diverse OHS hazards in different working scenarios including chemicals, dust, noise, extreme temperature, hygiene and manual lifting.

In view of the frequent exposure to chemicals and toxic substance of our employees, apart from providing adequate personal protective equipment, we also introduce the "STOP" principle to minimise the risk of the adverse health effect of employees via four distinct aspects, namely Replacement, Engineering Control, Management Measures and Individual Protection.

Replacement

- Use substitute products with fewer harmful substances or material with low physical exposure risk. For instance, the powder is replaced with liquid or cream form of material
- Use less harm, lower-concentration liquid materialt

Engineering Control

- Give priority to confined operation
- The exposure sites are equipped with ventilation facilities and specify technical requirements in according with characteristics of substance

Management Measures

- Provide employees with training to better understand the risk associated with hazardous chemicals and its exposure
- Evaluate exposure level of chemical substance on a regular basis
- Offer risk-specific health asssessment for employees in specifc-job position

Individual Protection

- Provide appropriate personal protective equipment ("PPE") based on the result of risk exposure and risk evaluation
- Ensure employees full compliance with PPE protection rules and requirements

In addition to general health care, all employees particularly those engaging in job-position with higher OHS risk are provided with annual medical examination with specific assessment scopes according to the job-specific OHS risk identified for early detection of occupational and work-related diseases and injuries. Upon any abnormal examination result received, responsible departments will arrange a second medical examination for more refined health assessment. Moreover, new joiners and transferred employees are also required to undergo mandatory health check-up to identify if any relevant occupational contraindication before work onboard and post-employment medical examination is also provided for employees to leave their position.

To ensure our employees are fully aware of the potential OHS risks at work, we provide employees with a wide array of safety training, including fire safety, use of firefighting equipment, occupational hygiene, medical emergency, safety laws and regulations, accident cases sharing, hazardous chemical safety, special equipment safety, to equip them with necessary safety knowledge and skills.

We also inform our new joiner of relevant OHS hazards in writing before work onboard with a safety induction and present the OHS hazards measurement results on on-site notice board with the objective of enhancing the OHS awareness of our employees.

5.2.2 *Safety Production*

Our strong safety culture extends to all seasons, COSCO Kansai Companies appoint an internal safety investigation team, bringing professionals in relevant fields of expertise such as electrical, mechanical and operational, to conduct seasonal safety inspection to evaluate the impact of changing environmental conditions on workplace safety. Any safety hazards identified will be reported to relevant departments and ensure appropriate measures taken to improve its safety performance. Our senior management also conducts regular safety inspection at plants to convey the importance the Group attaches to OHS.

To avoid accidents and create a safe working environment, Jotun COSCO formulates chemical safety technical specification to provide detailed information of the chemical hazards, including possible harm to environmental and human, chemical exposure limit for emission such as xylene, ethylbenzene, and comprehensive control measures including engineering controls, personal protection and hygiene, to direct proper hazardous chemical and toxic substances handling. In addition, the specification also provides comprehensive guidance and emergency response plan on how to handle different potential accidents such as first-aid for chemical contact, fire protection, chemicals leakage and waste handling to perform a comprehensive management approach.

Furthermore, the specification stipulates the coating transportation requirements according to international standards such as International Maritime Dangerous Goods Code ("IMDG Code") of the United Nations, International Air Transport Association ("IATA") and International Maritime Organisation ("IMO") to ensure the sealed containers are held upright and fixed.

5.2.3 *Inspection and Evaluation of Safety Management*

The Group has launched the safety management self-assessment system ("SMSA") for coating business companies to qualify the effectiveness of safety measures since 2012. The system considered the respective coating business nature and developed in accordance with the national safety technical specification of coating industry such as the "Production Safety Law of the People's Republic of China (安全生產法)", the "Regulation on the Safety Management of Hazardous Chemicals (危險化學品安全管理條例)", "General Norms for Safety Standardization of Hazardous Chemical Enterprises (危險化學品從業單位安全標準化通用規範)", "Guidelines for Work Safety Standardization of Coating Enterprises (塗料生產企業安全標準化實施指南)" and "Safety Technical Specification of Coating Manufacturer (塗料生產企業安全技術規程)".

The system monitors ten safety management aspects, namely governance structure, risk and environmental factors control, laws and regulations and management policy, training and education, production facilities, operation safety, product safety and hazard notification, OHS hazards, accident and emergency response as well as inspection and self-assessment.

The Group conducts biannual SMSA examination using the Likelihood Exposure Consequences ("LEC") method for risks identification and evaluation of 150 items in the checklist. Given the full score of the assessment as 150, if the score of assessment falls below 90, it will be deemed as disqualified, 90-105 as qualified, 106-135 as good and 135 and above as excellent. The system supports the multiple scorers and the average score will be taken as the final score of the assessment. In case of any potential hazards identified during inspection, the responsible departments are required to formulate remediation or corrective measures accordingly within the stipulated period.

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

	Tianjin plant		Shanghai plant		Zhuhai plant		
Year	**First half of the year**	**Second half of the year**	**First half of the year**	**Second half of the year**	**First half of the year**	**Second half of the year**	**Average value**
2019	137	140	140	141	136	137	139
Average value for the assessment from 2012 to 2019	135	134	136	133	137	137	135

Work-related fatalities and injury cases during the reporting year of the Company

	For the year ended 31st December		
	2019	2018	2017
Work-related fatalities (No. of person)	**Nil**	Nil	Nil
Work injury cases (No. of case)	**3**	Nil	Nil

5.3 Safety Management of Non-Production Segments

Despite the lower level of safety risks associated with the non-production businesses such as ship trading agency services, marine insurance brokerage services, supply of marine equipment and spare parts, and general trading services, we have formulated safety policy and adopted a series of safety measures to further eliminate the health and safety risks in offices.

Our offices are equipped with adequate fire-fighting equipment such as fire extinguishers and filtering self-rescue respirators and we require the maintenance service providers to carry out regular equipment inspection and replacement. Our designated staff also conduct regular patrols to keep all emergency exit routes clear of obstructions. To enhance employee safety awareness, we organised regular fire drills in “Safety Month” for their better understanding of the use and location of fire-fighting equipment and escape routes and safety training to improve employee emergency preparedness.

To develop a comfortables working environment through improving indoor air quality, we monitor the progress of regular air quality test carried out by air-conditioner provider of the property management company to ensure no hidden impact on employee’s health.

5.4 Safety Accident Reporting and Investigation Mechanism

The Group has developed a safety accident reporting and investigation mechanism and implemented relevant accountability system. In case of any safety accidents, relevant personnel are required to report to dangerous occurrences and industrial accidents and occupational injuries to the head of relevant department at once and then notify the Safety Committee Office within 60 minutes from accidents occurrence and submit a complete accident report. The Safety Committee Office conducts preliminary accident verification and analysis and then report to the Safety Committee of the Group. Based on the severity of the accident, the Group sends out a specific investigation team to conduct an internal investigation and involves internal and external experts when necessary to thoroughly examine into root causes and induced loss of such accidents, identify the responsible parties and propose effective improvement suggestions. According to our accountability system, relevant employees shall be subject to admonitory interview and admonition or warnings based on the severity of the event. Upon detection of any concealment of facts, delay report and omitted report or failure to demonstrate immediate and sustained improvement, the consequence may be subject to disciplinary action.

In 2019, the Group received no recorded incidents of non-compliance with relevant laws, regulations and standards with significant impacts. The Group also maintain zero work-related fatalities (2018: Nil), nor any significant production safety accidents.

6. CARING FOR OUR PEOPLE

The Group always adheres to the people-oriented strategy and has formulated four management principles, namely, managing by regulations, establishing a fair and open system, meritocracy and emphasizing the coexistence of rights and obligations.

Employees are the cornerstone of the Group's sustainable development. We believe treating employees is the key to retain talents and enhance their sense of belonging. To this end, we strive to establish an inclusive and engaging working environment for our employees. We promote a continuous learning culture and provide them with competitive compensation and benefits. The Group also takes various initiatives to ensure the health of employees and communicate with them.

6.1 Talent Training and Development

We value the contribution of employees. The performance assessment is a key way to evaluate their contribution. During the year, the Group has upgraded the online performance assessment system to streamline the assessment process. The system will send reminders and anonymous accounts to employees to evaluate their colleagues. Employees are better evaluated and recognized under the upgraded system.

The Group has formulated "Management Methods for Setting Up of Professional Talent Pool (專業人才庫建設管理辦法)" which guides the talent pool management. Leading by the Human Resources Division, we have established a dedicated team to implement the policy. The team is responsible for setting standards and procedures. After that, they will select employees for talent pools. The pools are regularly reviewed and categorized by various businesses and industries. There is also an incentive mechanism. We provide the talents with bonus and development opportunities such as training courses, exchange programs and academic conferences. It helps motivate and retain our outstanding employees.

To better adapt to the rapidly changing business environment, we promote a continuous learning corporate culture. The Group has established a comprehensive training and development system with four training categories to satisfy the needs of various employees. First, we provide induction training for all new employees so that they can better adapt to the corporate environment. The training content covers our corporate strategic plan, human resource policy, financial policy, logistics rule, special operation training as well as occupational health and safety training. Second, our Human Resources Division would conduct regular assessments with various divisions and identify the key training topics. Relevant experts and professionals are then invited to conduct tailored training programs to the corresponding division. Third, we organise general training for employees. Finally, we provide subsidies to encourage employees to participate in external training programs such as certificates, diplomas, degree courses, lectures, seminars and conferences. We believe the growth of employees can drive the success of the Group. We will continue to enhance the training system and provide better programs for employees.

In 2019, the Group provided training programs for general management and specialists. In December, we held training programs for young and middle-aged cadre (香港中遠海運中青年幹部素質能力提升培訓班). The training covered political theory, leadership, financial management knowledge, safety, integrity, etc. The program aimed to improve their quality and ability to become the future leaders of the Group. In October, we invited an international accounting firm to organise a training program for our financial specialists. It aimed to provide them with a deeper understanding of the latest Hong Kong and PRC accounting standards and tax regulations.

Young and Middle-Aged Trainee Program

Financial Specialists Training Program

	For the year ended 31st December		
	2019	2018	2017
Total no. of training hours received	**16,254 hours**	13,911 hours	15,599 hours
Average no. of training hours per employee/rate of employees trained by employee category			
Senior	**35 hours/89%**	18 hours/81%	31 hours/80%
Middle-level	**27 hours/49%**	24 hours/55%	19 hours/41%
General	**19 hours/97%**	16 hours/88%	14 hours/70%
Average no. of training hours per employee/rate of employees trained by gender category			
Male	**18 hours/90%**	13 hours/84%	11 hours/65%
Female	**29 hours/79%**	32 hours/76%	33 hours/75%

6.2 Employees' Well- being

6.2.1 Employee Communication

The Group has established communication channels to collect employees' feedback. The "Implementation Award Measures for Reasonable Recommendations (合理化建議獎勵實施辦法)" is a mechanism through which employees can submit suggestions to the management. The suggestions received are then directed to the Company's recommendation team for review and approval. Employees will be praised and rewarded according to the impact of the approved suggestions. This is a win-win approach where employees can express their opinions and the group can benefit from them.

The Group also set up a human resources mailbox on the homepage of the office system as a long-term communication mechanism. The Human Resources Division collects the mail and directs it to the relevant departments for follow-up actions.

Faced with the coronavirus outbreak in 2019, we created a mobile phone group to share emergency measures and preventive knowledge to keep information flowing freely. Also, we have established a daily reporting mechanism to track the health status of our employees. We also abide by the Hong Kong government's announcements on office disinfection, release of protective equipment, flexible working arrangements, temperature measurement, etc..

Response to the coronavirus outbreak

6.2.2 *Employee Work-Life Balance*

We attach great importance to the work-life balance and well-being of employees. Thus, we provide them with a wide variety of employment benefits such as annual health checks and insurance. We also organise recreational and teambuilding activities such as sports activities and interest classes. Through the activities, employees will have higher morale and deeper connections with each other. This not only improves the physical and mental health of employees but also promotes work efficiency.

The Group has established the employee association with a constitution clarifying the position and duties. The association aims to promote more effective exchanges between employees by building a volunteer team and organising various employee activities.

In order to enrich the amateur life and improve the physical fitness of employees, we have organised "Fitness Walk Event (徒步健身活動)" for four consecutive years and more than 40 employees participated in the event. It offered them a wonderful opportunity to embrace nature and enjoy the scenery of spring. This event not only reduced the pressure on employees but also promoted communication between them.

We participated in the 2019 badminton competition held by the Hong Kong Chinese Enterprises Association. After two days of fierce competition, our team won two awards among the 50 participating teams. Our employees exerted the sports spirit and played at their best level, that showcased the eagerness as a member of COSCO SHIPPING.

Fitness Walk Event

Badminton Competition

6.2.3 *Employee's Family Life*

Harmony in family can support employees mental health. The Group has taken steps to strengthen the bonds between employees and their families. We organise various activities for employees and their families so that they can have more interactions with each other.

We held a hiking competition for employees and their families in 2019. They encouraged each other and completed the tough challenges together. It helps promote the team spirit and strengthen the cohesion.

6.3 Inclusive and Engaging Working Environment

The Group strictly complies with the employment laws and regulations, including "Employment Ordinance", the "Employees' Compensation Ordinance" and the "Occupational Safety and Health Ordinance" in Hong Kong and the "Labour Law of the People's Republic of China", the "Labour Contract Law of the People's Republic of China" and the "Law of the People's Republic of China on the Protection of Disabled Persons" in the PRC. We also adhere to internal recruitment procedures, including the "Administrative Measures on Recruitment and Employment" and the "Administrative Measures on Labour Contract", to ensure no employment of child labour and forced labour. The Group will regularly review the employees' information to ensure there is no violation of any regulations and policies.

We provide fair and competitive remuneration packages, including basic salary, incentive bonus, mandatory provident fund. We also provide benefits such as healthcare benefits, further education and training subsidies. In addition to providing basic benefits such as paid annual leave, paid sick leave, and medical insurance, additional vacation options such as paid wedding leave and employee paternity leave are provided to attract and retain outstanding talents. We have formulated the "Flexible Working Time Policy" for employees with special needs.

Details of workforce of the Group are as follows:

	For the year ended 31st December		
	2019	2018	2017
Total Number of Employees	**901**	876	846
By gender			
Male	**669**	652	662
Female	**232**	224	184
By region			
Hong Kong	**168**	196	110
Mainland China	**697**	644	701
Oversea	**36**	36	35
By age group			
Below or equal to 30	**79**	110	174
31 to 50	**649**	627	594
Over 50	**173**	139	78

Employee turnover rate of the Group (%):

	For the year ended 31st December		
	2019	2018	2017
Overall Turnover Rate of Employee	**7%**	10%	5%
By gender			
Male	**7%**	10%	4%
Female	**7%**	11%	7%
By region			
Hong Kong	**14%**	24%	19%
Mainland China	**6%**	6%	2%
Oversea	**0%**	0%	9%
By age group			
Below or equal to 30	**13%**	5%	3%
31 to 50	**5%**	10%	4%
Over 50	**13%**	14%	10%

7. DRIVING OUR BUSINESS DEVELOPMENT

Business development is crucial for sustaining the operation of a company. The Group believes that only through the collaboration of different stakeholders can achieve sustainable business development. Any breaches of our code of conduct or mistake in handling sensitive information can create significant impacts to our business development. We cooperate with our employees to safeguard business ethics and reduce the operational risk to the minimum level. The Group also emphasises the quality of our products and services. We pay extra effort in managing our supply chain to ensure our customers are satisfied with our products and services, hence ensuring the reputation of our company.

7.1 Supply Chain Management

7.1.1 Sustainability Procurement

The Group has been closely working with our suppliers to strengthen our sustainability portfolio and minimise risks throughout the supply chain. We are committed to promoting sustainable and responsible operational standards. In this regard, the Group formulated a series of sustainable procurement policies, including the “Procurement Management Measures”, “Tendering Procurement Management Measures”, “Non-tendering Procurement Management Measures”, “Centralized Procurement Management Measures”, “Supplier Management Measures”, “Special Affiliated Enterprises Management Measures” and “Procurement, Outsourcing and Supplier Management Supervision Measures”. With these policies in place, we are able to select and assess our suppliers with standardized procurement principles and procedures. It also encourages our colleagues to cooperate with suppliers who have considered environmental and social impacts in their products or services, so as to control our risks and maintain the quality and the healthy development of our supply chain. The Group imposed special management procedure to regulate products which are material to our operation. For example, we implemented the “Asphalt Supplier Management System” to monitor the conduct of asphalt suppliers. We require them to provide relevant supporting documents with respect to fire prevention and environmental assessment to minimise the safety and environmental impacts.

The Group has set out a standardised supplier selection approach in the “Procurement Management Measures” and the “Supplier Management Measures”. In the stage of selecting suppliers, all potential suppliers must comply with the Group’s requirements on health, safety, and environmental protection. To ensure our suppliers fully realized our requirements, we incorporated relevant policies in the contract terms. Suppliers can be listed in the Group’s procurement supplier database once we confirm their compliance so that each purchasing unit can select suppliers from the database. The Group constantly monitors the compliance status of our suppliers, the database is updated every three years. Suppliers who fail to comply with our standards will be excluded from the database.

7.1.2 Supplier Evaluation and Supervision Mechanism

We have set out a supplier evaluation mechanism to review our suppliers’ performance every year according to a series of quantitative indicators, which included fundamental capability, cost competitiveness, delivery fulfilment, quality control, customer service, business innovation, and safety and environmental protection, etc. Suppliers who fail to obtain professional qualifications, involve in safety and environmental incidents, as well as commit bribery, will be scored as zero points and the contractual relationship will be terminated with immediate effect.

In addition, the Group has established the supplier rating system which ranked our suppliers according to the evaluation result. Under this system, our suppliers will be classified into five levels. They are "A — Strategic Suppliers", "B — Quality Suppliers", "C — Qualified Suppliers", "D — Negative suppliers", and "E — Eliminated Suppliers". We prioritize cooperation opportunities with suppliers who have a higher rating in order to maintain a long-lasting partnership with outstanding suppliers. The rating is jointly reviewed by supplier purchasing departments and the user departments annually to ensure the effectiveness of our supplier rating system. Suppliers who are either absent or fail in the annual inspection, or have not been partnered for three consecutive years will be excluded from the database.

The Group is committed to promoting localisation of the supply chain in order to shorten the delivery time, boost the local economy, as well as minimise the vehicle emission. We will continue to explore business opportunities with local suppliers in the future.

The number of the Group's suppliers by region:

	For the year ended 31st December		
	2019	2018	2017
Mainland China	**857**	686	813
Hong Kong	**290**	223	118
Other Countries	**761**	619	733

7.2 Product Quality and Responsibility

Being a responsible enterprise, the Group is committed to providing high-quality, healthy and safe products and services to our customers. In addition to following international standards regarding product quality, we abide by the internal principles to secure the safety and quality of our products. The Group strictly monitors the entire lifecycle of our products, from sourcing raw material to product recall, return and replacement, so as to ensure the execution of technical standards, operational safety, as well as product and service quality.

Our subsidiaries which involve in chemical productions have established the internal policies on health, safety, environment and quality ("HSEQ") in line with international standards. In the manufacture of marine coatings, we provided a detailed control procedure to monitor and measure the quality of the coatings. We also conduct tests and inspections for the intermediate and final products to check whether they satisfy our quality control requirements. We have fulfilled the technical requirements of the State Administration of Work Safety, and also have strictly complied with the notice of the "Implementation Plan for Reducing Lead Content in Coatings of the Container Industry" issued by China Container Industry Association, the "Rules for Classification and Labelling of Chemicals" under the GB30000 national standard series of the People's Republic of China, the "Product Quality Law of the People's Republic of China", the "Regulations of the People's Republic of China on Administration of Chemicals subjected to Supervision and Control", the "Regulations of the People's Republic of China on Administration of Precursor Chemicals", and the "Provision on the Environmental Administration of New Chemical Substances of the People's Republic of China". During the reporting period, the Group was not aware of any non-compliance with relevant standards, rules and regulations that had a significant impact on the Group.

With respect to the new IMO regulation on sulphur limit which became effective in 2020, the Group provides shipowners with talks and seminars regarding the latest regulatory requirements. Vessels that cannot comply with the regulation may be refused entry by the port. On the other hand, shipowners started to be more conscious about the environmental risks that result in fines and penalties. In this regard, we offered environmental liability insurance, widened underwriting scope to include the ransom payment, as well as provided professional consulting services to protect our customers' interest. The Group also provides a range of on-demand services for our customers, including training on specific topics, panel discussion on trending issues, so as to satisfy our customers' needs.

We provide regular trainings and seminars to our customers on trending industrial issues.

To further strengthen our leading position in terms of technological level in the asphalt market, the Group have reformed the organisational structure and setup the Asphalt R&D Center. Leading management of the Group, the Center provided the core driving force of the technological development of asphalt. Meanwhile, our technical staff from the Center cooperated with the front-line staff to carry out the technical support to our customers. They are actively engaged in the development to ensure the supply and quality of our product and service.

7.3 Customer Care

7.3.1 Customer Satisfaction

The Group endeavours to provide our customers with high-quality, healthy and safe products and services. We treasure all the opinions in order to ensure the continued improvement of our business. The Group has established the procedure for handling complaints regarding our products and services. Once we receive complaints from customers, we will delegate relevant personnel to investigate the issue and take appropriate measures to prevent the recurrence of similar issues. During the reporting period, we have not received any major products and services related complaint.

COSCO Kansai Companies and Jotun COSCO have established the "Administrative Procedure for Customer Feedback" to manage complaints in a systematic approach, the standardised procedures ensure the complaints can be resolved in a fair, consistent and expeditious manner. We also specified in the "Process for Paint Return" that our management is aware of the quality of the products we sold, products are subjected to recall if any defects are identified. We take further measures to prevent the re-occurrence of the issue in order to safeguard the interest of our customers. During the reporting period, there was no product subject to recalls for safety and health reasons.

7.3.2 Customer Privacy

The Group emphasises customer privacy in all of our business operations. We established internal policies regarding information confidentiality to prevent the leakage of sensitive information of our stakeholders. We formulated the "Administrative Measures on the Protection of Trade Secrets" following the "Anti-Unfair Competition Law of the People's Republic of China", the "Interim Provisions on the Protection of Trade Secrets of Central Enterprises" promulgated by the State-owned Assets Supervision and Administration Commission of the State Council, and the "Administrative Measures on the Protection of Trade Secrets of China COSCO Shipping Corporation Limited", to protect all trade secrets and customer information of the Group. We also specified in the "Staff Management Measures" that leakage of customer information and strategic cooperation agreements to third parties is strictly prohibited. Besides, the provision of "Information Management Method" affirms "truth, accuracy, completeness and timeliness" as the basic principles in disseminating the information.

We strictly comply with all applicable local and international laws and regulations on data privacy to ensure that all customer information is handled properly and securely. In addition to the Personal Data (Privacy) Ordinance (Hong Kong), Jotun COSCO also abides by the General Data Protection Regulation ("GDPR"), the Group established the "Binding Corporate Rules (BCR)" which requires the employees to comply with the same system on privacy protection. During the reporting period, there were no complaints regarding breaches of customer privacy or loss of customer data.

7.4 Anti-corruption

7.4.1 Anti-corruption Policy

The Group has zero tolerance for corruption and bribery in any form. We strictly abide by the "Criminal Law of the People's Republic of China", the "Anti-Unfair Competition Law of the People's Republic of China" and the "Bidding Law of the People's Republic of China". To maintain a high standard of corporate ethics and anti-corruption, we incorporated business ethics and code of conduct into the Group's risk management framework. With respect to our latest "Professional Ethics and Code of Conduct for the Staff of COSCO SHIPPING International (Hong Kong)" (the "Code") and "Whistleblowing Policy for COSCO SHIPPING International (Hong Kong)" ("Whistleblowing Policy") have become effective, we required all employees to understand and strictly follow all the provisions to maintain high integrity and moral standards. The Code clearly stated that no staff should use their authority to engage in bribery or receive improper benefits, seize business opportunities from the Group, use company assets in any form to secure personal interests, and engage in any other activities which may impair the interests of the Group. Disciplinary punishment, including termination of employment, will be imposed on the employees who breach the Code. If any breaches involving the violation of laws and regulations of the jurisdiction, the Group will report the case to relevant authorities and cooperate with their investigation.

To achieve and maintain the highest standards of openness, probity and accountability, the Group established the Whistleblowing Policy which allows our employees to report whistleblowing matters anonymously. With the terms set out to protect the confidentiality of the whistleblower, the identity of the individual employee making the allegation will not be divulged without the employee's consent. Any attempt by individuals to interfere with the investigation process is deemed to be a severe disciplinary breach.

7.4.2 Anti-corruption Training

The Group emphasises on precautions of corruption practices. In this regard, we offer regular anti-corruption training to our employees to strengthen their awareness of anti-corruption. In 2019, the Group organised the anti-corruption conference in four locations in China, including Hong Kong, Beijing, Shanghai and Shenzhen. Middle management or above were invited to the conference in order to enhance their awareness. Furthermore, the Group has been working closely with the Hong Kong Independent Commission Against Corruption (ICAC) to provide training on integrity management. Through this training, our employees have had a deeper understanding of the importance of business ethics, common integrity risks, the relevant provisions of the Prevention of Bribery Regulations, and issues that may be encountered in daily business operations.

The Group invited officers from Hong Kong ICAC to provide training seminar on corruption prevention.

7.4.3 Anti-corruption Supervision

The Audit & Supervision Division of the headquarters of the Company supervises the anti-corruption affairs of the Group, while the delegate of each business unit is responsible for carrying out the anti-corruption initiatives. According to the Group's procurement and supply chain management policies, each department is responsible for supervising, inspecting, and assessing its suppliers, while the Audit & Supervision Division oversees and inspects the implementation status. The Group restricts corruption activities of all kinds which include but not limited to receives benefits and rebates from suppliers, colludes with suppliers, commits fraud and forges business volume. We adopted the principle of "whoever takes charge should be responsible (誰主管誰負責)", not only the individual(s) who commits the above activates is liable, the relevant managers shall also be responsible thereof.

The Measures for Managing Special Affiliated Enterprises specifies that the Audit & Supervision Division should focus on the supervision of special affiliated enterprises through various channels, such as special examination, efficiency supervision and audit in a regular or irregular manner. When the transfer of benefits behaviours are identified, we investigate not only the responsibility of the liable person, but also the whole unit, including the responsibilities of supervision and "One post double duty". In addition, the Measures for Managing Performance Examination of Companies under Direct Management sets out restrictive indicators on management transactions, risks and internal control and other staff ethics and anti-corruption requirements, these indicators are tracked and evaluated in our business assessment guidelines.

To review the implementation of the Code and further enhance employees' awareness of integrity management, all departments and subsidiaries of the Company need to conduct an annual employee self-evaluation survey. The areas of evaluation include integrity and fairness, acceptance and provision of interest, conflict of interest, handling confidential information or company's property, as well as the relationships with customers, suppliers and contractors. In 2019, all of our employees have completed the self-evaluation survey.

During the reporting period, the Group complied with all the relevant standards, rules and regulations, and there was no legal case regarding corruption practices brought against us.

8. RESPONSIBILITY TO OUR COMMUNITY

The Group has always adhered to the spirit of "giving back to the community with what they get from the community". We are committed to fulfilling our corporate social responsibility. To this end, we have formulated Charitable Donation Policy, established a volunteer team and offered volunteer holidays to encourage employees to actively participate in various charitable activities. The Group wishes to build a better and harmonious community together with our employees.

8.1 Charity Donation Policy

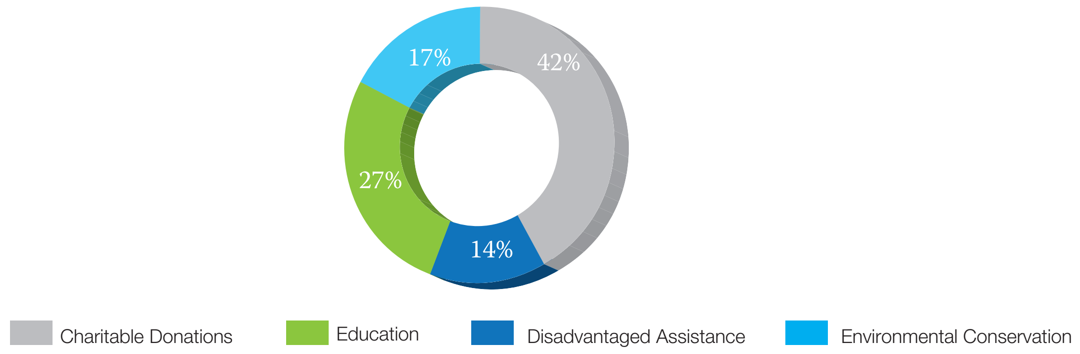
The Group has formulated a Charity Donation Policy since 2014 which requires the Group and its subsidiaries to establish partnerships with the local NGOs and other charitable bodies. The policy provides clear guidelines for the Group on how to determine the amount and method of donation. According to the policy, the annual charitable donation budget covers the direct donations and indirect expenses to all charitable events and related community services for the year.

The Group has offered volunteer holidays to encourage and praise employees who are enthusiastic about serving society. Employees in Hong Kong participating in recognised volunteer activities for more than 2 hours but less than 4 hours on the day are granted with half-day paid leave. If the volunteer activities last for 4 or more than 4 hours, they are entitled to one-day paid leave.

8.2 Contribution to Community

The Company has taken the team slogan of "Our Passion to Serve" to participate in community volunteer services. In 2019, the Group's community involvement is mainly focused on four major areas: charitable donations, environmental conservation, education and disadvantaged assistance.

Resources Distribution to the 4 Major Areas



8.2.1 *Charitable Donation*

The Group continues to donate to various charities as a direct way to support the community.

Donation Organisation	Month	Donation Amount (HK$)
World Wildlife Fund for Hong Kong	May	50,000
Sowers Action	August, October	203,500
Christian Action	July	17,500
The Neighbourhood Advice-Action Council	May, August, December	23,000

8.2.2 *Environmental Conservation*

The business operation of the Company relies on the sea. It is our responsibility to reduce marine pollution and protect the environment. The Group has launched a series of activities called "Contributing to the Ocean, Cheering for China (為海洋出力 為中華喝彩)". In May of 2019, we organised employees and their families "Tung Ping Chau Environmental Protection Tour (東平洲環保行)". Everyone wore gloves and carried environmentally friendly garbage bags to pick up all kinds of garbage along the trail of the island.

Tung Ping Chau Environmental Protection Tour

We sponsored the "World Ocean Charity Run 2019" and organised 2 events in 2019. The parent-child workshop of "Free Ocean World" held in the D • PARK was the first event. 40 low-income families and children were invited to this workshop. Guided by our volunteer team, the children were introduced with the concept of green shipping and ocean protection. During the workshop, they walked through the marine art tunnel with photos of precious marine life and explored the ocean world with VR technology. The families also made art and craft together. Through the event, the participants gained a deeper understanding of ocean protection and learned that human is inseparable from the ocean.

Parent-child Workshop of Free Ocean World

The second event of the "World Ocean Charity Run 2019" was the beach cleaning event held at Lung Kwu Tan, Tuen Mun in October 2019. A total of 50 bags of garbage including plastic, foam plastic, glass bottles, cigarettes, slippers and fishing nets, etc. were cleaned out in the event. All rubbish was then transported to the refuse collection points provided by the Food and Environmental Hygiene Department.

Lung Kwu Tan Cleaning Event

The Group maintains a long-term relationship with Christian Action. It is a non-profit social organisation that aims to seek welfare for the poor and disadvantaged in society. We cooperate with Christian Action to organise the "Green Collection Day" annually. It encourages employees to donate recycled items to people in need. It helps the discarded items to re-gain value and reduces waste. In 2019, 38 employees actively participated the event and donated a total of 11 bags and 1 box of items including clothes, toys, books, shoes, stationery, small electrical appliances and housewares. The recycled items were then sent to families in needed, ethnic minorities and children in Qinghai Province of China.

Green Collection Day

8.2.3 Education

Since 2008, we have sponsored the charity marathon for 12 consecutive years. In 2019, 68 employees and their families formed 17 teams to participate in the 12km marathon. The group also donated directly to mainland students, benefiting more than 951 students in Sichuan, Yunnan, Gansu and other regions.

Sowers Action Challenging 12 Hours Charity Marathon

8.2.4 *Assisting Disadvantaged Community*

The Group has cooperated with the "Neighbourhood Advice-Action Council" since 2011. We have actively participated in the "Inheriting Love Deep Care Plan" organised by Sham Shui Po District Elderly Community Centre of Neighbourhood Advice-Action Council. We send the volunteer team during the winter days and festivals such as the Dragon Boat Festival and Mid-Autumn Festival to visit singleton elderly.

In August 2019, 41 volunteers carried moon cakes, fruits and daily necessities to visit 62 elders living alone in Sham Shui Po. The volunteer team and the elderly celebrated the Mid-Autumn Festival in advance with care and blessings.

Inheriting Love Deep Care Plan

We have also organised "Walk with the Elderly (與耆同遊)" with The Neighbourhood Advice-Action Council for three consecutive years. In December 2019, our volunteers accompanied the elders to visit the Yuen Long Tai Tong Organic EcoPark and Kam Sheung Road Flea Market. They also tasted the well known "Yuen Long Poon Choi" during the event.

Walk with the Elderly

	For the year ended 31st December		
	2019	2018	2017
Community Investment			
Corporate charitable donations & sponsorships (HK$)	**294,000**	293,000	285,000
Volunteer Participation			
Participants	**401**	283	93
Service hours	**2,818**	1,335	388
Beneficiaries			
Number of beneficiaries	**224**	158	132

8.3 Awards and Recognition

The Company has made remarkable contributions in many aspects such as marketing, safety management, product technology, energy conservation and emission reduction, employees' professional ethics. We are fortunate to be recognized by the communities.

The Group won The Asset's "ESG Corporate Gold Award" and "Best IR Team Award" in 2019. It demonstrates the Group's continuous efforts in environmental protection, social responsibility, corporate governance. It is also a recognition from the capital market.

In 2019, we were awarded "10 Year Plus Caring Company Logo". "Caring Company" is a program organised by the Hong Kong Council of Social Service. It encourages partnerships between the business community and the social welfare community to jointly promote corporate social responsibility. We have received this award for 2 consecutive years to recognize the company's contribution and commitment to caring for employees, the environment and society for 10 years or more.

In addition, the Company was granted Corporate Citizen Logo in the Enterprise Category and Volunteer Category in "The 10th Hong Kong Outstanding Corporate Citizenship Logo" by Hong Kong Productivity Council in recognition of our efforts in fulfilling its social responsibility.

Directors' Report

The board of directors of the Company (the "Director(s)" or the "Board") presents this Directors' Report (the "Report") together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2019.

PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding. The principal activities of the Group include shipping services and general trading. The activities of the principal subsidiaries are set out in note 36 to the financial statements. An analysis of the revenue and segment information of the Group for the year is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2019 are set out in the consolidated income statement on page 130 of this annual report. The Board has recommended the payment of a final dividend of 9.5 HK cents (2018: 9 HK cents) per share for the year ended 31st December 2019. Subject to the approval of the shareholders of the Company (the "Shareholders") in the annual general meeting to be held on 29th May 2020 (the "2020 AGM"), approximately HK$145,631,000 will be payable on 29th June 2020 to the Shareholders whose names appear on the register of members of the Company on 10th June 2020. The proposed final dividend together with the interim dividend of 7 HK cents per share, total dividends per share for the year 2019 are 16.5 HK cents (2018: 14 HK cents).

BUSINESS REVIEW

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

Further discussion and analysis of the Group's activities as required by Schedule 5 to the Companies Ordinance of Hong Kong (Cap.622), including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2019, an indication of likely future development in the Group's business, an analysis using financial key performance indicators, a discussion on the Group's environmental policies and performance and the compliance with the relevant laws and regulations that have a significant impact on the Group, and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends, are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis", "Prospects", "Corporate Governance Report", "Environmental, Social and Governance Report" and "Five-Year Financial Summary" of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 3 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2019 calculated under Companies Act of Bermuda amounted to HK$7,473,617,000 (2018: HK$7,575,440,000).

BORROWINGS

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

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 19 and note 35 to the financial statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 18 to the financial statements.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

DONATIONS

Donations made by the Group during the year amounted to approximately HK$294,000 (2018: HK$293,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on pages 203 to 204.

DIRECTORS

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

Executive Directors

Mr. Zhu Jianhui *(Chairman and Managing Director)*
(appointed as Chairman and resigned as Vice Chairman on 4th March 2020)
Mr. Liu Gang
Mr. Wang Yuhang
(resigned as Chairman on 4th March 2020)

Non-executive Directors

Mr. Ma Jianhua
Mr. Feng Boming
Mr. Chen Dong

Independent Non-executive Directors

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

In accordance with bye-law 99 of the Company's bye-laws, every Director shall be subject to retirement by rotation at least once every three years and a retiring Director shall be eligible for re-election at such annual general meeting of the Company. Pursuant to bye-law 99 of the Company's bye-laws, Mr. Feng Boming, Mr. Chen Dong, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton shall retire from office at the forthcoming annual general meeting of the Company and be eligible for re-election except Mr. Alexander Reid Hamilton, who will not offer himself for re-election.

Mr. Wang Yuhang resigned as Executive Director and Chairman on 4th March 2020 due to change of work designation and confirmed that there was no disagreement with the Board needed to be brought to the attention of the Shareholders.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Zhu Jianhui and Mr. Liu Gang, being the Executive Director, has entered into a letter of appointment with the Company on 30th May 2018 for a term commencing from 30th May 2018 to the conclusion of the 2020 annual general meeting of the Company. Mr. Ma Jianhua, being the Non-executive Director, has entered into a letter of appointment with the Company on 30th October 2018 for a term commencing from 30th October 2018 to the conclusion of the 2020 annual general meeting of the Company. Each of Mr. Feng Boming and Mr. Chen Dong, being the Non-executive Director, has entered into a letter of appointment with the Company on 15th January 2018 for a term commencing from 15th January 2018 to the conclusion of the 2020 annual general meeting of the Company. Each of Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton, being the Independent Non-executive Director, has entered into a letter of appointment with the Company on 30th May 2018 for a term commencing from 30th May 2018 to the conclusion of the 2020 annual general meeting of the Company. Mr. Wang Yuhang, being the ex-Executive Director, has entered into a letter of appointment with the Company on 15th January 2018 for a term commencing from 15th January 2018 to the conclusion of the 2020 annual general meeting of the Company.

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

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

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Name of Directors	Name of the entities which were considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entities which were considered to compete or likely to compete with the businesses of the Group	Nature of Director's interest in the entities
Mr. Zhu Jianhui	Company controlled by 中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*) ("COSCO SHIPPING")	Shipping services	director
Mr. Ma Jianhua	Company controlled by COSCO SHIPPING	Shipping services	director
Mr. Feng Boming	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Chen Dong	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Liu Gang	Companies controlled by COSCO SHIPPING	Shipping services	director
Ex-Director Mr. Wang Yuhang#	Companies controlled by COSCO SHIPPING	Shipping services	director

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

Mr. Wang Yuhang resigned as Executive Director and Chairman on 4th March 2020.

* *for identification purposes only*

CONNECTED TRANSACTIONS

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

A. Continuing Connected Transactions

1. (a) A master supply agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) Co., Limited, an immediate holding company of the Company ("COSCO SHIPPING (Hong Kong)") on 15th November 2016 in relation to (1) provision of marine and general insurance brokerage services and other services by the relevant member(s) of the Group to the relevant member(s) of 中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*), the ultimate holding company of the Company ("COSCO SHIPPING") and its subsidiaries and associates (other than the Group), being connected persons of the Company (collectively "COSCO SHIPPING Group"); and (2) provision of shipping services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group, including without limitation: (a) the provision of ship agency services in relation to shipbuilding, ship trading, chartering businesses and the sale and purchase of marine equipment and other related services; (b) the provision of supply and installation, repair, logistics and agency services in relation to (i) ship facilities and accessories, which include equipment, materials, spare parts for vessels, oil drills, projects at sea/on land and ports, (ii) radio communications, satellite communications, navigation equipment and other materials, and (iii) construction materials and facilities, chemicals and information management systems; and (c) the sale of coatings (collectively the "Supply Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "Master Supply Agreement"). COSCO SHIPPING (Hong Kong) agrees and will procure COSCO SHIPPING Group to agree with the Group that the transactions contemplated under the Master Supply Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees, commission, brokerage income and the consideration for the sale of materials and products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. The amount of service fees payable by COSCO SHIPPING Group under the Master Supply Agreement would be mainly determined by pre-determined formulae adopted by the Group (for example, insurance brokerage services and shipping agency services will be charged at certain fixed percentages of the value of the subject matter with reference to market price of comparable services). The prices offered to COSCO SHIPPING Group for services provided by the Group and the sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to independent third party customers for comparable services and similar materials and products (based on similar amount and similar specifications) respectively. For the purpose of determining the market rates for services fees and the prices for sale of materials and products, the Group will consider the certain fixed percentages of the value of the subject matter and prices offered to independent third party customers of comparable services and similar materials and products (based on similar amount and similar specifications) respectively and compare to those offered to COSCO SHIPPING Group. In particular, the relevant sales department of the related companies within the Group will compare the services fees and selling price offered to different customers (both COSCO SHIPPING Group and the independent third party customers) in respect of comparable service and a similar type of materials or products (based on similar amount and similar specifications) respectively. The aggregate amount of the Supply Continuing Connected Transactions for each of the financial years ending 31st December 2017, 2018 and 2019 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO SHIPPING Group" (the "Supply Caps").

* *for identification purposes only*

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

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

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

for identification purposes only

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

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

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

Caps with COSCO SHIPPING Group

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

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

The amount of the Supply Continuing Connected Transactions, the Purchase Continuing Connected Transactions, the Financial Services Continuing Connected Transactions, the Fuel Oil Continuing Connected Transactions, the Management Services Continuing Connected Transactions and the Tenancy Continuing Connected Transactions (collectively called the "Continuing Connected Transactions with COSCO SHIPPING Group") for the financial year ended 31st December 2019 were as follows:

Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement	HK$1,341,240,177
Aggregate amount payable by the Group for transactions contemplated under the Master Purchase Agreement	HK$54,720,729
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	US$5,063,208
Amount of daily cash balance(s) of all cash deposits accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services, entrusted loan services and acceptance bill services) payable by the Group to COSCO Finance for transactions (except transactions in connection with the provision of loan services) contemplated under the Financial Services Master Agreement	Not exceeded RMB1,180,000,000 with highest daily transaction volume of RMB435,026,882
Amount of daily outstanding balance(s) of all loan accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all service fees and handling charges for the loan services payable by the Group to COSCO Finance for loan transactions contemplated under the Financial Services Master Agreement*	Not exceeded RMB500,000,000 with the highest balance of RMB55,352,092
Aggregate amount payable by the Group to COSCO SHIPPING Group for transactions contemplated under the Management Services Master Agreement	HK$13,491,010
Aggregate amount payable by the Group to COSCO SHIPPING Group (being the annual aggregate maximum amount of rent and other fees and charges payable by the Group to COSCO SHIPPING Group) for transactions contemplated under the Master Tenancy Agreement	HK$24,752,343

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

2. On 7th February 2018, the Company, COSCO SHIPPING (Hong Kong) and COSCO SHIPPING entered into the management services master agreement (the "COSCO SHIPPING HK Management Services Master Agreement") in relation to the provision of management services by the Company regarding the day-to-day business operations and management of COSCO SHIPPING (Hong Kong) and its subsidiaries (other than those relating to the Group and Piraeus Port Authority S.A.) ("COSCO SHIPPING (Hong Kong) Group") (collectively the "COSCO SHIPPING HK Management Services Continuing Connected Transactions") for the two financial years ending 31st December 2019. The management fee to be received by the Company shall be negotiated at arm's length by the Company and the relevant member of COSCO SHIPPING (Hong Kong) Group and at a price determined upon the basis of the principle of "cost-plus" which is based on the cost arising from the provision of management services to COSCO SHIPPING (Hong Kong) Group by the Company plus a margin as agreed after arm's length negotiations between the Company and the

relevant members of COSCO SHIPPING (Hong Kong) Group. In determining the costs, the Company will take into account the actual costs incurred (including, among others, the cost of human resources, professional knowledge and other resources). In determining the margin, the Company will take into account the scope and type of the services to be provided by the Company and rates that are generally accepted by the market and/or the general tax authorities. The Company will refer to, among other things, the terms in relation to the provision of services of similar nature in the market by independent third parties and compare them with the terms for the provision of services by the Company to ensure that the fees payable by the relevant members of COSCO SHIPPING (Hong Kong) Group to the Company will not be less favorable than the fees payable to an independent third party for the provision of services of similar nature. The aggregate amount of COSCO SHIPPING HK Management Services Continuing Connected Transactions for each of the financial years ending 31st December 2018 and 2019 would not exceed HK$130,000,000 and HK$130,000,000 respectively (the "COSCO SHIPPING HK Management Services Caps"). The COSCO SHIPPING HK Management Services Master Agreement and the COSCO SHIPPING HK Management Services Caps were exempt from shareholders' approval requirement under Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 7th February 2018.

The amount of the COSCO SHIPPING HK Management Services Continuing Connected Transactions for the financial year ended 31st December 2019 was HK$107,726,020.

The price and the terms of the Continuing Connected Transactions with COSCO SHIPPING Group have been determined in accordance with the pricing policies disclosed in the announcement of the Company dated 15th November 2016 and the circular of the Company dated 6th December 2016. The price and the terms of the COSCO SHIPPING HK Management Services Continuing Connected Transactions have been determined in accordance with the pricing policies disclosed in the announcement of the Company dated 7th February 2018. As set out in notes 33(a)(i), 33(a)(ii), 33(a)(iii), 33(a)(iv), 33(a)(v), 33(a)(vi), 33(a)(vii), 33(a)(ix), 33(b)(i), 33(b)(ii), 33(b)(iii), 33(b)(iv), 33(b)(vi), 33(b)(vii), 33(b)(ix) and 33(b)(x) to the financial statements, certain related party transactions of the Group also constituted continuing connected transactions of the Group as disclosed above.

The Independent Non-executive Directors had reviewed (1) the Supply Continuing Connected Transactions; (2) the Purchase Continuing Connected Transactions; (3) the Financial Services Continuing Connected Transactions; (4) the Fuel Oil Continuing Connected Transactions; (5) the Management Services Continuing Connected Transactions; (6) the Tenancy Continuing Connected Transactions and (7) the COSCO SHIPPING HK Management Services Continuing Connected Transactions (collectively the "Group's Continuing Connected Transactions") and were of the opinion that the Group's Continuing Connected Transactions for the financial year ended 31st December 2019 had been entered into:

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

(ii) on normal commercial terms or better; and

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

For the purposes of Rule 14A.56 of the Listing Rules in relation to the Group's Continuing Connected Transactions, the Board engaged the auditor of the Company to report on the Group's Continuing Connected Transactions for the year ended 31st December 2019 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued an unqualified letter containing the findings and conclusions in respect of the Group's Continuing Connected Transactions for the year ended 31st December 2019 in accordance with Rule 14A.56 of the Listing Rules. A copy of aforesaid auditor's letter has been provided by the Company to the Stock Exchange.

B. Renewal of the Existing Continuing Connected Transactions

1. The Master Supply Agreement, the Fuel Oil Master Agreement, the Master Purchase Agreement, the Management Services Master Agreement and the Master Tenancy Agreement expired on 31st December 2019 and it was expected that the Group would continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. Therefore, in view of the above and in order to accommodate certain new businesses between certain parties, on 18th November 2019, a new master supply agreement, a new fuel oil master agreement, a new master purchase agreement, a new management services master agreement and a new master tenancy agreement were entered into by the Company.

   (a) A new master supply agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 18th November 2019 in relation to (1) provision of marine and general insurance brokerage services and other services by the relevant member(s) of the Group to the relevant member(s) of 中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*), the ultimate holding company of the Company ("COSCO SHIPPING") and its subsidiaries and associates (other than the Group), being connected persons of the Company ("COSCO SHIPPING Group"); and (2) provision of shipping services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group, including without limitation: (a) the provision of ship agency services in relation to shipbuilding, ship trading, chartering businesses and the sale and purchase of marine equipment and other related services; (b) the provision of supply and installation, repair, logistics and agency services in relation to (i) ship facilities and accessories, which include equipment, materials, spare parts for vessels, oil drills, projects at sea or on land and ports, (ii) radio communication, satellite communication, navigation equipment and other materials, and (iii) construction materials and facilities, chemicals and information management systems; and (c) the sale of coatings (collectively the "New Supply Continuing Connected Transactions") for the three financial years ending 31st December 2022 (the "the New Master Supply Agreement"). The transactions contemplated under the New Master Supply Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees, commission, brokerage income and the consideration for the sale of materials and products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. The amount of service fees payable by COSCO SHIPPING Group under the New Master Supply Agreement would be mainly determined by pre-determined formulae adopted by the Group (for example, insurance brokerage services and shipping agency services will be charged at certain fixed percentages of the value of the subject matter with reference to market price of comparable services). The prices offered to COSCO SHIPPING Group for services provided by the Group and the sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to independent third party customers for comparable services and similar materials and products (based on similar amount and similar specifications) respectively. For the purpose of determining the market rates for services fees and the prices for sale of materials and products, the Group will consider the certain fixed percentages of the value of the subject matter and prices offered to independent third party customers of comparable services and similar materials and products (based on similar amount and similar specifications) respectively and compare to those offered to COSCO SHIPPING Group. In particular, the relevant sales department of the related companies within the Group will compare the services fees and selling price offered to different customers (both COSCO SHIPPING Group and at least three independent third party customers) in respect of comparable service and a similar type of materials or products (based on similar amount and similar specifications) respectively. The aggregate amount of the New Supply Continuing Connected Transactions for each of the financial years ending 31st December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Supply Caps")

* *for identification purposes only*

(b) A new fuel oil master agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 18th November 2019 in relation to trading and supply of fuel oil and related products and services between the relevant member(s) of the Group and the relevant member(s) of COSCO SHIPPING Group, including without limitation: (a) purchase or sale of fuel oil and related products including asphalt by the relevant member(s) of the Group from or to the relevant member(s) of COSCO SHIPPING Group (the "New Fuel Oil Transactions"); and (b) provision of services by the relevant member(s) of COSCO SHIPPING Group to relevant member(s) of the Group to carry out arrangements at the instruction of and for and on behalf of the relevant member(s) of the Group from time to time to enter into fuel oil and/or related products swap contracts and/or derivatives with independent third parties to facilitate the relevant member(s) of the Group to hedge against the risk of fuel oil and/or related products price fluctuation under the fuel oil and/or related products transactions of its fuel oil business (the "New Fuel Oil Financial Services") (collectively the "New Fuel Oil Continuing Connected Transactions") for the three financial years ending 31st December 2022 (the "New Fuel Oil Master Agreement"). The transactions contemplated under the New Fuel Oil Master Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees and the consideration for the sale or purchase of fuel oil and/or related products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties and for this purpose, the following pricing policies will be followed (i) fixed per unit consideration would be payable by or to the Group (as appropriate); (ii) in determining the market rates for sale or purchase of fuel oil and related products including asphalt, the parties would refer to the mean price of fuel oil traded through Singapore as published by S&P Global Platts or market price of fuel oil as published by the government authority or other recognised organisations of supply ports in the pricing month or at the time of quotation as reference; and (iii) the Group would also consider the prices offered to or by the at least three independent third parties (based on similar quantity of fuel oil and related products) and compare to those offered to or by COSCO SHIPPING Group. In particular, the relevant sales and purchasing department (as appropriate) of the related companies within the Group will compare the selling price offered to or by different parties (both COSCO SHIPPING Group and at least three independent third parties) in respect of a similar quantity of fuel oil and related products for comparison. The relevant member(s) of COSCO SHIPPING Group would not charge member(s) of the Group any service fee in relation to the provision of the New Fuel Oil Financial Services; member(s) of the Group shall only be responsible for all amounts payable to independent third parties (together with the related handling fees and other charges charged by such independent third parties) by relevant member(s) of COSCO SHIPPING Group for and on behalf of member(s) of the Group under the fuel oil and/or related products swap contracts and/or derivatives. The aggregate amount of the New Fuel Oil Continuing Connected Transactions for each of the financial year ending 31st December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Fuel Oil Caps").

(c) A new master purchase agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 18th November 2019 in relation to the provision of shipping and other services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group, including without limitation: (a) the provision of agency services, technical services and ancillary services, including the collection of market information, technical advisory, promotion and marketing, coordination with suppliers and customers, purchase of raw materials and products from suppliers, the provision of assistance in collecting sale proceeds and the procurement or provision of certain after-sale services; (b) the provision of logistics and transportation and business travel services; (c) the sale of other materials and products including construction materials and chemicals; and (d) the solicitation and referral of businesses by COSCO SHIPPING Group to the Group, including recommending products manufactured by the Group to the customers and manufacturers of COSCO SHIPPING Group (collectively the "New Purchase Continuing Connected Transactions") for the three financial years ending 31st December 2022 (the "the New Master Purchase Agreement"). The transactions contemplated under the New Master Purchase Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees, commission and the consideration for the purchase of materials and products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. Part of the services provided by COSCO SHIPPING Group will be charged by adopting pre-determined formulae (for example, provision of agency services, technical services and ancillary services and solicitation and referral of businesses will be charged at certain fixed percentages of the value of the subject matter with reference to market price of comparable services) and the remaining services will be charged by COSCO SHIPPING Group at fixed per unit consideration (for example, provision of logistics, transportation and business travel services will be charged at a fixed per unit price based on the quantity of the subject matter involved and the distance of the destination and location). The prices offered by COSCO SHIPPING Group for services provided to the Group and sale of other materials and products including construction materials and chemicals to the Group shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available from independent third party suppliers for comparable services and similar materials and products (based on similar amount and similar specifications) respectively. In particular, the relevant purchasing department of the related companies within the Group will obtain quotations from different suppliers (both COSCO SHIPPING Group and independent third party suppliers) in respect of comparable services and a similar type of materials or products (based on similar amount and similar specifications) respectively for comparison. The aggregate amount of the New Purchase Continuing Connected Transactions for each of the financial years ending 31st December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Purchase Caps").

(d) A new management services master agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 18th November 2019 in relation to the provision of administrative services including information technology and office communication network support, business management and manpower resources (including without limitation manpower resources with expertise and experience in the business carried on by the Group from time to time and management of human resources), technical support and other administrative and ancillary support (including without limitation sharing of office premises, office equipment, network and communication system, information technology, other technical support, system management, financial system and maintenance) by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group and sharing of office premises by the relevant member(s) of the Group (collectively the "New Management Services Continuing Connected Transactions") for the three financial years ending 31st December 2022 (the "New Management Services Master Agreement"). The transactions contemplated under the New Management Services Master Agreement shall be conducted on normal commercial terms. The management fee shall be calculated based on either (a) the Group's prorated share of the common administrative costs which shall be determined based on the statistics of time-sharing of the workload of staff members shared by the Group and COSCO SHIPPING Group or the utilisation rate of the office support functions and network systems (depending on the type of management services which are provided) and the actual costs, expenses and disbursements incurred by COSCO SHIPPING Group in the course of its provision of the administrative services to the Group; or (b) fixed per unit consideration. This shall take into account the historical usage of administrative services by the Group provided by COSCO SHIPPING Group in the past two to three years with reference to the statistics of time-sharing of the workload of staff members shared by the Group and the utilisation rate of the office support functions and network systems and sharing of office premises (depending on the type of management services which are provided) and the actual costs, expenses and disbursements incurred by COSCO SHIPPING Group in the course of its provision of the administrative services to the Group. The fixed per unit consideration (subject to annual adjustment by inflation rate depending on the type of management services which are provided) will then be used to determine the annual services fees to be paid by the Group. The Group will consider the fees offered to be charged by independent third parties of similar services and compare to those offered by COSCO SHIPPING Group. In particular, the relevant department of the related companies within the Group will obtain quotations from different service providers (both COSCO SHIPPING Group and independent third parties) in respect of similar services for comparison. The aggregate amount of the New Management Services Continuing Connected Transaction for each of the financial year ending 31st December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Management Services Caps").

(e) A new master tenancy agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 18th November 2019 in relation to the leasing or sub-leasing of any of the properties owned by or leased to COSCO SHIPPING Group from time to time by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group (collectively the "New Tenancy Continuing Connected Transactions") for the three financial years ending 31st December 2022 (the "New Master Tenancy Agreement"). The transactions contemplated under the New Master Tenancy Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the rent and other fees and charges payable by the Group to COSCO SHIPPING Group would be determined based on fixed per unit consideration and the Group would consider the rental offered to be charged by independent third parties of similar properties (based on similar location and similar area) and compare to those offered by COSCO SHIPPING Group. In particular, the relevant department of the related companies within the Group will obtain quotations from different parties (both COSCO SHIPPING Group and independent third parties) in respect of similar properties (based on similar location and similar area) for comparison. The aggregate amount of the New Tenancy Continuing Connected Transactions for each of the financial years ending 31st December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Tenancy Caps").

The New Master Purchase Agreement, the New Management Services Master Agreement, the New Master Tenancy Agreement, the New Purchase Caps, the New Management Services Caps and the New Tenancy Caps were exempt from shareholders' approval requirement under Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 18th November 2019. The New Master Supply Agreement, the New Fuel Oil Master Agreement, the New Supply Caps and the New Fuel Oil Caps were approved by the independent shareholders at the special general meeting of the Company held on 30th December 2019, details of which were disclosed in the announcement and circular of the Company dated 18th November 2019 and 9th December 2019 respectively.

New Caps with COSCO SHIPPING Group

	Caps for the year ending 31st December 2020	Caps for the year ending 31st December 2021	Caps for the year ending 31st December 2022
Aggregate amount receivable by the Group for transactions contemplated under the New Master Supply Agreement	HK$1,600,000,000	HK$1,690,000,000	HK$1,780,000,000
Aggregate amount payable and receivable by the Group for transactions contemplated under the New Fuel Oil Master Agreement	US$45,000,000	US$45,000,000	US$45,000,000
Aggregate amount payable by the Group for transactions contemplated under the New Master Purchase Agreement	HK$135,000,000	HK$138,000,000	HK$140,000,000
Aggregate amount payable by the Group to COSCO SHIPPING Group for transactions contemplated under the New Management Services Master Agreement	HK$22,000,000	HK$20,000,000	HK$21,000,000
Aggregate amount payable by the Group to COSCO SHIPPING Group (being the annual aggregate maximum amount of rent and other fees and charges payable by the Group to COSCO SHIPPING Group) for transactions contemplated under the New Master Tenancy Agreement	HK$30,000,000	HK$31,000,000	HK$32,000,000

2. The COSCO SHIPPING HK Management Services Master Agreement expired on 31st December 2019 and it was expected that the Group would continue to enter into transactions of a nature similar to the transactions under the COSCO SHIPPING HK Management Services Master Agreement from time to time thereafter. In view of the above, on 31st December 2019, a new COSCO SHIPPING HK management services master agreement was entered into between the Company, COSCO SHIPPING (HONG KONG) and COSCO SHIPPING (the "New COSCO SHIPPING HK Management Services Master Agreement") in relation to the provision of management services by the Company regarding the day-to-day business operations and management of COSCO SHIPPING (Hong Kong) and its subsidiaries (other than those relating to the Group and Piraeus Port Authority S.A.) ("COSCO SHIPPING (Hong Kong) Group") (collectively the "New COSCO SHIPPING HK Management Services Continuing Connected Transactions") for the three financial years ending 31st December 2022. The management fee to be received by the Company shall be negotiated at arm's length by the Company and the relevant member of COSCO SHIPPING (Hong Kong) Group and at a price determined upon the basis of the principle of "cost-plus" which is based on the cost arising from the provision of management services to COSCO SHIPPING (Hong Kong) Group by the Company plus a margin as agreed after arm's length negotiations between the Company and the relevant members of COSCO SHIPPING (Hong Kong) Group. In determining the costs, the Company will take into account the actual costs incurred (including, among others, the cost of human resources, professional knowledge and other resources). In determining the margin, the Company will take into account the scope and type of the services to be provided by the Company and rates that are generally accepted by the market and/or the general tax authorities and/or transfer pricing rules. The Company will refer to, among other things, the terms in relation to the provision of services of similar nature in the market by independent third parties and compare them with the terms for the provision of services by the Company (such as through conducting comparability analysis on transfer pricing) to ensure that the fees payable by the relevant members of COSCO SHIPPING (Hong Kong) Group to the Company will be calculated in accordance with the actual market circumstances and will not be less favourable than the fees receivable from an independent third party for the provision of services of similar nature. The aggregate amount of New COSCO SHIPPING HK Management Services Continuing Connected Transactions for each

of the financial years ending 31st December 2020, 2021 and 2022 would not exceed HK$130,000,000, HK$130,000,000 and HK$130,000,000 respectively (the "New COSCO SHIPPING HK Management Services Caps"). The New COSCO SHIPPING HK Management Services Master Agreement and the New COSCO SHIPPING HK Management Services Caps were exempt from shareholders' approval requirement under Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 31st December 2019.

RELATED PARTY TRANSACTIONS

Material related party transactions of the Group are set out in note 33 to the financial statements. In relation to those related party transactions that also constituted connected transactions or continuing connected transactions of the Group as defined in the Listing Rules, the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules had been complied with.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2019, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

1. Long positions in the shares of associated corporation

Name of Director	Name of associated corporation	Capacity	Nature of interest	Total number of ordinary shares of associated corporation held	Approximate percentage of the relevant class of total issued shares of associated corporation
Mr. Zhu Jianhui	China COSCO Holdings Company Limited ("China COSCO")*	Interest of spouse	Family	20,000 (A shares)	0.0003%
	China Shipping Container Lines Company Limited#	Interest of spouse	Family	10,000 (A shares)	0.0001%
Mr. Feng Boming	COSCO SHIPPING Development Co. Ltd.	Beneficial owner	Personal	29,100 (A shares)	0.0003%
Mr. Liu Gang	China COSCO *	Beneficial owner	Personal	10,900 (H shares)	0.0004%

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

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

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

Share options

Name of Director	Name of associated corporation	Capacity	Nature of Interest	Exercise price (RMB)	Outstanding as at 1st January 2019	No. of share option granted during the year	No. of share option exercised during the year	No. of share option lapsed during the year	Outstanding as at 31st December 2019	Approximate % of total number of issued A shares of the associated corporation
Mr. Feng Boming	COSCO SHIPPING Holdings Co., Ltd.	Interest of spouse	Family	4.10	N/A	530,000	–	–	530,000	0.01%

Note: These share options were granted by COSCO SHIPPING Holdings Co., Ltd. ("COSCO SHIPPING Holdings") on 3rd June 2019 ("Date of Grant") pursuant to the A share option incentive scheme adopted by COSCO SHIPPING Holdings on 30th May 2019 and are exercisable at RMB4.10 per A share from 3rd June 2021 to 2nd June 2026 in the stipulated proportion as following:

(a) 33% of the share options can be exercised during the period from the first trading day after 24 months (the second anniversary) from the Date of Grant to the last trading day of the 36 months from the Date of Grant.

(b) 33% of the share options can be exercised during the period from the first trading day after 36 months (the third anniversary) from the Date of Grant to the last trading day of the 48 months from the Date of Grant.

(c) 34% of the share options can be exercised during the period from the first trading day after 48 months (the fourth anniversary) from the Date of Grant to the last trading day of the 84 months from the Date of Grant.

Save as disclosed above, none of the Directors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange as at 31st December 2019.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2019, the following persons and entities, other than Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Name of Shareholder	Capacity	Nature of interest	Total number of ordinary shares of the Company held (Long positions)	Approximate percentage of total issued shares number of the Company
COSCO SHIPPING	Interest of controlled corporation	Corporate interest	1,013,641,486	66.12%
中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company*)# ("COSCO")	Interest of controlled corporation	Corporate interest	1,013,641,486	66.12%
COSCO SHIPPING (Hong Kong)	Beneficial owner	Beneficial interest	1,013,641,486	66.12%

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

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

* for identification purposes only

Save as disclosed above, as at 31st December 2019, the Company has not been notified by any person or entity who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

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

INDEPENDENT AUDITOR

The financial statements for the year have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment at the 2020 AGM.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

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

The Board believed that the Company has complied with the code provisions of Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "CG Code") during the year ended 31st December 2019 except (i) Mr. Wang Yuhang, the then Chairman of the Board delegated the Vice Chairman to have a meeting with independent non-executive directors without the presence of other directors during the year due to other business engagement of the Chairman, a deviation from the provision A.2.7 of the CG Code; and (ii) Mr. Feng Boming, Non-executive Director was unable to attend the annual general meeting and the special general meeting of the Company held on 31st May 2019 and 30th December 2019 respectively due to other business engagement and both Mr. Chen Dong, Non-executive Director and Mr. Jiang, Simon X., Independent Non-executive Director were unable to attend the special general meeting of the Company held on 30th December 2019 due to other business engagement, a deviation from the code provision A.6.7 of the CG Code; and (iii) Mr. Wang Yuhang, the then Chairman of the Board, was unable to attend the annual general meeting of the Company held on 31st May 2019 due to other business engagement, a deviation from the provision E.1.2 of the CG Code.

The audit committee of the Company (the "Audit Committee") consists of three Independent Non-executive Directors and the chairman of which is a certified public accountant. The main duties of the Audit Committee include reviewing the accounting policies and the Company's financial reporting; monitoring the performance of both the internal and external auditors; reviewing and examining the effectiveness of the financial reporting, the risk management and internal control systems; ensuring compliance with applicable statutory accounting and reporting requirements. The Audit Committee has discussed the internal controls and financial reporting matters with management of the Company and reviewed the results announcement and the audited consolidated financial statements of the Group for the year ended 31st December 2019.

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

Directors' Report

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

The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Securities Code during the year ended 31st December 2019, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Securities Code during the year.

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

On behalf of the Board

Zhu Jianhui
Chairman and Managing Director

Hong Kong, 23rd March 2020

Independent Auditor's Report

pwc

羅兵咸永道

TO THE SHAREHOLDERS OF COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.

(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of COSCO SHIPPING International (Hong Kong) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 129 to 201, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is on the inventory valuation and provision as follows.

Key Audit Matter	How our audit addressed the Key Audit Matter
Inventory valuation and provision *Refer to notes 2(j), 4(b) and 15 to the consolidated financial statements.*	
At 31 December 2019, the Group had inventories of HK$306.0 million (2018: HK$337.2 million) which are carried at the lower of cost and net realisable value. Management has assessed the valuation of the Group's inventories and an impairment provision of HK$17.2 million (2018: HK$23.1 million) was made as at 31 December 2019. The assessment of the valuation and impairment provision of the Group's inventories involves significant management judgements and estimates as it involves the consideration of a number of factors, including, among others, the Group's future production or sale plans, technology trend and forecast market demands and future utilisation or sales patterns in respect of the Group's inventories held.	Our audit procedures in relation to the inventory valuation and provision included: • Understanding, evaluating and testing key internal controls with particular focus on management's monitoring and review of provision for inventories. • Discussing with management and obtaining an understanding on the Group's future production or sale plans, technology trend and forecast market demands, and the basis of determination of slow-moving inventories. • Obtaining the inventory provisioning policies and assessing its reasonableness by comparing the provision rates provided with the historical utilisation or sales patterns of inventories. • Testing, on a sample basis, the stock aging profile, expiry dates and the market price used in assessing the net realisable values of inventories to the related supporting documents. Based on the procedures performed above, we considered the judgements and estimates made by management in assessing the inventory valuation and provision are supportable by available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Nim Tsz, Elizabeth.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2020

Consolidated Statement of Financial Position

As at 31st December 2019

	Note	2019 HK$'000	2018 HK$'000
ASSETS			
Non-current assets			
Intangible assets	6	**105,617**	103,448
Property, plant and equipment	7(a)	**281,550**	303,523
Right-of-use assets	7(b)	**39,577**	—
Prepaid premium for land leases	8	**—**	29,429
Investment properties	9	**121,261**	107,014
Investments in joint ventures	10	**437,419**	396,709
Investments in associates	11	**147,693**	96,651
Financial assets at fair value through other comprehensive income	13	**76,551**	78,003
Deferred income tax assets	14(a)	**43,004**	52,936
		1,252,672	1,167,713
Current assets			
Inventories	15	**305,997**	337,187
Trade and other receivables	16	**1,494,814**	1,368,805
Current income tax recoverable		**3,722**	7,358
Restricted bank deposits	17	**5,582**	5,706
Current deposits and cash and cash equivalents	17	**6,314,159**	6,369,956
		8,124,274	8,089,012
Total assets		**9,376,946**	9,256,725
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**153,296**	153,296
Reserves	19	**7,773,109**	7,700,639
		7,926,405	7,853,935
Non-controlling interests		**291,814**	300,765
Total equity		**8,218,219**	8,154,700
LIABILITIES			
Non-current liabilities			
Lease liabilities	7(b)	**1,934**	—
Deferred income tax liabilities	14(b)	**67,743**	64,269
		69,677	64,269
Current liabilities			
Trade and other payables	20	**645,594**	635,588
Contract liabilities	20	**361,896**	337,128
Current income tax liabilities		**13,778**	19,388
Short-term borrowings	21	**61,399**	45,652
Lease liabilities	7(b)	**6,383**	—
		1,089,050	1,037,756
Total liabilities		**1,158,727**	1,102,025
Total equity and liabilities		**9,376,946**	9,256,725

Zhu Jianhui
Director

Liu Gang
Director

The notes on pages 135 to 201 form an integral part of these audited consolidated financial statements.

Consolidated Income Statement

For the year ended 31st December 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	5	**3,265,745**	9,521,575
Cost of sales	23	**(2,710,535)**	(8,955,448)
Gross profit		**555,210**	566,127
Management fee income		**107,726**	74,665
Other income and (losses)/gains — net	22	**(23,587)**	90,145
Selling, administrative and general expenses	23	**(554,687)**	(549,344)
Operating profit		**84,662**	181,593
Finance income	26	**207,849**	161,997
Finance costs	26	**(3,992)**	(3,293)
Finance income — net	26	**203,857**	158,704
Share of profits of joint ventures	10	**48,798**	9,925
Share of profits/(losses) of associates	11	**48,431**	(13,561)
Profit before income tax		**385,748**	336,661
Income tax expenses	27	**(52,440)**	(45,916)
Profit for the year		**333,308**	290,745
Profit attributable to:			
Equity holders of the Company		**330,607**	286,140
Non-controlling interests		**2,701**	4,605
		333,308	290,745
Earnings per share attributable to equity holders of the Company during the year			
— basic and diluted, HK cents	28	**21.57**	18.67

The notes on pages 135 to 201 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2019

	2019 HK$'000	2018 HK$'000
Profit for the year	**333,308**	290,745
Other comprehensive (losses)/income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(26,300)**	(62,656)
Share of currency translation differences of joint ventures	**(3,230)**	(10,272)
Share of currency translation differences of associates	**210**	(249)
Share of cash flow hedges of an associate, net of tax	**3,897**	(3,897)
Items that will not be reclassified to profit or loss:		
Fair value losses on financial assets at fair value through other comprehensive income, net	**(1,453)**	(22,320)
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties	**7,428**	—
Other comprehensive losses for the year	**(19,448)**	(99,394)
Total comprehensive income for the year	**313,860**	191,351
Total comprehensive income/(losses) attributable to:		
Equity holders of the Company	**317,743**	200,409
Non-controlling interests	**(3,883)**	(9,058)
	313,860	191,351

The notes on pages 135 to 201 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2019

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained profits	Total		
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2019		153,296	755,330	6,945,309	7,853,935	300,765	8,154,700
Profit for the year		–	–	330,607	330,607	2,701	333,308
Other comprehensive (losses)/ income							
Currency differences on translation of:							
— subsidiaries	19	–	(16,546)	–	(16,546)	–	(16,546)
— joint ventures	19	–	(2,263)	–	(2,263)	–	(2,263)
— associates	19	–	(907)	–	(907)	–	(907)
— non-controlling interests		–	–	–	–	(6,584)	(6,584)
Share of currency translation differences of:							
— joint ventures	19	–	(3,230)	–	(3,230)	–	(3,230)
— associates	19	–	210	–	210	–	210
Share of cash flow hedges of an associate, net of tax	19	–	3,897	–	3,897	–	3,897
Fair value losses on financial assets at fair value through other comprehensive income, net	19	–	(1,453)	–	(1,453)	–	(1,453)
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties	19	–	7,428	–	7,428	–	7,428
Total comprehensive (losses)/income for the year ended 31st December 2019		–	(12,864)	330,607	317,743	(3,883)	313,860
Transactions with owners							
Transfer between reserves	19	–	2,115	(2,115)	–	–	–
Dividends paid	19	–	–	(245,273)	(245,273)	(5,068)	(250,341)
Total transactions with owners		–	2,115	(247,388)	(245,273)	(5,068)	(250,341)
Balance at 31st December 2019		153,296	744,581	7,028,528	7,926,405	291,814	8,218,219

The notes on pages 135 to 201 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2019

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

The notes on pages 135 to 201 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31st December 2019

	Note	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Cash generated from operations	30(a)	**38,902**	97,062
Income tax paid		**(40,500)**	(49,016)
Net cash (used in)/from operating activities		**(1,598)**	48,046
Cash flows from investing activities			
(Increase)/decrease in cash deposits with maturity over three months		**(142,720)**	112,321
Increase in restricted bank deposits		**–**	(4,139)
Repayment of loan to a joint venture		**23,595**	–
Interest received		**215,361**	151,110
Dividends received from investments		**3,219**	2,763
Dividends received from joint ventures	10	**2,595**	2,616
Dividends received from associates	11	**589**	8,074
Net proceeds from disposal of property, plant and equipment		**237**	446
Purchases of intangible assets	6	**(4,115)**	(1,275)
Purchases of property, plant and equipment	7(a)	**(13,455)**	(12,364)
Additions to investment properties	9	**–**	(539)
Net cash used in acquisition of a joint venture	10	**–**	(102,971)
Net cash from investing activities		**85,306**	156,042
Cash flows from financing activities			
Drawdown of a bank loan		**–**	35,478
Loan from a fellow subsidiary		**62,519**	47,304
Repayment of a bank loan		**–**	(35,478)
Repayment of loan from a fellow subsidiary		**(45,469)**	–
Principal elements of lease payments		**(6,122)**	–
Finance costs paid		**(3,526)**	(3,257)
Capital contribution from non-controlling interest of a subsidiary		**–**	10,352
Dividends paid to the Company's equity holders	35(a)	**(245,273)**	(260,603)
Dividends paid to non-controlling interests		**(5,068)**	–
Net cash used in financing activities		**(242,939)**	(206,204)
Net decrease in cash and cash equivalents		**(159,231)**	(2,116)
Cash and cash equivalents at the beginning of the year		**971,094**	983,649
Exchange losses on cash and cash equivalents		**(6,698)**	(10,439)
Cash and cash equivalents at the end of the year	17(f)	**805,165**	971,094

The notes on pages 135 to 201 form an integral part of these audited consolidated financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

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

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

The ultimate holding company of the Company is China COSCO Shipping Corporation Limited ("COSCO SHIPPING"), a state-owned enterprise in the People's Republic of China (the "PRC").

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

These consolidated financial statements have been approved for issue by the board of directors on 23rd March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income ("FVOCI") and investment properties, which are carried at fair value.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

In 2019, the Group has adopted the following new standard, amendments to existing standards and new interpretation issued by the HKICPA, which are relevant to its operations:

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

Except for HKFRS 16 which the relevant impact on adoption are described in note 2(b), the adoption of these amendments to existing standards and new interpretation had no significant impact on the results and the financial position of the Group.

(ii) Amendments to existing standards that are not yet effective

The following amendments to existing standards have been published by the HKICPA and are relevant to the Group's operations. They are not yet effective for accounting periods beginning on 1st January 2019 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1st January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1st January 2020
Amendments to HKFRS 3	Definition of a Business	1st January 2020
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the related impact of adopting the above amendments to existing standards. The adoption of these amendments to existing standards is not expected to have any significant impact on the results and the financial position of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1st January 2019 in note 2(m) below.

The Group has adopted the modified retrospective approach to which the adjustments and reclassifications resulting from the adoption of HKFRS 16 are recognised on the date of initial application, i.e. as at 1st January 2019. The comparative figures as at 31st December 2018 and for the year ended 31st December 2018 have not been restated.

Impacts on the financial statements

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1st January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1st January 2019 was 4.5%.

For leases previously classified as finance leases, the Group recognised the carrying amounts of the lease assets and lease liabilities immediately before transition as the carrying amounts of the right-of-use assets and the lease liabilities at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date.

	2019 HK$'000
Operating lease commitments disclosed as at 31st December 2018	50,443
New contracts signed on 1st January 2019	3,137
Modification of existing contracts as of 1st January 2019	(21,519)
Discounting impact using the lessee's incremental borrowing rate at the date of initial application	(1,487)
Short-term leases recognised on a straight-line basis as expenses	(17,587)
Low-value leases recognised on a straight-line basis as expenses	(380)
Lease liabilities recognised as at 1st January 2019	12,607
Maturity analysis:	
Within 1 year	5,117
In the 2nd to 4th years inclusive	7,490
	12,607

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the consolidated statement of financial position as at 1st January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies (Continued)

Impacts on the financial statements (Continued)

The change in accounting policy affected the following items in the consolidated statement of financial position on 1st January 2019:

Consolidated statement of financial position (extract)	31st December 2018 As originally presented HK$'000	HKFRS 16 Reclassification HK$'000	HKFRS 16 Recognition of leases HK$'000	1st January 2019 Restated HK$'000
Property, plant and equipment	303,523	(9,463)	—	**294,060**
Prepaid premium for land leases	29,429	(29,429)	—	**—**
Right-of-use assets	—	38,892	12,607	**51,499**
Lease liabilities	—	—	12,607	**12,607**

There was no impact on retained earnings on 1st January 2019.

(i) *Impact on segment disclosures and earnings per share*

Segment operating profit, segment assets and segment liabilities for 31st December 2019 all increased as a result of the change in accounting policy, with lease liabilities now included in segment liabilities.

The following segments were affected by the change in accounting policy:

	Segment operating profit HK$'000	Segment assets HK$'000	Segment liabilities HK$'000
Coatings	85	1,648	1,687
Marine equipment and spare parts	380	6,396	6,630
	465	8,044	8,317

The impact on earnings per share for the year ended 31st December 2019 as a result of the adoption of HKFRS 16 was immaterial.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies (Continued)

Impacts on the financial statements (Continued)

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1st January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the leases.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease”.

(c) Consolidation

(i) Subsidiaries

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Consolidation (Continued)

(i) Subsidiaries (Continued)

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

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

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

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

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

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

(iii) Disposal of subsidiaries

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Joint arrangements

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

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

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

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

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

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

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

(e) Associates

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates (Continued)

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

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

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

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

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

(f) Intangible assets

(i) Goodwill

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

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

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

(ii) Computer software

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Investment properties

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

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

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

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

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

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

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

(h) Property, plant and equipment

Properties comprise buildings. Property, plant and equipment is stated at historical cost less accumulated depreciation, amortisation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

Depreciation on other assets are calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

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

No depreciation is provided for construction in progress.

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

Prior to 1st January 2019, leasehold lands classified as finance leases were also classified under property, plant and equipment. Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation is calculated using the straight-line method to allocate their cost over the remaining lease terms.

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories

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

(k) Financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at FVOCI, and
- those to be measured at amortised cost.

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

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

Measurement

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

Equity instruments

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

Impairment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

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

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges that qualify for hedge accounting

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash flow hedges that qualify for hedge accounting (Continued)

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

(m) Leases

As explained in note 2(b) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is disclosed in note 2(b).

Until the end of 2018, prepaid premium for land leases and certain property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the leases.

From 1st January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include, as applicable, the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the leases, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the leases. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following where applicable:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as expenses in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Short-term leases and low-value assets comprise motor vehicles, office furniture and equipment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Trade and other receivables

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

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

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits with banks and a fellow subsidiary. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand and deposits with maturity less than three months from the date of placement.

(p) Trade and other payables

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

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

(q) Provisions

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

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

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

(r) Contingent liabilities

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Current and deferred income tax

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

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

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

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

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

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

(t) Foreign currency translation

(i) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currency translation (Continued)

(ii) Transactions and balances

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

Foreign exchange gains and losses are presented in the consolidated income statement within "Other income and (losses)/gains — net".

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

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

(iii) Group companies

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Borrowings and borrowing costs

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

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

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

(v) Employee benefits

(i) Pensions and retirement benefits

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

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

(ii) Termination benefits

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue and income recognition

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

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

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

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

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

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

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

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

(iii) Rental income

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

(iv) Dividend income

Dividends are received from financial assets at FVOCI. Dividends are recognised in profit or loss when the right to receive payment is established.

(v) Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of finance income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Segment reporting

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

(y) Dividend distribution

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

(z) Share capital

Ordinary shares are classified as equity.

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

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

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

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

(i) Market risk

(1) Foreign currency risk

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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(1) Foreign currency risk (Continued)

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

At 31st December 2019, if Hong Kong dollars had weakened/strengthened by 1% against the US dollars with all other variables held constant, post-tax profit for the year would have been HK$47,093,000 (2018: HK$46,635,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollars-denominated trade and other receivables, deposits and cash and cash equivalents and foreign exchange losses/gains on translation of US dollars-denominated trade and other payables and contract liabilities.

Foreign currency risk arising from operations whose functional currency is Renminbi

At 31st December 2019, if Renminbi had weakened/strengthened by 5% against the US dollars with all other variables held constant, post-tax profit for the year would have been HK$2,642,000 (2018: HK$1,462,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollars-denominated trade and other receivables, deposits and cash and cash equivalents and foreign exchange losses/gains on translation of US dollars-denominated trade and other payables, contract liabilities and short-term borrowings.

(2) Interest rate risk

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

The Group also has certain borrowings (the "Interest Bearing Liabilities"). However, as these Interest Bearing Liabilities are primarily issued at fixed rates, the Group's exposure to cash flow interest rate risk is minimal.

With all other variables held constant, if the interest rate had increased/decreased by 50 basis-point, the corresponding increase/decrease in net finance income (representing interest income on the Interest Bearing Assets will result in a net increase/decrease in the Group's post-tax profit by HK$31,070,000 (2018: HK$31,395,000).

(3) Price risk

The Group's fuel oil trading business is conducted on an indent basis where the purchase and selling prices of majority of the transactions are fixed in advance and thus the Group's exposure to fuel oil price risk is not significant. Management manages its exposure by entering into derivative contracts to hedge against the price fluctuation when the need arises. As at 31st December 2019 and 2018, there were no outstanding derivative financial instruments entered into by the Group.

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

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(3) Price risk (Continued)

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

	Increase/decrease in post-tax profit		Increase/decrease in investment revaluation reserve	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
5% increase/decrease in market price	**–**	–	**3,706**	3,763

(ii) Credit risk

Credit risk mainly arises from trade and other receivables, balances due from group and related companies and deposits with financial institutions. The Group has limited its credit exposure from bank balances and deposits by restricting its selection of financial institutions with acceptable credit rating, as rated by external credit agencies, and over 94% of the Group's bank balances as at 31st December 2019 were placed with state-owned and listed banks. Management considers these balances are subject to low credit risk.

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

Trade and other receivables

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

As at 31st December 2019, the Group's provision for impairment of trade receivables amounted to HK$12,863,000 (2018: HK$14,566,000). During the year, a net reversal of provision for impairment of trade receivables amounted to HK$837,000 (2018: HK$6,372,000).

(iii) Liquidity risk

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

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

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

	Less than 1 year HK$'000
Group	
At 31st December 2019	
Trade and other payables	**645,594**
Short-term borrowings	**61,399**
At 31st December 2018	
Trade and other payables	635,588
Short-term borrowings	45,652

(b) Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as the Group's total borrowings divided by total assets. The Group's strategy, which was unchanged from 2018, is to maintain a low gearing ratio. The gearing ratios at 31st December 2019 and 2018 were as follows:

	2019 HK$'000	2018 HK$'000
Total borrowings	**61,399**	45,652
Total assets	**9,376,946**	9,256,725
Gearing ratio	**0.7%**	0.5%

(c) Fair value estimation

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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

The following table presents the Group's financial assets and investment properties that are measured at fair value at 31st December 2019.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at FVOCI				
— equity securities	**74,121**	**—**	**2,430**	**76,551**
Investment properties				
— commercial — Hong Kong	**—**	**—**	**29,800**	**29,800**
— commercial — Overseas	**—**	**—**	**32,922**	**32,922**
— residential — Hong Kong	**—**	**—**	**10,500**	**10,500**
— residential — PRC	**—**	**—**	**48,039**	**48,039**
Total assets	**74,121**	**—**	**123,691**	**197,812**

The following table presents the Group's financial assets and investment properties that are measured at fair value at 31st December 2018.

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

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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

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

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

There were no Level 2 financial assets in 2019 and 2018.

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

At the end of each reporting period, the management update their assessment of the fair value of each property, taking into account the most recent independent valuations. Valuation techniques adopted is the direct comparison approach and the unobservable inputs are the price per gross floor area. The range of unobservable inputs at 31st December 2019 were from HK$3,402 to HK$14,972 per square foot (2018: from HK$3,662 to HK$9,659 per square foot). There is a positive correlation between the fair value price per square foot and the fair value of the investment properties.

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

(f) Valuation process

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Allowances for bad and doubtful debts

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

(b) Allowances for inventory

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Income taxes

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

5 REVENUE AND SEGMENT INFORMATION

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

	2019 HK$'000	2018 HK$'000
Sale of coatings	1,002,416	959,576
Sale of marine equipment and spare parts	1,262,058	1,100,453
Commission income from ship trading agency	84,978	109,625
Commission income from insurance brokerage	83,396	80,513
Sale of marine fuel and other products	47,033	6,504,137
Sale of asphalt and other products	785,864	767,271
	3,265,745	9,521,575

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

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

Others mainly comprise the holding of Group's financial assets at FVOCI.

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

5 REVENUE AND SEGMENT INFORMATION (Continued)

	Year ended and as at 31st December 2019									
	Shipping services						General trading	Others	Inter-segment elimination	Total
	Coatings HK$'000	Marine equipment and spare parts HK$'000	Ship trading agency HK$'000	Insurance brokerage HK$'000	Marine fuel and other products HK$'000	Total HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit or loss items:										
Segment revenue	1,002,416	1,262,329	84,978	84,246	47,033	2,481,002	789,214	–	(4,471)	3,265,745
Inter-segment revenue	–	(271)	–	(850)	–	(1,121)	(3,350)	–	4,471	–
Revenue from external customers	1,002,416	1,262,058	84,978	83,396	47,033	2,479,881	785,864	–	–	3,265,745
Timing of revenue recognition:										
At a point in time	1,002,416	1,262,058	–	–	47,033	2,311,507	785,864	–	–	3,097,371
Over time	–	–	84,978	83,396	–	168,374	–	–	–	168,374
	1,002,416	1,262,058	84,978	83,396	47,033	2,479,881	785,864	–	–	3,265,745
Segment operating profit/(loss)	771	67,461	53,254	56,103	(4,070)	173,519	9,290	3,219	–	186,028
Finance income	1,163	476	2,071	2,476	58	6,244	1,048	–	(418)	6,874
Finance costs	(146)	(1,687)	(21)	(120)	(583)	(2,557)	(4,944)	–	418	(7,083)
Share of profits of joint ventures	47,280	827	691	–	–	48,798	–	–	–	48,798
Share of profits of associates	–	–	13	–	47,070	47,083	1,348	–	–	48,431
Segment profit before income tax	49,068	67,077	56,008	58,459	42,475	273,087	6,742	3,219	–	283,048
Income tax expenses	(10,416)	(10,912)	(18,012)	(10,677)	–	(50,017)	(2,062)	–	–	(52,079)
Segment profit after income tax	38,652	56,165	37,996	47,782	42,475	223,070	4,680	3,219	–	230,969
Balance sheet items:										
Total segment assets	1,369,790	1,268,441	249,308	294,956	188,549	3,371,044	657,157	74,121	(174,646)	3,927,676
Total segment assets include:										
– Joint ventures	424,665	9,482	3,272	–	–	437,419	–	–	–	437,419
– Associates	–	–	2,129	–	138,024	140,153	7,540	–	–	147,693
Total segment liabilities	242,697	583,640	55,847	157,988	579	1,040,751	165,341	–	(174,646)	1,031,446
Other items:										
Depreciation and amortisation, net of amount capitalised	18,466	7,221	216	236	–	26,139	2,685	–	–	28,824
Reversal of provision for impairment of inventories, net	(1,115)	–	–	–	–	(1,115)	–	–	–	(1,115)
Reversal of provision for impairment of trade receivables, net	(544)	(293)	–	–	–	(837)	–	–	–	(837)
Government subsidy income	(1,898)	–	–	–	–	(1,898)	–	–	–	(1,898)
Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets)	11,758	3,071	–	287	–	15,116	3,995	–	–	19,111

5 REVENUE AND SEGMENT INFORMATION (Continued)

	Year ended and as at 31st December 2018									
	Shipping services						General trading	Others	Inter-segment elimination	Total
	Coatings	Marine equipment and spare parts	Ship trading agency	Insurance brokerage	Marine fuel and other products	Total				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit or loss items:										
Segment revenue	959,576	1,109,448	110,023	80,733	6,559,397	8,819,177	774,659	–	(72,261)	9,521,575
Inter-segment revenue	–	(8,995)	(398)	(220)	(55,260)	(64,873)	(7,388)	–	72,261	–
Revenue from external customers	959,576	1,100,453	109,625	80,513	6,504,137	8,754,304	767,271	–	–	9,521,575
Timing of revenue recognition:										
At a point in time	959,576	1,100,453	–	–	6,504,137	8,564,166	767,271	–	–	9,331,437
Over time	–	–	109,625	80,513	–	190,138	–	–	–	190,138
	959,576	1,100,453	109,625	80,513	6,504,137	8,754,304	767,271	–	–	9,521,575
Segment operating profit	1,811	65,966	88,794	55,628	5,531	217,730	20,232	2,763	–	240,725
Finance income	1,303	976	2,030	2,640	993	7,942	855	–	(631)	8,166
Finance costs	(1,291)	(987)	(87)	(111)	(2,574)	(5,050)	(4,936)	–	631	(9,355)
Share of profits of joint ventures	9,222	198	505	–	–	9,925	–	–	–	9,925
Share of profits/(losses) of associates	–	–	74	–	(14,442)	(14,368)	807	–	–	(13,561)
Segment profit/(loss) before income tax	11,045	66,153	91,316	58,157	(10,492)	216,179	16,958	2,763	–	235,900
Income tax expenses	(5,492)	(9,832)	(13,684)	(10,500)	(473)	(39,981)	(4,502)	–	–	(44,483)
Segment profit/(loss) after income tax	5,553	56,321	77,632	47,657	(10,965)	176,198	12,456	2,763	–	191,417
Balance sheet items:										
Total segment assets	1,375,325	1,174,468	190,335	259,157	240,923	3,240,208	630,994	75,263	(245,482)	3,700,983
Total segment assets include:										
– Joint ventures	383,696	10,362	2,651	–	–	396,709	–	–	–	396,709
– Associates	–	–	2,164	–	87,540	89,704	6,947	–	–	96,651
Total segment liabilities	264,840	552,058	60,398	124,657	95,078	1,097,031	395,385	–	(245,482)	1,246,934
Other items:										
Depreciation and amortisation, net of amount capitalised	15,949	3,393	327	351	–	20,020	2,392	–	–	22,412
Reversal of provision for impairment of inventories, net	(8,826)	–	–	–	–	(8,826)	–	–	–	(8,826)
Reversal of provision for impairment of trade receivables, net	(5,784)	(588)	–	–	–	(6,372)	–	–	–	(6,372)
Reversal of provision for impairment of other receivables	–	–	–	–	–	–	(17,228)	–	–	(17,228)
Government subsidy income	(15,938)	–	–	–	–	(15,938)	–	–	–	(15,938)
Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets)	11,214	455	35	210	–	11,914	131	–	–	12,045

5 REVENUE AND SEGMENT INFORMATION (Continued)

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

	2019 HK$'000	2018 HK$'000
Profit before income tax for reportable segments	279,829	233,137
Profit before income tax for others	3,219	2,763
Profit before income tax for all segments	283,048	235,900
Elimination of segment income from corporate headquarters	(442)	(184)
Elimination of segment finance costs to corporate headquarters	3,115	6,078
Corporate finance income	200,975	153,831
Corporate finance costs	(24)	(16)
Corporate expenses, net of income	(100,924)	(58,948)
Profit before income tax for the Group	385,748	336,661
Income tax expenses for all segments	(52,079)	(44,483)
Corporate income tax expenses	(361)	(1,433)
Profit after income tax for the Group	333,308	290,745

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

	2019 HK$'000	2018 HK$'000
Total assets for reportable segments	4,028,201	3,871,202
Total assets for others	74,121	75,263
Elimination of inter-segment receivables	(174,646)	(245,482)
	3,927,676	3,700,983
Corporate assets (mainly deposits and cash and cash equivalents)	5,603,750	5,965,619
Elimination of corporate headquarters' receivables from segments	(154,480)	(409,877)
Total assets for the Group	9,376,946	9,256,725

5 REVENUE AND SEGMENT INFORMATION (Continued)

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

	2019 HK$'000	2018 HK$'000
Total liabilities for reportable segments	**1,206,092**	1,492,416
Elimination of inter-segment payables	**(174,646)**	(245,482)
	1,031,446	1,246,934
Corporate liabilities	**281,761**	264,968
Elimination of segment payables to corporate headquarters	**(154,480)**	(409,877)
Total liabilities for the Group	**1,158,727**	1,102,025

The Company is domiciled in Hong Kong. The Group's revenue from external customers derived from Hong Kong and places other than Hong Kong are HK$907,205,000 (2018: HK$822,725,000) and HK$2,358,540,000 (2018: HK$8,698,850,000) respectively.

The total of non-current assets, other than financial assets at FVOCI and deferred income tax assets, located in Hong Kong and places other than Hong Kong are HK$653,932,000 (2018: HK$547,243,000) and HK$479,185,000 (2018: HK$489,531,000) respectively.

6 INTANGIBLE ASSETS

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
Cost:			
At 1st January 2018	107,323	13,418	120,741
Additions	—	1,275	1,275
Currency translation differences	(800)	(347)	(1,147)
At 31st December 2018	106,523	14,346	120,869
Accumulated amortisation and impairment:			
At 1st January 2018	5,984	10,470	16,454
Currency translation differences	—	(274)	(274)
Amortisation (note 23)	—	1,241	1,241
At 31st December 2018	5,984	11,437	17,421
Net book amount	100,539	2,909	103,448
Cost:			
At 1st January 2019	**106,523**	**14,346**	**120,869**
Additions	**—**	**4,115**	**4,115**
Currency translation differences	**(414)**	**(1,101)**	**(1,515)**
At 31st December 2019	**106,109**	**17,360**	**123,469**
Accumulated amortisation and impairment:			
At 1st January 2019	**5,984**	**11,437**	**17,421**
Currency translation differences	**—**	**(1,009)**	**(1,009)**
Amortisation (note 23)	**—**	**1,440**	**1,440**
At 31st December 2019	**5,984**	**11,868**	**17,852**
Net book amount	**100,125**	**5,492**	**105,617**

6 INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill

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

	2019 HK$'000	2018 HK$'000
Agency service in respect of shipbuilding, ship trading and bareboat charter business	**47,116**	47,373
Provision of insurance brokerage services	**35,046**	35,046
Trading of marine equipment and spare parts	**17,963**	18,120
	100,125	100,539

The recoverable amounts of the above business units are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and thereafter with estimated compound annual growth rate of 3% (2018: 3%). Management determined forecast profitability based on past performance and its expectation for market development. Future cash flows are discounted at 8% (2018: 9%) per annum. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. These assumptions have been used for the analysis of each cash generating unit within the operating segment. Management determined the annual growth rate and discount rate for each business unit over the five-year forecast period to be key assumptions.

7(a) PROPERTY, PLANT AND EQUIPMENT

	Buildings (2018: leasehold land and buildings) HK$'000	Machinery, equipment and motor vehicles HK$'000	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
At 1st January 2018						
Cost	309,964	137,204	17,807	38,994	1,272	505,241
Accumulated depreciation	(55,116)	(68,212)	(15,731)	(35,144)	—	(174,203)
Net book amount	254,848	68,992	2,076	3,850	1,272	331,038
Year ended 31st December 2018						
Opening net book amount	254,848	68,992	2,076	3,850	1,272	331,038
Additions	22	2,158	253	1,211	8,720	12,364
Currency translation differences	(10,681)	(2,690)	(21)	(101)	(363)	(13,856)
Depreciation (note 23(a))	(10,024)	(12,773)	(870)	(2,256)	—	(25,923)
Disposals	—	(73)	—	(27)	—	(100)
Closing net book amount	234,165	55,614	1,438	2,677	9,629	303,523
At 31st December 2018						
Cost	296,589	131,594	17,872	36,579	9,629	492,263
Accumulated depreciation	(62,424)	(75,980)	(16,434)	(33,902)	—	(188,740)
Net book amount	234,165	55,614	1,438	2,677	9,629	303,523
Year ended 31st December 2019						
Opening net book amount	**234,165**	**55,614**	**1,438**	**2,677**	**9,629**	**303,523**
Change in accounting policy (note 2(b))	**(3,891)**	**(5,572)**	**—**	**—**	**—**	**(9,463)**
Restated opening net book amount	**230,274**	**50,042**	**1,438**	**2,677**	**9,629**	**294,060**
Additions	**28**	**5,462**	**225**	**2,842**	**4,898**	**13,455**
Transfer from right-of-use assets	**—**	**4,525**	**—**	**—**	**—**	**4,525**
Transfer between categories	**—**	**13,578**	**—**	**910**	**(14,488)**	**—**
Currency translation differences	**(4,233)**	**(1,123)**	**6**	**(68)**	**(39)**	**(5,457)**
Depreciation (note 23(a))	**(9,651)**	**(12,277)**	**(936)**	**(2,002)**	**—**	**(24,866)**
Disposals	**—**	**—**	**—**	**(3)**	**—**	**(3)**
Transfer to investment properties (note 9)	**(164)**	**—**	**—**	**—**	**—**	**(164)**
Closing net book amount	**216,254**	**60,207**	**733**	**4,356**	**—**	**281,550**
At 31st December 2019						
Cost	**285,075**	**143,451**	**18,021**	**37,150**	**—**	**483,697**
Accumulated depreciation	**(68,821)**	**(83,244)**	**(17,288)**	**(32,794)**	**—**	**(202,147)**
Net book amount	**216,254**	**60,207**	**733**	**4,356**	**—**	**281,550**

7(a) PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2019 HK$'000	2018 HK$'000
Leasehold properties held in Hong Kong		
— on leases of over 50 years	**311**	3,511
— on leases of between 10 and 50 years	**78**	978
Leasehold properties held outside Hong Kong		
— on leases of between 10 and 50 years	**210,813**	223,896
— on leases of less than 10 years	**5,052**	5,780
	216,254	234,165

7(b) LEASES

(i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	31st December 2019 HK$'000	1st January 2019 HK$'000
Right-of-use assets		
Leasehold land and buildings	**11,447**	16,250
Machinery, equipment and motor vehicles	**—**	5,820
Prepaid premium for land leases	**28,130**	29,429
	39,577	51,499
Lease liabilities		
Current	**6,383**	5,117
Non-current	**1,934**	7,490
	8,317	12,607

Addition to the right-of-use assets during the year ended 31st December 2019 was HK$1,692,000.

7(b) LEASES (Continued)

(ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	For the year ended 31st December 2019 HK$'000
Depreciation of right-of-use assets (note 23)	
Leasehold land and buildings	5,856
Machinery, equipment and motor vehicles	941
Prepaid premium for land leases	667
	7,464
Interest expense (included in finance costs)	454
Expenses related to short-term leases (note 23)	22,399

The total cash outflow for leases for the year ended 31st December 2019 was HK$6,122,000.

(iii) The Group's leasing activities and how these are accounted for

The Group leases various land and buildings, machinery, equipment and motor vehicles. Rental contracts are typically made for fixed periods of 1 to 999 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

8 PREPAID PREMIUM FOR LAND LEASES

	2019 HK$'000	2018 HK$'000
At 1st January	29,429	31,549
Currency translation differences	–	(1,426)
Amortisation (note 23)	–	(694)
Transfer to right-of-use assets	(29,429)	—
At 31st December	–	29,429

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

	2019 HK$'000	2018 HK$'000
Held outside Hong Kong		
— on leases of between 10 and 50 years	–	29,429

9 INVESTMENT PROPERTIES

	Completed commercial properties —Hong Kong HK$'000	Completed commercial properties —Overseas HK$'000	Completed residential properties —Hong Kong HK$'000	Completed residential properties —PRC HK$'000	Total HK$'000
Opening balance as at 1st January 2018	27,500	29,749	—	40,219	97,468
Additions	—	—	—	539	539
Currency translation differences	—	(708)	—	(2,093)	(2,801)
Fair value gains (note 22)	2,300	3,526	—	5,982	11,808
Closing balance as at 31st December 2018	29,800	32,567	—	44,647	107,014
Opening balance as at 1st January 2019	**29,800**	**32,567**	**—**	**44,647**	**107,014**
Transfer from property, plant and equipment (note 7(a))	**—**	**—**	**164**	**—**	**164**
Transfer from right-of-use assets	**—**	**—**	**408**	**—**	**408**
Currency translation differences	**—**	**355**	**—**	**(1,055)**	**(700)**
Fair value gains (note 22)	**—**	**—**	**2,500**	**4,447**	**6,947**
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties	**—**	**—**	**7,428**	**—**	**7,428**
Closing balance as at 31st December 2019	**29,800**	**32,922**	**10,500**	**48,039**	**121,261**

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

	2019 HK$'000	2018 HK$'000
Held in Hong Kong		
— on leases of over 50 years (note)	**40,300**	29,800
Held outside Hong Kong		
— on leases of between 10 and 50 years	**48,039**	44,647
— on freehold land	**32,922**	32,567
	121,261	107,014

Note:

During the year, certain residential properties in Hong Kong have been reclassified as investment properties due to change of use during the year. The properties were revalued on the day when properties were reclassified from property, plant and equipment to investment properties on the basis of their open market value by management upon transfer, and were revaluated by independent qualified valuer at year end.

9 INVESTMENT PROPERTIES (Continued)

Valuation processes of the Group

The Group measures its investment properties at fair value.

The investment properties in Hong Kong and the PRC were revalued by Cushman & Wakefield Limited, an independent qualified valuer not related to the Group, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued, at 31st December 2019 and 2018.

The overseas investment property was revalued by Pioneer Property Consultants LLP, an independent qualified valuer not related to the Group, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued, at 31st December 2019 and 2018.

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

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

At each financial year end, the finance department:

- verifies all major inputs to the independent valuation report;
- assesses property valuations movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer.

Valuation techniques

Fair value measurements using significant unobservable inputs (Level 3)

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

10 INVESTMENTS IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
At 1st January	**396,709**	298,190
Currency translation differences (note 19)	**(2,263)**	(1,489)
Acquisition of a joint venture (note)	**—**	102,971
Share of profits	**48,798**	9,925
Share of other comprehensive losses (note 19)	**(3,230)**	(10,272)
Dividends received	**(2,595)**	(2,616)
At 31st December	**437,419**	396,709

10 INVESTMENTS IN JOINT VENTURES (Continued)

Note:

On 6th August 2018, the Company completed its acquisition of 33% of equity interest in Nasurfar Changshu, a company incorporated in the PRC, at a consideration of RMB89,830,000 (approximately HK$102,971,000). Under the capital increase and subscription agreement, the Company would have an option to put back the investment to the original shareholders if Nasurfar Changshu cannot fulfill a specific profit target within 5 financial years from the year of acquisition. Management consider the probability of such option being exercisable is remote and hence the option is of insignificant value.

Particulars of the joint ventures of the Group as at 31st December 2019 are set out in note 37 to the financial statements.

Summarised financial information for a material joint venture of the Group

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

Summarised statement of financial position

	2019 HK$'000	2018 HK$'000
Non-current assets	**396,195**	420,778
Current assets		
Cash and cash equivalents	**212,575**	200,426
Other current assets	**1,120,548**	1,033,389
Total current assets	**1,333,123**	1,233,815
Current liabilities		
Financial liabilities (excluding trade and other payables and provisions)	**421,319**	466,705
Other current liabilities	**676,388**	637,597
Total current liabilities	**1,097,707**	1,104,302
Non-current liabilities		
Deferred income tax liabilities	**5,304**	5,364
Other non-current liabilities	**5,352**	—
Total non-current liabilities	**10,656**	5,364
Net assets	**620,955**	544,927

10 INVESTMENTS IN JOINT VENTURES (Continued)

Summarised statement of comprehensive income

	2019 HK$'000	2018 HK$'000
Revenue	**2,213,894**	2,159,858
Depreciation and amortisation	**42,343**	37,012
Interest income	**1,469**	54
Interest expense	**19,066**	34,123
Profit/(loss) before income tax	**94,568**	(13,588)
Income tax (charge)/credit	**(12,063)**	27,989
Profit for the year	**82,505**	14,401
Other comprehensive losses	**(6,477)**	(21,877)
Total comprehensive income/(losses)	**76,028**	(7,476)

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

Reconciliation of summarised financial information

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

	2019 HK$'000	2018 HK$'000
Opening net assets at 1st January	**544,927**	552,403
Profit for the year	**82,505**	14,401
Other comprehensive losses		
Currency translation differences	**(6,477)**	(21,877)
Closing net assets at 31st December	**620,955**	544,927
Interest in joint venture (50%)	**310,477**	272,463
Goodwill	**7,097**	7,097
Carrying amount	**317,574**	279,560

The aggregate carrying amounts of individually immaterial joint ventures are HK$119,845,000 (2018: HK$117,149,000). The aggregate amounts of the Group's share of these immaterial joint ventures' profits for the year and total comprehensive (losses)/income are HK$7,546,000 (2018: HK$2,725,000) and HK$(4,850,000) (2018: HK$667,000) respectively.

11 INVESTMENTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
At 1st January	96,651	122,644
Currency translation differences (note 19)	(907)	(212)
Share of profits/(losses)	48,431	(13,561)
Share of other comprehensive income/(losses) (note 19)	4,107	(4,146)
Dividends received	(589)	(8,074)
At 31st December	147,693	96,651

No summarised financial information for associates has been set out, as there were no individually material associates in 2019 and 2018.

Particulars of the associates of the Group as at 31st December 2019 are set out in note 37 to the financial statements.

12 FINANCIAL INSTRUMENTS BY CATEGORY

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

	Financial assets at amortised cost HK$'000	Financial assets at FVOCI HK$'000	Total HK$'000
Assets as per consolidated statement of financial position			
At 31st December 2019			
Financial assets at FVOCI (note 13)	—	76,551	76,551
Trade and other receivables excluding prepayments (note 16)	1,492,298	—	1,492,298
Restricted bank deposits, deposits and cash and cash equivalents (note 17)	6,319,741	—	6,319,741
Total	7,812,039	76,551	7,888,590
At 31st December 2018			
Financial assets at FVOCI (note 13)	—	78,003	78,003
Trade and other receivables excluding prepayments (note 16)	1,363,449	—	1,363,449
Restricted bank deposits, deposits and cash and cash equivalents (note 17)	6,375,662	—	6,375,662
Total	7,739,111	78,003	7,817,114

12 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Financial liabilities at amortised cost HK$'000
Liabilities as per consolidated statement of financial position	
At 31st December 2019	
Trade and other payables excluding non-financial liabilities (note 20)	**645,594**
Contract liabilities (note 20)	**361,896**
Short-term borrowings (note 21)	**61,399**
Total	**1,068,889**
At 31st December 2018	
Trade and other payables excluding non-financial liabilities (note 20)	635,588
Contract liabilities (note 20)	337,128
Short-term borrowings (note 21)	45,652
Total	1,018,368

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK$'000	2018 HK$'000
Financial assets at FVOCI		
— Unlisted	**2,430**	2,741
— Listed	**74,121**	75,262
	76,551	78,003

Financial assets are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
Financial assets at FVOCI		
— Renminbi	**2,430**	2,741
— Hong Kong dollars	**74,121**	75,262
	76,551	78,003

14 DEFERRED INCOME TAX

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

The movement on the net deferred income tax liabilities during the year is as follows:

	2019 HK$'000	2018 HK$'000
At 1st January	**(11,333)**	(10,673)
Currency translation differences	**464**	616
Transferred to current income tax liabilities	**468**	823
Charged to the consolidated income statement, net (note 27)	**(14,338)**	(2,099)
At 31st December	**(24,739)**	(11,333)

Deferred income tax assets are recognised for tax losses carried-forward to the extent that realisation of the related tax benefit through future taxable profits is probable. As at 31st December 2019, the Group has unrecognised tax losses of HK$122,276,000 (2018: HK$74,320,000 to carry forward against future taxable income, of which HK$6,235,000 (2018: HK$1,636,000) can be carried forward indefinitely. The remaining tax losses have an expiry date of up to 5 years.

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

	2019 HK$'000	2018 HK$'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**26,883**	35,137
— to be recovered within 12 months	**16,121**	17,799
	43,004	52,936
Deferred income tax liabilities:		
— to be settled after more than 12 months	**(44,141)**	(40,140)
— to be settled within 12 months	**(23,602)**	(24,129)
	(67,743)	(64,269)
	(24,739)	(11,333)

14 DEFERRED INCOME TAX (Continued)

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

(a) Deferred income tax assets

	Accrued liabilities HK$'000	Impairment losses HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st January 2018	25,940	16,727	10,980	509	54,156
Currency translation differences	(1,172)	(460)	(874)	(4)	(2,510)
(Charged)/credited to the consolidated income statement	(617)	(8,806)	10,584	129	1,290
At 31st December 2018	24,151	7,461	20,690	634	52,936
At 1st January 2019	**24,151**	**7,461**	**20,690**	**634**	**52,936**
Currency translation differences	**(345)**	**(133)**	**(503)**	**(1)**	**(982)**
(Charged)/credited to the consolidated income statement	**(10,196)**	**(1,657)**	**2,851**	**52**	**(8,950)**
At 31st December 2019	**13,610**	**5,671**	**23,038**	**685**	**43,004**

(b) Deferred income tax liabilities

	Accelerated tax depreciation HK$'000	Fair value gains HK$'000	Withholding tax HK$'000	Total HK$'000
At 1st January 2018	(1,254)	(20,194)	(43,381)	(64,829)
Currency translation differences	20	973	2,133	3,126
Transfer to current income tax liabilities	—	—	823	823
Charged to the consolidated income statement	(581)	(1,460)	(1,348)	(3,389)
At 31st December 2018	(1,815)	(20,681)	(41,773)	(64,269)
At 1st January 2019	**(1,815)**	**(20,681)**	**(41,773)**	**(64,269)**
Currency translation differences	**(10)**	**503**	**953**	**1,446**
Transfer to current income tax liabilities	**—**	**—**	**468**	**468**
Charged to the consolidated income statement	**—**	**(2,836)**	**(2,552)**	**(5,388)**
At 31st December 2019	**(1,825)**	**(23,014)**	**(42,904)**	**(67,743)**

15 INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**50,155**	68,050
Work in progress	**4,212**	4,549
Finished goods	**251,630**	264,588
	305,997	337,187

The cost of inventories recognised as expense and included in cost of sales amounted to HK$2,710,535,000 (2018: HK$8,955,448,000) (note 23).

As at 31st December 2019, inventories of HK$22,398,000 (2018: HK$34,849,000) were carried at net realisable value.

16 TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables		
— third parties	**320,424**	309,544
— fellow subsidiaries (note (f))	**322,444**	268,230
— related companies (note (f))	**55,870**	52,775
— joint ventures (note (f))	**2,877**	2,163
— non-controlling interests (note (f))	**874**	414
	702,489	633,126
Less: provision for impairment (note (b))	**12,863**	14,566
Trade receivables — net	**689,626**	618,560
Bills receivable		
— third parties	**109,574**	151,484
— fellow subsidiaries (note (f))	**3,831**	—
— related companies (note (f))	**15,998**	28,351
— a joint venture (note (f))	**11,163**	—
— non-controlling interests (note (f))	**614**	—
Prepayments	**2,516**	5,356
Deposits and other receivables		
— third parties (note (c))	**625,400**	530,379
— fellow subsidiaries (note (f))	**9,166**	2,789
— related companies (note (f))	**73**	94
— joint ventures (note (f))	**328**	2,153
Amounts due from immediate holding company (note (f))	**16,023**	4,993
Amounts due from fellow subsidiaries (note (f))	**10,502**	930
Loan to a joint venture (note (e))	**—**	23,716
	1,494,814	1,368,805

16 TRADE AND OTHER RECEIVABLES (Continued)

Notes:

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

	2019 HK$'000	2018 HK$'000
Current–90 days	397,894	357,476
91–180 days	148,786	179,739
Over 180 days	142,946	81,345
	689,626	618,560

For sale of coatings, marine equipment and spare parts, marine fuel, asphalt and other products, the majority of sales are on credit terms from 30 days to 120 days. Other than those with credit terms, all invoices are payable upon presentation.

(b) The Group assesses on a forward-looking basis the expected credit losses associated with its trade receivables. Taking into account the historical observed default rate of debtors over the expected life of the trade receivables and forward-looking estimates including future economic outlook and assessment on future market condition, it was assessed an amount of HK$12,863,000 of the receivable balance was impaired as at 31st December 2019 (2018: HK$14,566,000).

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

	2019 HK$'000	2018 HK$'000
At 1st January	14,566	26,913
Currency translation differences	(200)	(567)
Reversal of provision for impairment, net	(837)	(6,372)
Amount written off	(666)	(5,408)
At 31st December	12,863	14,566

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

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

	2019 HK$'000	2018 HK$'000
Renminbi	818,318	768,855
Hong Kong dollars	114,812	46,710
United States dollars	220,457	237,663
Others	341,227	315,577
	1,494,814	1,368,805

(e) Loan to a joint venture as at 31st December 2018 was unsecured, interest bearing at 1.4% above London Interbank Offer Rate ("LIBOR") and was repaid in January 2019.

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

(g) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. As at 31st December 2019 and 2018, the Group does not hold any collateral as security.

17 RESTRICTED BANK DEPOSITS, CURRENT DEPOSITS AND CASH AND CASH EQUIVALENTS

	2019 HK$'000	2018 HK$'000
Restricted bank deposits (note (a))	**5,582**	5,706
Current deposits with a fellow subsidiary (note (b))	**324,677**	290,012
Short-term bank deposits	**5,676,514**	5,635,790
Cash at bank and on hand	**312,968**	444,154
Current deposits and cash and cash equivalents	**6,314,159**	6,369,956
Total deposits and cash and cash equivalents	**6,319,741**	6,375,662

Notes:

(a) Restricted bank deposits represent deposits placed to meet statutory requirement for insurance brokerage business in the PRC.

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

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

	2019 HK$'000	2018 HK$'000
Renminbi	**268,226**	250,787
Hong Kong dollars	**138,970**	182,395
United States dollars	**5,844,027**	5,876,366
Others	**68,518**	66,114
	6,319,741	6,375,662

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

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

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

	2019 HK$'000	2018 HK$'000
Total deposits and cash and cash equivalents	**6,319,741**	6,375,662
Less: restricted bank deposits	**(5,582)**	(5,706)
cash deposits with maturity more than three months from date of placement	**(5,508,994)**	(5,398,862)
Cash and cash equivalents	**805,165**	971,094

18 SHARE CAPITAL

	2019 Number of shares	2019 HK$'000	2018 Number of shares	2018 HK$'000
Issued and fully paid:				
At 1st January and 31st December	**1,532,955,429**	**153,296**	1,532,955,429	153,296

19 RESERVES

	Share premium HK$'000	Statutory reserves (note (b)) HK$'000	Contributed surplus (note (c)) HK$'000	Exchange reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2019	167,023	130,462	676,218	32,445	10,634	(257,555)	(3,897)	6,945,309	7,700,639
Transfer to statutory reserves (note (b))	–	2,115	–	–	–	–	–	(2,115)	–
Currency differences on translation of:									
— subsidiaries	–	–	–	(16,546)	–	–	–	–	(16,546)
— joint ventures (note 10)	–	–	–	(2,263)	–	–	–	–	(2,263)
— associates (note 11)	–	–	–	(907)	–	–	–	–	(907)
Share of currency translation differences of joint ventures (note 10)	–	–	–	(3,230)	–	–	–	–	(3,230)
Share of currency translation differences of associates (note 11)	–	–	–	210	–	–	–	–	210
Share of cash flow hedges of an associate, net of tax (note 11)	–	–	–	–	–	–	3,897	–	3,897
Fair value losses on financial assets at FVOCI, net	–	–	–	–	–	(1,453)	–	–	(1,453)
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties	–	–	–	–	7,428	–	–	–	7,428
Profit for the year (note (a))	–	–	–	–	–	–	–	330,607	330,607
Dividends paid	–	–	–	–	–	–	–	(245,273)	(245,273)
Balance at 31st December 2019	167,023	132,577	676,218	9,709	18,062	(259,008)	–	7,028,528	7,773,109
Representing:									
Reserves	167,023	132,577	676,218	9,709	18,062	(259,008)	–	6,882,897	7,627,478
2019 proposed final dividend	–	–	–	–	–	–	–	145,631	145,631
	167,023	132,577	676,218	9,709	18,062	(259,008)	–	7,028,528	7,773,109

19 RESERVES (Continued)

	Share premium HK$'000	Statutory reserves (note (b)) HK$'000	Contributed surplus (note (c)) HK$'000	Exchange reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
Restated balance at 1st January 2018	167,023	133,764	676,218	91,959	10,634	(235,235)	–	6,916,470	7,760,833
Transfer from statutory reserves (note (b))	–	(3,302)	–	–	–	–	–	3,302	–
Currency differences on translation of:									
– subsidiaries	–	–	–	(47,292)	–	–	–	–	(47,292)
– joint ventures (note 10)	–	–	–	(1,489)	–	–	–	–	(1,489)
– associates (note 11)	–	–	–	(212)	–	–	–	–	(212)
Share of currency translation differences of joint ventures (note 10)	–	–	–	(10,272)	–	–	–	–	(10,272)
Share of currency translation differences of associates (note 11)	–	–	–	(249)	–	–	–	–	(249)
Share of cash flow hedges of an associate, net of tax (note 11)	–	–	–	–	–	–	(3,897)	–	(3,897)
Fair value losses on financial assets at FVOCI, net	–	–	–	–	–	(22,320)	–	–	(22,320)
Profit for the year (note (a))	–	–	–	–	–	–	–	286,140	286,140
Dividends paid	–	–	–	–	–	–	–	(260,603)	(260,603)
Balance at 31st December 2018	167,023	130,462	676,218	32,445	10,634	(257,555)	(3,897)	6,945,309	7,700,639
Representing:									
Reserves	167,023	130,462	676,218	32,445	10,634	(257,555)	(3,897)	6,807,343	7,562,673
2018 proposed final dividend	–	–	–	–	–	–	–	137,966	137,966
	167,023	130,462	676,218	32,445	10,634	(257,555)	(3,897)	6,945,309	7,700,639

Notes:

(a) Profit for the year of HK$330,607,000 (2018: HK$286,140,000) includes net profits of HK$48,798,000 (2018: HK$9,925,000) attributable to joint ventures and net profits of HK$48,431,000 (2018: net losses of HK$13,561,000) attributable to associates.

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

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

20 TRADE AND OTHER PAYABLES, CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Trade payables		
— third parties	**243,985**	233,925
— fellow subsidiaries (note (b))	**92,936**	42,715
— joint ventures (note (b))	**28**	1,140
— associates (note (b))	**—**	79
	336,949	277,859
Bills payable		
— third parties	**4,987**	10,249
Other payables		
— third parties	**232,766**	284,917
— fellow subsidiaries (note (b))	**23,942**	9,525
— related companies (note (b))	**343**	643
— a holding company (note (b))	**—**	79
— non-controlling interests (note (b))	**2,197**	1,876
Accrued liabilities	**30,875**	36,826
Amounts due to fellow subsidiaries (note (b))	**8,723**	8,774
Dividend payable to non-controlling interests	**4,812**	4,840
	645,594	635,588
Contract liabilities — sales of goods (note (d))		
— third parties	**183,408**	206,636
— fellow subsidiaries (note (b))	**162,818**	109,738
— related companies (note (b))	**15,570**	20,586
— joint ventures (note (b))	**100**	—
— associates (note (b))	**—**	168
	361,896	337,128
	1,007,490	972,716

Notes:

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

	2019 HK$'000	2018 HK$'000
Current–90 days	**310,649**	220,065
91–180 days	**25,493**	44,567
Over 180 days	**807**	13,227
	336,949	277,859

20 TRADE AND OTHER PAYABLES, CONTRACT LIABILITIES (Continued)

Notes: (Continued)

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

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

	2019 HK$'000	2018 HK$'000
Renminbi	290,714	201,761
Hong Kong dollars	137,461	110,437
United States dollars	187,803	272,366
Others	29,616	51,024
	645,594	635,588

(d) Revenue recognised in relation to contract liabilities

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

	2019 HK$'000	2018 HK$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	290,958	415,242

21 SHORT-TERM BORROWINGS

	2019 HK$'000	2018 HK$'000
Unsecured loans from a fellow subsidiary (note (a))	61,399	45,652

Notes:

(a) Unsecured loans from a fellow subsidiary bears interest at 2.505% per annum (2018: 2.505% per annum) and is repayable on 21st May 2020 and 17th June 2020 (2018: 18th May 2019).

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

(c) The effective interest rates of short-term borrowings during the year ended 31st December 2019 and 2018 are as follows:

	2019	2018
Renminbi	2.51%	3.55%

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

22 OTHER INCOME AND (LOSSES)/GAINS — NET

	2019 HK$'000	2018 HK$'000
Other income/(expenses) — net		
— Rental income	3,112	2,920
— Direct operating expenses for generating rental income	(17)	(93)
— Dividend income from listed and unlisted investments	3,219	2,763
	6,314	5,590
Other (losses)/gains — net		
— Net gains on disposal of property, plant and equipment	234	346
— Fair value gains on investment properties (note 9)	6,947	11,808
— Reversal of provision for impairment of trade receivables, net	837	6,372
— Reversal of provision for impairment of inventories, net	1,115	8,826
— Reversal of provision for impairment of other receivables	—	17,228
— Net exchange (losses)/gains	(41,966)	21,994
— Government subsidy income#	1,898	15,938
— Others	1,034	2,043
	(29,901)	84,555
	(23,587)	90,145

\# Government subsidy income of HK$11,826,000 was recognised during the year ended 31st December 2018 in respect of a special subsidy granted by the Shanghai Baoshan District Government. Such subsidy was to compensate for the relevant costs and expenses incurred by COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd. in relocating the production plant and settling the impacted staff. The remaining amount represented other government subsidy income.

23 EXPENSES BY NATURE

	2019 HK$'000	2018 HK$'000
Cost of sales		
Cost of inventories sold (note 15)	2,710,535	8,955,448
Selling, administrative and general expenses		
Selling expenses	138,119	158,141
Depreciation of property, plant and equipment (note 23(a))	691	737
Amortisation of intangible assets (note 6)	1,440	1,241
Amortisation of prepaid premium for land leases (note 8)	—	694
Depreciation of right-of-use assets (note 7(b))	7,464	—
Expenses related to short-term leases under HKFRS 16 (note 7(b))	22,399	—
Operating lease rental expenses related to land and buildings	—	35,647
Administrative staff costs	285,668	267,328
Auditors' remuneration	5,402	5,110
Others	93,504	80,446
	554,687	549,344

23 EXPENSES BY NATURE (Continued)

(a) Depreciation of property, plant and equipment

	2019 HK$'000	2018 HK$'000
Charge for the year (note 7(a))	**24,866**	25,923
Charged to cost of sales	**(19,798)**	(20,380)
Charged to selling expenses	**(294)**	(172)
Capitalised in inventories	**(4,083)**	(4,634)
	691	737

24 EMPLOYEE BENEFIT EXPENSES

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

	2019 HK$'000	2018 HK$'000
Wages, salaries and other short-term benefits, including directors' emoluments (note 25(a))	**376,171**	355,794
Retirement benefits costs — defined contribution plans (note)	**29,344**	26,654
Termination benefits	**705**	750
	406,220	383,198

	2019 HK$'000	2018 HK$'000
Included in:		
Cost of sales	**38,699**	37,673
Selling, administrative and general expenses	**367,521**	345,525
	406,220	383,198

Note:

There were no forfeited contributions (2018: Nil) utilised during the year and no forfeited contributions were available at the year-end to reduce future contributions (2018: Nil). There were no contributions (2018: Nil) payable to the funds at the year-end.

24 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2018: two) directors whose emoluments are reflected in the note 25(a). The emoluments of the remaining three (2018: three) individuals during the year are as follows:

	2019 HK$'000	2018 HK$'000
Basic salaries, allowances and benefits-in-kind	4,941	4,343
Discretionary bonuses	485	177
Retirement benefits costs — defined contribution plan	319	—
	5,745	4,520

The emoluments of the individuals fell within the following bands:

	Number of individuals	
Emolument band	2019	2018
HK$1,000,001 — HK$1,500,000	—	2
HK$1,500,001 — HK$2,000,000	3	1

(b) Emoluments of senior management

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

	Number of individuals	
Emolument band	2019	2018
Below HK$1,000,000	4	3
HK$1,000,001 — HK$1,500,000	—	1
HK$1,500,001 — HK$2,000,000	1	1

25 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

Details of the emoluments of directors of the Company for the year ended 31st December 2019 are as follows. Executive directors were also key management personnel of the Company.

Name of directors	Fees HK$'000	Basic salaries, allowances and benefits-in-kind HK$'000	Total HK$'000
Executive Directors:			
Mr. Zhu Jianhui	—	6,200	6,200
Mr. Liu Gang	—	3,800	3,800
Independent Non-executive Directors:			
Mr. Tsui Yiu Wa, Alec	320	—	320
Mr. Jiang, Simon X.	320	—	320
Mr. Alexander Reid Hamilton	320	—	320
	960	10,000	10,960

Details of the emoluments of directors who were also the key management personnel of the Company for the year ended 31st December 2018 are as follows:

Name of directors	Fees HK$'000	Basic salaries, allowances and benefits-in-kind HK$'000	Total HK$'000
Executive Directors:			
Mr. Zhu Jianhui	—	6,200	6,200
Mr. Liu Gang	—	3,846	3,846
Independent Non-executive Directors:			
Mr. Tsui Yiu Wa, Alec	300	—	300
Mr. Jiang, Simon X.	300	—	300
Mr. Alexander Reid Hamilton	300	—	300
	900	10,046	10,946

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

26 FINANCE INCOME — NET

	2019 HK$'000	2018 HK$'000
Interest income from:		
— a fellow subsidiary	**3,804**	3,978
— a joint venture	**47**	858
— bank deposits	**203,998**	157,161
Total finance income	**207,849**	161,997
Interest expenses on:		
— a loan from a fellow subsidiary	**(1,411)**	(750)
— a bank loan	**(691)**	(1,219)
Other finance charges	**(1,890)**	(1,324)
Total finance costs	**(3,992)**	(3,293)
Finance income — net	**203,857**	158,704

27 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year.

The PRC income tax has been calculated on the estimated assessable profit derived from the Group's operations in the PRC for the year at 25% (2018: 25%) except for a subsidiary, which was taxed at a reduced rate of 15% (2018: 15%) based on different local preferential policies on income tax and approval by relevant tax authorities.

Other overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. These rates range from 17% to 35% (2018: 17% to 43%) during the year.

	2019 HK$'000	2018 HK$'000
Current income tax		
— current year		
— Hong Kong profits tax	**14,228**	24,286
— PRC enterprise income tax	**21,702**	18,274
— other overseas taxation	**2,862**	2,258
— (over-provision)/under-provision in prior years		
— Hong Kong profits tax	**(299)**	(474)
— PRC enterprise income tax	**(405)**	(652)
— other overseas taxation	**14**	125
Deferred income tax charge — net (note 14)	**14,338**	2,099
Income tax expenses	**52,440**	45,916

27 INCOME TAX EXPENSES (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Company operates and the difference is set out below:

	2019 HK$'000	2018 HK$'000
Profit before income tax (excluding share of profits/(losses) of joint ventures and associates)	288,519	340,297
Calculated at a tax rate of 16.5% (2018: 16.5%)	47,606	56,149
Effect of different tax rates in the PRC and other overseas countries	6,036	5,310
Income not subject to income tax	(36,410)	(33,583)
Expenses not deductible for tax purposes	18,739	11,836
Tax losses not recognised	2,657	2,127
Utilisation of previously unrecognised tax losses	(671)	(482)
Over-provision in prior years, net	(691)	(131)
Reversal of prior year tax loss recognised	8,198	1,213
Withholding tax		
— interest income	439	927
— dividend income	62	165
— others	4,159	1,120
Land appreciation tax on PRC investment properties	2,429	1,411
Special tax credit	(113)	(146)
Income tax expenses	52,440	45,916

For the year ended 31st December 2019, the Group's share of taxation of joint ventures of HK$7,859,000 (2018: tax credit of HK$11,821,000) and taxation of associates of HK$1,167,000 (2018: HK$785,000), are included in the consolidated income statement as share of profits of joint ventures and share of profits/(losses) of associates respectively.

28 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity holders of the Company of HK$330,607,000 (2018: HK$286,140,000) and the number of shares in issue during the year of 1,532,955,429 shares (2018: 1,532,955,429 shares).

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

29 DIVIDENDS

	2019 HK$'000	2018 HK$'000
Interim dividend paid of HK$0.07 (2018: HK$0.05) per ordinary share	107,307	76,648
Final dividend proposed of HK$0.095 (2018: HK$0.09) per ordinary share	145,631	137,966
	252,938	214,614

At the board meeting held on 23rd March 2020, the directors of the Company proposed a final dividend of HK$0.095 per ordinary share for the year ended 31st December 2019. These proposed dividends have not been recognised as a liability in the financial statements for the year ended 31st December 2019, but will be reflected as an appropriation of retained profit for the year ending 31st December 2020.

30 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2019 HK$'000	2018 HK$'000
Operating profit	84,662	181,593
Amortisation of intangible assets	1,440	1,241
Depreciation of property, plant and equipment, net of amount capitalised	20,783	21,289
Net gains on disposal of property, plant and equipment	(234)	(346)
Depreciation of right-of-use assets	7,464	—
Amortisation of prepaid premium for land leases	—	694
Fair value gains on investment properties	(6,947)	(11,808)
Reversal of provision for impairment of inventories, net	(1,115)	(8,826)
Write-off of inventories	—	21
Reversal of provision for impairment of trade receivables, net	(837)	(6,372)
Reversal of provision for impairment of other receivables	—	(17,228)
Dividend income	(3,219)	(2,763)
Operating profit before working capital changes	101,997	157,495
Decrease in inventories	29,533	109,928
(Increase)/decrease in trade and other receivables	(152,738)	164,100
Increase in amount due from an immediate holding company	(11,030)	(4,993)
Increase in amounts due from fellow subsidiaries	(9,711)	(784)
Increase/(decrease) in trade and other payables	56,134	(666,979)
Increase in contract liabilities	24,768	337,128
(Decrease)/increase in amounts due to fellow subsidiaries	(51)	1,167
Cash generated from operations	38,902	97,062

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

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

	Short-term borrowings HK$'000	Lease liabilities HK$'000	Total HK$'000
As of 31st December 2017	—	—	—
Currency translation differences	(1,652)	—	(1,652)
Drawdown of loan from a fellow subsidiary	47,304	—	47,304
As of 31st December 2018	45,652	—	45,652
As of 31st December 2018	**45,652**	**—**	**45,652**
Recognised on adoption of HKFRS 16 (note 2(b))	**—**	**12,607**	**12,607**
Restated balance at 1st January 2019	**45,652**	**12,607**	**58,259**
Currency translation differences	**(1,303)**	**(314)**	**(1,617)**
Repayment of loan from a fellow subsidiary	**(45,469)**	**—**	**(45,469)**
Drawdown of loan from a fellow subsidiary	**62,519**	**—**	**62,519**
Principal elements of lease payments	**—**	**(6,122)**	**(6,122)**
Addition of lease	**—**	**1,692**	**1,692**
Finance cost on lease liabilities	**—**	**454**	**454**
As of 31st December 2019	**61,399**	**8,317**	**69,716**

31 FINANCIAL GUARANTEE CONTRACTS

As at 31st December 2019, the Group had financial guarantees issued in favour of a bank as security for general banking facilities granted to an associate.

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

	Year of maturity	2019 HK$'000	2018 HK$'000
General banking facilities of an associate	2020	**167,439**	168,408

As at 31st December 2019, the credit risk and liquidity risk exposure relating to the above financial guarantee contract are considered as low.

The fair value of the guarantee contract is not material and has not been recognised in the financial statements.

32 COMMITMENTS

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

	2019 HK$'000	2018 HK$'000
Contracted but not provided	6,097	3,393

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

	2019 HK$'000	2018 HK$'000
Contracted but not provided	2,757	151

(c) The aggregate future minimum lease payments under non-cancellable short-term leases in respect of land and buildings and equipment are HK$1,540,000.

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

	2019 HK$'000	2018 HK$'000
Within one year	1,003	1,935
In the second to fifth years inclusive	289	583
	1,292	2,518

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

33 MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by COSCO SHIPPING (Hong Kong) Co., Limited ("COSCO SHIPPING (Hong Kong)"), a company incorporated in Hong Kong, which owns 66.12% of the Company's shares as at 31st December 2019. The remaining 33.88% of the Company's shares is widely held. The ultimate holding company of COSCO SHIPPING (Hong Kong) is COSCO SHIPPING.

COSCO SHIPPING itself is a state-owned enterprise established and controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24 (Revised), government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include COSCO SHIPPING, its subsidiaries (other than the Group) and associates, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, and other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and COSCO SHIPPING as well as their close family members.

For the years 2019 and 2018, the Group's significant transactions with entities that are controlled, jointly controlled or significantly influenced by the PRC government mainly include most of its bank deposits and the corresponding interest income and part of sales and purchases of goods and services. The price and other terms of such transactions are set out in the agreements governing these transactions or as mutually agreed.

Apart from the above-mentioned transactions with the government-related entities and the related party information shown elsewhere in the financial statements, the following is a summary of the significant related party transactions carried out in the normal course of the Group's business during the year:

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

	Note	2019 HK$'000	2018 HK$'000
Sale of coatings to:	(i)		
— fellow subsidiaries		312,010	178,545
— related companies		125,044	192,424
— non-controlling interests		3,272	1,897
Sale of marine equipment and spare parts to:	(ii)		
— fellow subsidiaries		901,770	731,791
— related companies		30,049	28,862
— joint ventures		936	1,402
Commission income in relation to the provision of ship trading agency services to:	(iii)		
— fellow subsidiaries		36,736	83,888
— related companies		3,965	11,940
— a joint venture		25,711	10,409
Commission income in relation to the provision of insurance brokerage services to:	(iv)		
— fellow subsidiaries		61,614	51,592
— related companies		2,129	1,257
— holding companies		1,400	2,505
— a joint venture		6	11
— an associate		78	43
Sale of marine fuel to:	(v)		
— fellow subsidiaries		39,617	270,383
— a related company		—	1,271
Sale of ship supplies and other products to:	(vi)		
— fellow subsidiaries		982	13,208
— related companies		21	—
Interest income from a fellow subsidiary (note 26)	(vii)	3,804	3,978
Interest income from a joint venture (note 26)	(viii)	47	858
Management fee income in relation to the provision of management services to:	(ix)		
— fellow subsidiaries		31,354	23,566
— a holding company		76,372	51,099

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

Notes:

(i) Sale of coatings to fellow subsidiaries, related companies and non-controlling interests was conducted on terms as set out in the agreements governing these transactions.

(ii) Sale of marine equipment and spare parts to fellow subsidiaries, related companies and joint ventures was conducted on terms as set out in the agreements governing these transactions.

(iii) Certain subsidiaries of the Company acted as agent of the fellow subsidiaries, related companies and a joint venture relating to (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new shipbuilding projects. According to the terms of the relevant engagement/commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above. The commissions were charged based on terms as set out in the agreements governing these transactions.

(iv) Commission income in relation to the provision of insurance brokerage services to fellow subsidiaries, related companies, holding companies, a joint venture and an associate was calculated on terms as set out in the agreements governing these transactions.

(v) Sale of marine fuel to fellow subsidiaries and a related company was conducted on terms as set out in the agreements governing these transactions.

(vi) Sale of ship supplies and other products to fellow subsidiaries and related companies was conducted on terms as set out in the agreements governing these transactions.

(vii) Interest income was received from cash deposits placed with a fellow subsidiary and was calculated at prevailing market rates.

(viii) Interest income was received from a loan to a joint venture, which was unsecured, interest bearing at 1.4% above LIBOR and repaid in January 2019.

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

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

	Note	2019 HK$'000	2018 HK$'000
Cash payments to fellow subsidiaries in relation to lease contracts for land and buildings	(i)	**20,782**	26,776
Commission expenses in relation to the sale of coatings paid to fellow subsidiaries	(ii)	**8,236**	5,342
Commission expenses in relation to the provision of ship trading agency services paid to:	(iii)		
— a joint venture		**–**	1,194
— an associate		**–**	67
Commission expenses in relation to the sale of marine equipment paid to a related company	(iv)	**930**	1,828
Purchase of marine equipment from related companies	(iv)	**34,969**	30,510
Purchase of raw materials from non-controlling interests	(v)	**550**	2,188
Transportation costs paid to fellow subsidiaries	(vi)	**10,585**	46,435
Purchase of marine fuel from:	(vii)		
— fellow subsidiaries		**–**	24,732
— an associate		**–**	89,152
Technology usage fee paid to non-controlling interests	(viii)	**2,237**	1,918
Service fees paid to fellow subsidiaries	(ix)	**13,491**	9,342
Interest expenses to a fellow subsidiary (note 26)	(x)	**1,411**	750

Notes:

(i) During the year, the Group leased certain office premises in Hong Kong from the wholly-owned subsidiaries of COSCO SHIPPING (Hong Kong) at an average monthly rent of HK$1,033,000 (2018: HK$1,642,000). The Group also leased other properties in the PRC and other overseas countries from fellow subsidiaries on terms as set out in the agreements governing these transactions.

(ii) Commission paid was based on a certain percentage of sales amounts in accordance with terms as set out in the agreements governing these transactions.

(iii) Commission expenses paid to a joint venture and an associate were based on terms as set out in the agreements governing these transactions.

(iv) A related company was appointed as agent to provide agency services in relation to the sale of marine equipment in the PRC and to purchase marine equipment from suppliers. Commission paid was based on a certain percentage of sales procured by the related company. Purchase of marine equipment from related companies was conducted on terms as set out in the agreements governing these transactions.

(v) Purchase of raw materials from non-controlling interests was conducted on terms as set out in the agreements governing these transactions.

(vi) Transportation costs paid to fellow subsidiaries was based on terms as set out in the agreements governing these transactions.

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

Notes: (Continued)

(vii) Purchase of marine fuel from fellow subsidiaries and an associate was conducted on terms as set out in the agreements governing these transactions.

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

(ix) Service fees were paid to fellow subsidiaries in relation to their provision of administrative services, manpower resources, technical support and other ancillary support to the Group and sharing of office premises by the Group and were conducted on terms as set out in the agreements governing these transactions.

(x) Interest expenses were paid to a fellow subsidiary at a fixed interest rate of 2.505% per annum.

(c) On 30th April 2012, the Group executed corporate guarantee of US$21,500,000 (equivalent to approximately HK$167,439,000) in favour of a bank as security for general banking facilities of US$108,000,000 (equivalent to approximately HK$841,088,000) granted by the bank to Double Rich. The guarantee remains effective as at 31st December 2019.

34 EVENTS AFTER THE BALANCE SHEET DATE

(a) As disclosed in the Company's announcement dated 21st January 2020, the directors of the Company have proposed a share option incentive scheme (the "Scheme") under Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for approval by the shareholders of the Company. The purpose of the Scheme is to, inter alia, attract, retain and incentivise senior management and core backbone personnel of the Company, promote the realization of the strategic targets of the Company, and serve as the driving force for the long-term development of the Company.

As at the date of this report, the Scheme is subject to approval by the shareholders of the Company. Management is of the view that this event would not have a material impact to the Group's financial statements for the year ended 31st December 2019.

(b) The wide spread of the Coronavirus Disease 2019 since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Note	2019 HK$'000	2018 HK$'000
ASSETS			
Non-current assets			
Intangible assets		377	635
Property, plant and equipment		1,107	1,563
Investments in subsidiaries		1,348,536	1,323,095
Investment in joint ventures		249,248	246,659
Investment in an associate		2,090	—
		1,601,358	1,571,952
Current assets			
Amounts due from immediate holding company		16,023	4,993
Amounts due from subsidiaries		901,627	903,373
Other receivables		46,915	66,573
Current deposits and cash and cash equivalents		5,512,370	5,612,555
		6,476,935	6,587,494
Total assets		8,078,293	8,159,446
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		153,296	153,296
Other reserves	(a)	843,241	843,241
Retained earnings	(a)	6,797,399	6,899,222
Total equity		7,793,936	7,895,759
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		194,887	191,702
Other payables		89,039	71,352
Current income tax liabilities		431	633
Total liabilities		284,357	263,687
Total equity and liabilities		8,078,293	8,159,446

The statement of financial position of the Company was approved by the Board of Directors on 23rd March 2020 and was signed on its behalf.

Zhu Jianhui
Director

Liu Gang
Director

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

Statement of financial position of the Company (Continued)

Note:

(a) Reserve movement of the Company

	Other reserves HK$'000	Retained earnings HK$'000
At 1st January 2018	843,241	6,786,282
Profit for the year	—	373,543
Dividends paid	—	(260,603)
At 31st December 2018	843,241	6,899,222
At 1st January 2019	**843,241**	6,899,222
Profit for the year	**—**	143,450
Dividends paid	**—**	(245,273)
At 31st December 2019	**843,241**	6,797,399

36 PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries of the Group as at 31st December 2019 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2019	2018
Capital Properties Limited#	Hong Kong, limited liability company	HK$2 ordinary share capital	Provision of nominee services	100%	100%
COSCO SHIPPING (Hong Kong) Insurance Brokers Limited#	Hong Kong, limited liability company	HK$5,000,000 ordinary share capital	Provision of insurance brokerages and related services	100%	100%
COSCO SHIPPING (Hong Kong) Ship Trading Company Limited#	Hong Kong, limited liability company	HK$500,000 ordinary share capital	Provision of agency services in ship trading business	100%	100%
New Legend Holdings Limited#	Hong Kong, limited liability company	HK$1 ordinary share capital	Investment holding	100%	100%
Yuantong Marine Service Co. Limited#	Hong Kong, limited liability company	HK$208,352,000 ordinary share capital	Trading of marine equipment and spare parts	100%	100%
CSHT Marine Machinery Suppliers Limited#	Hong Kong, limited liability company	HK$10,000,000 ordinary share capital	Trading of marine equipment and spare parts	100%	100%
Fragrant Sea Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	100%	100%
Graceful Nice Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	100%	100%
New Renown Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	100%	100%
Raycle Match Development Ltd. #	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	100%	100%
COSCO (Beijing) Marine Electronic Equipment Limited	PRC, wholly foreign-owned enterprise	RMB680,000	Trading of marine equipment and spare parts	100%	100%
COSCO SHIPPING International Trading Company Limited	PRC, wholly foreign-owned enterprise	RMB360,633,044	Trading of asphalt, ship equipment and accessories	100%	100%
COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.#	PRC, Sino-foreign equity joint venture enterprise	US$7,000,000	Sale of coatings	63.07%	63.07%
COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd.#	PRC, Sino-foreign equity joint venture enterprise	US$5,000,000	Production and sale of coatings	63.07%	63.07%
COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd.#	PRC, foreign equity joint venture enterprise	US$10,000,000	Production and sale of coatings	64.71%	64.71%
COSCO Kansai Paint (Shanghai) Co., Ltd.#	PRC, foreign equity joint venture enterprise	US$25,600,000	Production and sale of coatings	63.07%	63.07%
Beijing COSCO SHIPPING Ship Trading Company Limited#	PRC, wholly foreign-owned enterprise	US$1,300,000	Provision of agency services in ship trading business	100%	100%
Shenzhen COSCO Insurance Brokers Limited	PRC, Sino-foreign equity joint venture enterprise	RMB50,000,000	Provision of professional services of insurance brokerages	55%	55%
Yuantong Marine Trade (Shanghai) Co., Ltd.	PRC, wholly foreign-owned enterprise	US$500,000	Trading of marine equipment and spare parts	100%	100%
Sinfeng Marine Services Pte. Ltd.	Singapore, limited liability company	7,000,000 ordinary shares of US$1 each	Trading of marine fuel and other related products	100%	100%
Xing Yuan (Singapore) Pte. Ltd.	Singapore, limited liability company	100,000 ordinary shares of S$1 each	Trading of marine equipment and spare parts	100%	100%
Shin Chung Lin Corporation	Japan, limited liability company	600 ordinary shares of JPY50,000 each	Trading of marine equipment and spare parts	100%	100%
Hanyuan Technical Service Center GmbH	Germany, limited liability company	EUR102,259	Trading of marine equipment and spare parts	100%	100%
Yuan Hua Technical & Supply Corporation	United States of America, limited liability company	US$400,000	Material and spare parts supply and service support for vessels	51%	51%

shares held directly by the Company

37 JOINT VENTURES AND ASSOCIATES

Particulars of joint ventures and associates of the Group as at 31st December 2019 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2019	Attributable equity interest held 2018
(a) Joint ventures					
Jotun COSCO Marine Coatings (HK) Limited#	Hong Kong/PRC, limited liability company	HK$2,400 ordinary share capital	Investment holding and sale of coatings	**50%**	50%
Nasurfar Biomaterial Technology (Changshu) Co., Ltd.#	PRC, Sino-foreign equity joint venture enterprise	RMB182,907,725	Research and development, production and sales of biochemical products	**33%**	33%
Cosbulk International Trading Co. Ltd. (Tianjin)#	PRC, Sino-foreign equity joint venture enterprise	RMB1,500,000	Vessel and equipment trade consultant	**49%**	49%
COSCO SHIPPING Tanker (Dalian) Electronic Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	RMB1,000,000	Provision of marine electronic engineering services	**40%**	40%
Shanghai Ocean Radio Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US$250,000	Trading of marine equipment and provision of repair and maintenance	**25%**	25%
Tianjin Marine Electronic Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US$200,000	Provision of marine electronic engineering services	**25%**	25%
(b) Associates					
COSCO SHIPPING SUPPLY (GUANGZHOU) CO., LTD.	PRC, limited liability company	RMB30,442,100	Supply and storage of related materials of cargo transportation	**20%**	20%
Coscoship (Qingdao) Co., Ltd.#	PRC, Sino-foreign equity joint venture enterprise	RMB3,000,000	Vessel engineering and technical support	**20%**	20%
German Lashing (Nanjing) Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US$663,000	Manufacture, sale and provision of after-sale service of container software and related products	**20%**	20%
Double Rich Limited	Hong Kong, limited liability company	HK$88,000,000 ordinary share capital	Trading of oil products and investment holding	**18%**	18%

shares held directly by the Company

List of Major Properties

As at 31st December 2019

	Description	Existing use	Approximate area	Lease term	% of interest attributable to the Group
Properties held for own use					
(1)	No. 42, Diwu Main Street, Economic Technology Development Zone, Tianjin, the PRC	Industrial	Site area 28,572.32 sq.m.	From 1st January 2018 to 31st December 2020	63.07
(2)	Economic Zone, Gaolan Port, Zhuhai, the PRC	Industrial	Site area 67,881.68 sq.m.	From 18th April 2006 to 17th April 2056	64.71
(3)	No. 2, Industry Park, Jinshan District, Shanghai, the PRC	Industrial	Site area 61,097.30 sq.m.	From 5th July 2013 to 4th July 2063	63.07
(4)	No. 9 Basement 1, No. 188 Tongzhou Road, Shanghai, the PRC	Carparking	1 car parking space	From 28th June 1998 to 27th June 2068	100
(5)	Room 201, No. 8 Building, No. 188 Tongzhou Road, Shanghai, the PRC	Residential	Gross floor area 228.29 sq.m.	From 28th June 1998 to 27th June 2068	100
Property held for investment					
(1)	19th Floor, Nan Dao Commercial Building, 359–361 Queen's Road Central, Hong Kong	Commercial	Gross floor area 320.51 sq.m.	999 years from 7th February 1852	100
(2)	207 Henderson Road, #01-03/#03-03 Henderson Industrial Park, Singapore 159550	Commercial	Saleable area 782 sq.m.	Freehold	100

Five-Year Financial Summary

CONSOLIDATED INCOME STATEMENT

	Year ended 31st December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**3,265,745**	9,521,575	8,786,094	7,430,297	5,999,646
Operating profit	**84,662**	181,593	218,792	113,412	194,708
Finance income — net	**203,857**	158,704	119,704	86,546	111,368
Share of profits of joint ventures	**48,798**	9,925	64,730	89,930	110,171
Share of profits/(losses) of associates	**48,431**	(13,561)	12,336	10,202	11,577
Profit before income tax	**385,748**	336,661	415,562	300,090	427,824
Income tax expenses	**(52,440)**	(45,916)	(54,948)	(63,590)	(65,760)
Profit for the year	**333,308**	290,745	360,614	236,500	362,064
Profit/(loss) attributable to:					
Equity holders of the Company	**330,607**	286,140	356,627	237,205	335,763
Non-controlling interests	**2,701**	4,605	3,987	(705)	26,301
	333,308	290,745	360,614	236,500	362,064

Five-Year Financial Summary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31st December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Non-current assets					
Intangible assets	**105,617**	103,448	104,287	101,951	103,185
Property, plant and equipment	**281,550**	303,523	331,038	343,912	392,516
Right-of-use assets	**39,577**	—	—	—	—
Prepaid premium for land leases	**—**	29,429	31,549	30,138	32,876
Investment properties	**121,261**	107,014	97,468	56,954	49,416
Investments in joint ventures	**437,419**	396,709	298,190	417,617	525,343
Investments in associates	**147,693**	96,651	122,644	117,564	107,615
Financial assets at fair value through other comprehensive income	**76,551**	78,003	—	—	—
Available-for-sale financial assets	**—**	—	60,613	63,091	58,754
Deferred income tax assets	**43,004**	52,936	54,156	53,724	49,245
Non-current deposits	**—**	—	1,563	11,179	35,805
	1,252,672	1,167,713	1,101,508	1,196,130	1,354,755
Current assets	**8,124,274**	8,089,012	8,509,192	8,192,014	8,112,560
Total assets	**9,376,946**	9,256,725	9,610,700	9,388,144	9,467,315
CAPITAL AND RESERVES					
Share capital	**153,296**	153,296	153,296	153,296	153,296
Reserves	**7,773,109**	7,700,639	7,760,833	7,548,865	7,575,859
Total shareholders' equity	**7,926,405**	7,853,935	7,914,129	7,702,161	7,729,155
Non-controlling interests	**291,814**	300,765	299,471	343,580	370,469
Total equity	**8,218,219**	8,154,700	8,213,600	8,045,741	8,099,624
LIABILITIES					
Non-current liability					
Lease liabilities	**1,934**	—	—	—	—
Deferred income tax liabilities	**67,743**	64,269	64,829	69,349	44,655
	69,677	64,269	64,829	69,349	44,655
Current liabilities					
Short-term borrowings	**61,399**	45,652	—	67,076	36,062
Other current liabilities	**1,027,651**	992,104	1,332,271	1,205,978	1,286,974
	1,089,050	1,037,756	1,332,271	1,273,054	1,323,036
Total liabilities	**1,158,727**	1,102,025	1,397,100	1,342,403	1,367,691
Total equity and liabilities	**9,376,946**	9,256,725	9,610,700	9,388,144	9,467,315

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