中遠海運能源運輸股份有限公司

# COSCO SHIPPING Energy Transportation Co., Ltd.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Hong Kong Stock Exchange Stock Code: 01138)
(Shanghai Stock Exchange Stock Code: 600026)

# 2020 ANNUAL REPORT

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# COMPANY PROFILE

COSCO SHIPPING Energy Transportation Co., Ltd. ("**COSCO SHIPPING Energy**" or "**the Company**", together with its subsidiaries, the "**Group**") is a specialised company engaging in shipment of oil, liquefied natural gas, and chemicals, operating under China COSCO SHIPPING Corporation Limited ("**COSCO SHIPPING**", together with its subsidiaries, "**COSCO SHIPPING Group**"). COSCO SHIPPING Energy is a merged entity from the energy transportation arms of China Ocean Shipping Company and China Shipping Company. Established in Shanghai on June 6, 2016, the Company is committed to becoming a whole-process energy transportation solution provider, providing customers with all-type, all-location and all-rounded energy shipping services.

COSCO SHIPPING Energy focuses on two core businesses, oil shipping and LNG transportation. Boasting years of rich experience and a great reputation, the Company has formed a good corporate image in the industry.

The Company's tanker fleet ranks World No.1, covering all mainstream tanker types, and stands out globally with the complete variety of tankers. Taking vigorous efforts to develop VLCC POOL and enhance the operating efficiency of the fleet, the Company strives to deliver win-win results to both clients and shipowners.

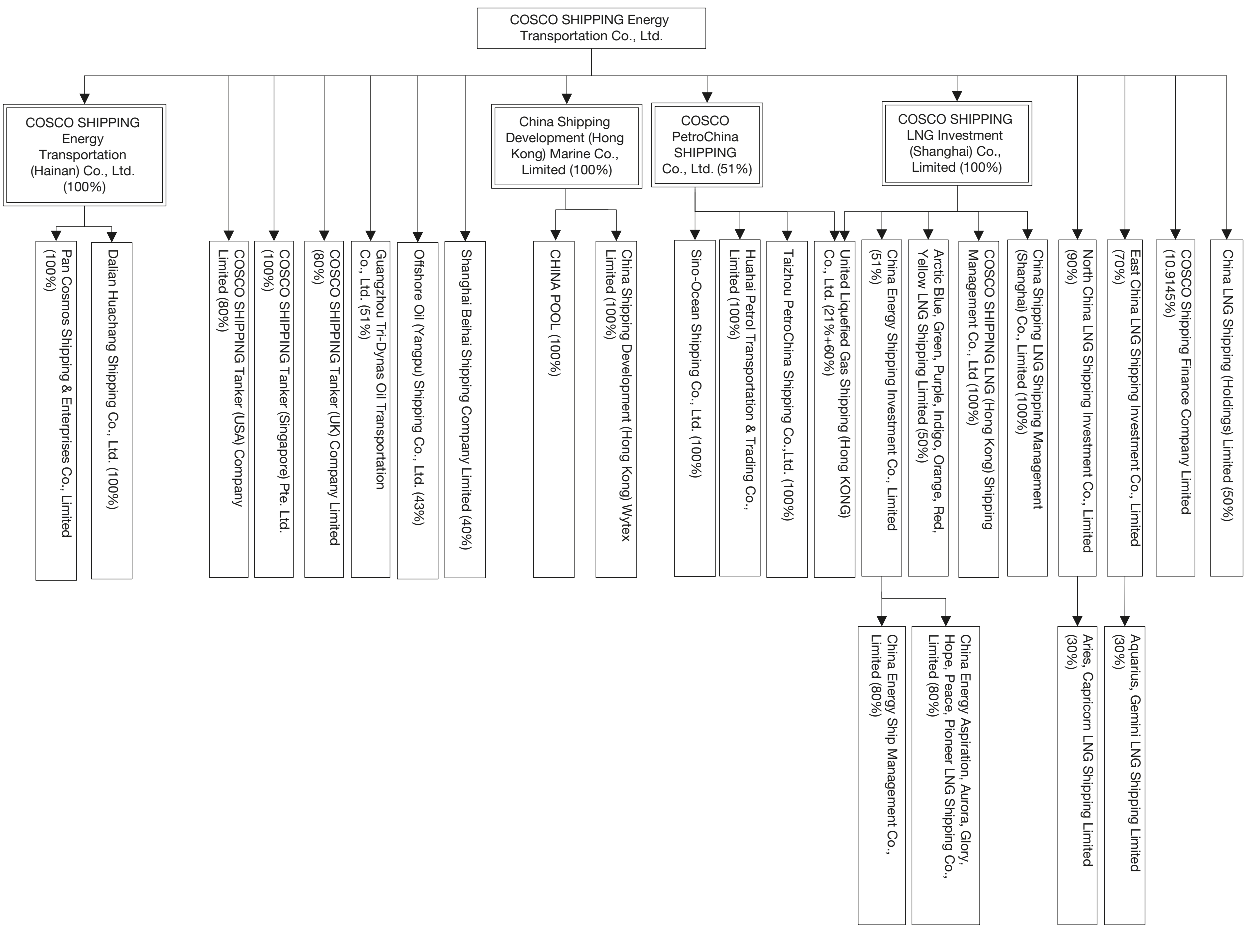
The Company is also leading China's LNG transportation business, and is now an important player in the global market. COSCO SHIPPING LNG Investment (Shanghai) Co., Ltd., a wholly-owned subsidiary of the Company, and China LNG Shipping (Holdings) Limited (CLNG), of which the Company holds 50% equity, are the only two large LNG transportation companies in China. They currently provide service mainly to projects involving LNG imports from Australia, Papua New Guinea and Russia to China.

COSCO SHIPPING Energy has always adhered to the principle of "World-Leading Safety Marketing", and practice world-class safety management of liquid cargo carriers. After years of exploration and competition, the Company has established a stable and efficient safety management system, as well as a technical, transportation and ship management system that continuously upgrades itself.

COSCO SHIPPING Energy has established a global marketing service system + global security emergency support system. By giving full play to the functions of satellite offices, the Company keeps expanding its overseas market share, fully utilizes its fleet size advantage, and has achieved well-diversified clients, sources of cargos and shipping routes.

COSCO SHIPPING Energy is committed to being an excellent leader in the global energy transportation industry with strong international competitiveness, brand influence and positive reputation from its clients. It will rely on the "Belt and Road" Initiative, targeted at serving the globalized strategy of oil giants and strategic partners, to provide clients with globalized and round-the-clock energy shipping services with all vessel types.

As at 31 December 2020, the composition of the Group were as follows:



# FIVE-YEAR FINANCIAL SUMMARY

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | | | | (Restated) | |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue from continuing operations | **16,268,197** | 13,721,140 | 12,099,685 | 9,504,935 | 9,808,889 |
| Profit before tax from continuing operations | **2,904,034** | 1,001,988 | 413,063 | 2,055,013 | 1,533,373 |
| Profit for the year from continuing operations | **2,631,444** | 671,604 | 293,406 | 1,893,369 | 1,210,326 |
| Profit from discontinued operation, net of tax | **-** | – | – | – | 760,501 |
| Profit for the year | **2,631,444** | 671,604 | 293,406 | 1,893,369 | 1,970,827 |
| Profit for the year attributable to owners of the Company | **2,381,415** | 413,857 | 74,679 | 1,774,648 | 1,932,524 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | (Restated) | |
| | **RMB** | RMB | RMB | RMB | RMB |
| Earnings per share (Basic) | **0.5200** | 0.1026 | 0.0185 | 0.4401 | 0.4793 |
| Dividend per share | **0.2** | 0.04 | 0.02 | 0.05 | 0.19 |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | | | | (Restated) | |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **65,959,857** | 65,841,861 | 63,416,267 | 60,388,872 | 58,309,476 |
| Total liabilities and non-controlling interests | **(31,338,029)** | (37,717,126) | (35,224,647) | (32,465,629) | (30,896,387) |
| Equity attributable to owners of the Company | **34,621,828** | 28,124,735 | 28,191,620 | 27,923,243 | 27,413,089 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | (Restated) | |
| | **RMB** | RMB | RMB | RMB | RMB |
| Net assets value per share | **7.269** | 6.975 | 6.992 | 6.925 | 6.799 |

## 1. THE MAIN BUSINESSES, OPERATING MODEL OF THE COMPANY AND CONDITIONS OF THE INDUSTRY DURING THE REPORTING PERIOD

The Group is mainly engaged in international and domestic coastal shipping of crude and product oil, international LNG transportation and international chemical transportation.

In terms of fleet size, the Group is the world's largest oil tanker owner. As of 31 December 2020, the Group owned and controlled 160 oil tankers with a total capacity of 23.72 million Dead Weight Tonnage ("**DWT**"), including 150 self-owned oil tankers with a capacity of 20.97 million DWT, 10 chartered-in oil tankers with a capacity of 2.75 million DWT and 7 oil tankers with a capacity of 1.315 million DWT in order block. The Group is also a leading player in the coastal crude oil and product oil transportation industry in the PRC. In the coastal crude oil transportation sector, the Group has maintained its position as an industry leader and a market share of over 55%. After completion of the acquisition of product oil tanker fleet of PetroChina in March 2018, the Group has become a flagship in the coastal product oil transportation market.

The Group's tanker operation model mainly includes spot market chartering, time chartering, signing contracts of affreightment ("**COA**") with cargo owners, joining associated operating entities ("**POOL**") and other various ways involving use of its self-owned and controlled vessels. The Group stands out globally with its complete types of vessels, which allows the integration of domestic and international voyages by employing crude and product tankers across different sizes. The Group gives full play to the advantages of its vessel types and shipping route networks to provide its customers with whole-process logistics solutions involving materials import in international markets, transshipping and lightering in domestic trade, product oil transports and exports and downstream chemicals transportation, etc., to provide customers with means to reduce costs and therefore realize win-win cooperation.

The international tanker industry emerged from the oil trade as a result of the different geographical distribution of major oil producing and consuming areas. Seaborne shipping is the most efficient and cost-effective way to transport the greatest volume of petroleum. The international oil tanker transportation industry has three characteristics. Firstly, direction of cargo flow is relatively homogenous with fixed layout of routes. Compared with other water transport services, oil shipping tends to involve a higher proportion of one-way ballast voyages and lower utilisation of load capacity. This pattern is more obvious in crude oil shipping than product oil shipping and in large oil tankers than small and medium oil tankers. Secondly, the risk of safety issues and oil pollution is greater, and major oil companies have special inspection mechanisms. More than 80% of the tanker terminals and 85-90% of the oil products in the world are in the hands of major oil companies. The oil tanker companies engaged in international business may not provide transportation services to these oil companies unless they pass the inspection of the vessel management conditions by these oil giants. Therefore, vessel management expertise is one of the core competitiveness of international oil tanker companies. Thirdly, tanker freight rates are more closely impacted by international political and economic factors and are thus highly volatile. The reason lies in the high correlation between the transported goods-oil and the international politics and economy. In the past two decades, TD3 (Middle East-Far East) route for very large crude carrier ("**VLCC**") recorded the lowest daily Time Charter Equivalent ("**TCE**") of USD12,800/day in 2011, and recorded the highest daily TCE of USD105,000/day in 2008, with a difference of more than 7 times.

In China's coastal oil tanker transportation sector, in order to ensure security of national energy transportation and safety of coastal marine environment, China's current practice of transporting dangerous goods in bulk liquids along the coast is based on the idea of total quantity regulation and preferred selection. Compared with international oil transportation market, the supply of and demand for transportation capacity in the coastal oil transportation market are relatively balanced, characterised by a relatively stable market size and freight rates.

The Group is a leader in China's LNG shipping business and an important participant in the world's LNG shipping market. COSCO SHIPPING LNG Investment (Shanghai) Co., Ltd. ("**Shanghai LNG**"), which is a wholly-owned subsidiary of the Group, and China LNG Shipping (Holdings) Limited ("**CLNG**"), in which the Group holds 50% equity, are currently the only two large-scale LNG shipping companies in China. As of 31 December 2020, the Group had a total of 41 jointly-invested LNG vessels, including 38 LNG vessels in operation with an aggregate capacity of 6,420,000 cubic meters and 3 LNG vessels under construction with an aggregate capacity of 522,000 cubic meters.

LNG is the abbreviation of Liquefied Natural Gas, which is formed by liquefaction of natural gas at an ultralow temperature (-163°C), and its volume is 1/625 of natural gas with the same mass. LNG can greatly save storage and transportation space. The LNG industrial chain involves massive funding and intensive technologies covering the entire supply chain of the natural gas industry. The natural gas extracted from onshore or offshore oil fields is pretreated and liquefied at liquefaction facilities. The LNG produced is transported by sea or by other means to the LNG receiving terminals for storage according to the trade contracts, and is then re-gasified and delivered to end users through pipelines. Currently, seaborne LNG transportation volume accounts for more than 80% of the world's LNG transported volume. The characteristics of the LNG transportation industry are as follows. Firstly, the LNG carriers have been recognised internationally as "three high" products with high technology, high difficulty and high value added, and are thus expensive. LNG transportation has higher requirements for ship management; therefore, the LNG shipping market is highly concentrated. Secondly, due to the closed loop of the LNG industrial chain, the majority of vessels among the global LNG fleet are bound to particular LNG projects ("**Project Vessels**"), the most of which involve long-term time charters with the project parties so that charter incomes and investment yields are often stable.

As of the end of 2020, all of the 41 LNG carriers the Group invested in are Project Vessels, which means that they are all bound to particular LNG projects with long-term time charters signed with project parties, and hence generate stable income. In recent years, as the LNG carriers, of which the Group is involved in investment and construction, are put into operation, the Group's LNG transportation business has accelerated into the harvest period.

In the overall business structure of the Group, profitability of coastal (domestic trade) oil transportation business and LNG transportation business is generally stable, providing a "safety cushion" for the Group's operating results; and the international (foreign trade) oil transportation business is subject to large volatility following market freight rates, resulting in the cyclical elasticity in the Group's operating results.

## 2. ANALYSIS OF THE INTERNATIONAL AND DOMESTIC SHIPPING MARKET DURING THE REPORTING PERIOD

### (1) International oil shipping market

In 2020, the sharp decline in economic activities weakened the demand for petroleum products due to the impact of the COVID-19 epidemic. Global oil demand was approximately 92.29 million barrels per day, a decrease of approximately 8.78% compared to 2019. As the Organization of the Petroleum Exporting Countries Plus ("**OPEC+**") sharply increased production in April 2020, prompting the plunge of crude oil prices, a deeper premium in the oil futures market, surged petroleum trade and inventories and nearly saturated onshore oil storage capacity, supply of global oil tankers falls short of demand and the freight rates of oil tankers therefore soared. The phased production cut plan of OPEC+ has had an impact on oil trade and oil transportation demand since May 2020, resulting in a decline in freight rates. In the second half of the year, owing to effective epidemic prevention and control, oil demand in Asia gradually recovered. However, as global oil demand recovered slowly due to the resumption of quarantine measures in Europe and the United States, refineries had limited willingness to process and oil inventories were significantly higher than those of 2019. In addition, the high implementation rate of the OPEC+ production cut made the demand for tanker transportation suppressed on an ongoing basis. As the forward premium of crude oil narrowed, the capacity of tankers performing oil storage business gradually returned to the market, accelerating the fundamentals of oversupply. The international oil transportation market remained weak.

In terms of tanker supply, 37 VLCCs were delivered and only 4 were demolished, while demolishment of other types of tankers was below expectation in 2020. The supply proportion of older tankers remained at a historical high with the VLCCs of more than 20 years accounting for nearly 7% of such type of tankers, representing the highest proportion in the past 17 years. Due to the uncertainty of environmental regulations and the future direction of shipbuilding technology, tanker owners are more cautious in placing orders, and the number of new orders fell year-on-year.

In 2020, the freight rates of international tankers continued to be sluggish in the second half of the year after experiencing severe fluctuations in the first half of the year. VLCC TD3C (Middle East-China) route recorded an average TCE of approximately USD48,179 per day throughout the year, representing a year-on-year increase of approximately 22%, and the TCE of major routes of other types of tankers increased by approximately 6%- 46% year-on-year.

### (2) Domestic oil shipping market

In 2020, the domestic oil shipping market remained stable in general. As the COVID-19 epidemic was effectively contained in China from the second quarter and travel restrictions were gradually lifted, domestic oil demand improved significantly. Against the backdrop of falling international oil prices and the recovery of domestic oil demand, crude oil imports of China grew rapidly, driving the transshipment demand for coastal crude oil. The production of offshore oil fields stimulated the demand for offshore crude oil. The domestic transportation market of refined oil declined and then rose in the first half of the year, and the fundamentals of supply and demand stabilized in the second half of the year.

### (3) LNG shipping market

In 2020, the global LNG trade volume reached approximately 357 million tonnes, representing an increase of approximately 0.7% as compared to 2019.

In 2020, although the global LNG demand was affected by the quarantine measures due to the epidemic, LNG demand surged due to the benefit from cold wave in Asia in the fourth quarter. The annual LNG trade volume was higher compared to that of the same period of last year. At the same time, the process of global clean energy promoted natural gas power generation, which in turn supported the recovery of LNG trade.

As of the end of 2020, the global LNG fleet consisted of a total of 644 LNG carriers (including LNG bunkering vessels, FSRUs, FSUs and FLNG vessels) with a total capacity of approximately 96.10 million cubic meters, representing an increase of 35 carriers, or approximately 54.22 million cubic meters, compared with those of the same period of last year.

## 3. REVIEW OF OPERATING RESULTS DURING THE REPORTING PERIOD

As at the end of December 2020, the Group held and controlled 160 oil tankers with 23.72 million DWT, representing a year-on-year increase of 9 vessel with 2.01 million DWT; of all the jointly-invested LNG vessels, 38 vessels with 6,420,000 cubic meters were put into operation, representing a year-on-year increase of 3 vessels with 520,000 cubic meters. In 2020, the Group realised a transportation volume (excluding time charters) of 160.645 million tonnes with a year-on-year increase of 6.85%, transportation turnover (excluding time charters) of 486.062 billion tonne-nautical miles with a year-on-year increase of 10.27%, revenues from principal operations of RMB16.268 billion with a year-on-year increase of 18.6%, cost of principal operations of RMB11.546 billion with a year-on-year increase of 3.8%, and gross profit margin increased by 10.1 percentage points year-on-year. The net profit attributable to shareholders of the Company was RMB2.381 billion with a year-on-year increase of 475.4%, and EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) of RMB6.948 billion with a year-on-year increase of 31.2%.

In 2020, facing the complex external environment and the sensitive and volatile shipping market, the Group mainly focused on the following aspects and achieved better operating results. First, we carefully deployed the epidemic prevention and control measures to ensure the smooth operation of our fleet. Second, we reasonably allocated the tonnage deployment to effectively improve the operating results of international oil shipping. Third, we solidly strengthened the cargo profile to make the market share of domestic oil shipping remain stable with positive momentum. Fourth, we actively engaged in integrated voyages of domestic and international trade to optimize efficiency of fleet operations. Fifth, we spared no efforts on developing LNG shipping projects to further strengthen our stable and profitable segment. Sixth, we completed the non-public issuance of shares to raise approximately RMB5.1 billion, supporting the counter-cyclical development of our oil tanker fleet.

### (1) Revenue from principal operations

In 2020, overall details of the Group's principal operations in terms of cargoes and geographical regions were as follows:

*Principal operations by products transported*

| Industry or Cargo | Revenue | Operating costs | Gross profit margin | Increase/ (decrease) in revenue as compared with 2019 | Increase/ (decrease) in operating costs as compared with 2019 | Increase/ (decrease) in gross profit margin as compared with 2019 |
|---|---|---|---|---|---|---|
| | *(RMB'000)* | *(RMB'000)* | *(%)* | *(%)* | *(%)* | *(percentage points)* |
| Domestic crude oil | 2,923,545 | 1,895,599 | 35.2 | 14.5 | 8.9 | 3.4 |
| Domestic refined oil | 2,372,843 | 1,934,193 | 18.5 | 1.9 | 0.5 | 1.2 |
| Domestic vessel chartering | 103,755 | 87,826 | 15.4 | (5.1) | 9.6 | (11.3) |
| **Domestic Oil Shipping Sub-Total** | 5,400,143 | 3,917,618 | 27.5 | 8.2 | 4.6 | 2.5 |
| International crude oil | 7,223,514 | 5,239,441 | 27.5 | 31.7 | 5.6 | 17.9 |
| International refined oil | 1,088,187 | 986,500 | 9.3 | 27.0 | 12.6 | 11.6 |
| International vessel chartering | 1,249,083 | 769,978 | 38.4 | 28.9 | (11.3) | 27.9 |
| **International Oil Shipping Sub-Total** | 9,560,784 | 6,995,919 | 26.8 | 30.7 | 4.3 | 18.5 |
| **Oil Shipping Sub-Total** | 14,960,927 | 10,913,537 | 27.1 | 21.6 | 4.4 | 12.0 |
| **International LNG Shipping** | 1,266,743 | 604,157 | 52.3 | (4.1) | (0.8) | (1.6) |
| **Domestic LPG Shipping** | 25,592 | 9,266 | 63.8 | (40.9) | (70.3) | 35.8 |
| **International LPG Shipping** | 14,935 | 18,652 | (24.9) | (72.5) | (45.4) | (62.0) |
| **Total** | 16,268,197 | 11,545,612 | 29.0 | 18.6 | 3.8 | 10.1 |

*Note:* The operating costs and gross profit margin in the above table have been excluded from the impact of vessel impairment loss.

*Principal operations by geographical regions*

| Regions | Revenue | Operating costs | Gross profit margin | Increase/ (decrease) in revenue as compared with 2019 | Increase/ (decrease) in operating costs as compared with 2019 | Increase/ (decrease) in gross profit margin as compared with 2019 |
|---|---|---|---|---|---|---|
| | *(RMB'000)* | *(RMB'000)* | *(%)* | *(%)* | *(%)* | *(percentage points)* |
| Domestic shipping | 5,425,735 | 3,926,884 | 27.6 | 7.8 | 4.0 | 2.7 |
| International shipping | 10,842,462 | 7,618,728 | 29.7 | 24.8 | 3.7 | 14.3 |
| **Total** | 16,268,197 | 11,545,612 | 29.0 | 18.6 | 3.8 | 10.1 |

*Note:* The operating costs and gross profit margin in the above table have been excluded from the impact of vessel impairment loss.

*Self-operated transportation volume and transportation volume turnover*

| Transportation volume | 2020 | 2019 | Increase/ (decrease) | 2020 | 2019 | Increase/ (decrease) |
|---|---|---|---|---|---|---|
| | *('000 tonnes)* | *('000 tonnes)* | *(%)* | *(billion tonne–nautical miles)* | *(billion tonne–nautical miles)* | *(%)* |
| Domestic crude oil | **57,166.3** | 52,975.2 | 7.9 | **19.65** | 17.04 | 15.3 |
| Domestic refined oil | **22,874.5** | 22,439.9 | 1.9 | **19.90** | 21.02 | (5.3) |
| **Domestic Oil Shipping Sub-Total** | **80,040.8** | 75,415.2 | 6.1 | **39.55** | 38.07 | 3.9 |
| International crude oil | **70,715.4** | 65,986.1 | 7.2 | **413.84** | 376.13 | 10.0 |
| International refined oil | **9,713.8** | 8,592.0 | 13.1 | **32.58** | 26.37 | 23.6 |
| **International Oil Shipping Sub-Total** | **80,429.2** | 74,578.1 | 7.8 | **446.42** | 402.50 | 10.9 |
| **Oil Shipping Sub-Total** | **160,470.0** | 149,993.2 | 7.0 | **485.97** | 440.56 | 10.3 |
| **LPG Shipping** | **175.0** | 356.8 | (51.0) | **0.09** | 0.22 | (61.6) |
| **Total:** | **160,645.0** | 150,350.0 | 6.8 | **486.06** | 440.79 | 10.3 |

## (2) Shipping business – Oil and Gas Shipping

*International oil shipment business:*

In 2020, the Group accurately judged the market trend amid volatility in the international tanker market, so that the operating results of the international tanker fleet improved substantially year-on-year: revenue from international oil shipping reached RMB9.561 billion with a year-on-year increase of 30.7%; gross profit for the segment achieved RMB2.565 billion with a year-on-year increase of 321.9%, and its gross profit margin hit 26.8% with a year-on-year increase of 18.5%. Operational highlights of the international tanker fleet are as follows:

(1) We closely studied the market, adjusted dry-docking plans, and increased transport capacity at market highs. During the Reporting Period, we adjusted the repair schedule of 9 VLCCs to increase operating days totaling 333 days in the boom market to maximize overall operating efficiency.

(2) We developed incremental markets in South America and entered into COA with key customers to acquire quality cargo for VLCC long-haul voyages; we developed new overseas customers and cooperated with them on spot trade, which enriched our international customer resources; and we opened new Aframax routes from Canada to China and from the US Gulf to Europe to continue expansion of our global business presence.

(3) We dynamically adjusted the deployment of transport capacity according to the changes in domestic and abroad oil transportation market to improve operating efficiency of the fleets and accordingly, the Group performed 39 shipments with domestically and internationally connected tanker services.

*Domestic oil shipping business:*

In 2020, the Group recorded domestic oil shipping revenue of RMB5.40 billion with a year-on-year increase of 8.2%, gross profit of RMB1.483 billion with a year-on-year increase of 19.2%, and gross profit margin of 27.5% with a year-on-year increase of 2.5%. Operational highlights are as follows:

(1) Our market share recorded a steady increase as we developed a number of major emerging customers in the domestic market and broadened our cargo profile in the Reporting Period, which consolidated our leading position in domestic oil shipping market. During the Reporting Period, the Group's market share of domestic oil shipping has increased year-on-year.

(2) We improved logistics efficiency of crude oil imports for customers by offering new logistics solutions and we improved adequacy of tanker services for customers' designated routes by making full use of the advantages of all vessel types, thereby creating value for customers while improving efficiency.

(3) We maintained good relationship with emerging private refineries in the domestic market to play an active role in their refined oil transportation; we entered into COA with major domestic customers to acquire stable and quality cargoes; we improved operating efficiency of fleets via business collaboration with COSCO PetroChina SHIPPING Co., Ltd., which made full use of the upswing opportunities in the second quarter.

*LNG shipping business:*

In 2020, the Group realized a profit before tax from the LNG shipping segment of RMB786 million with a year-on-year increase of 30.26%, and an investment income of RMB662 million with a year-on-year increase of 47.70%. Operational highlights are as follows:

(1) LNG shipping projects developed steadily. As at the end of the Reporting Period, the Group had a total of 38 jointly-invested project LNG carriers in operation, amounting to a year-on-year increase of 3 vessels, supporting the steady growth of the segment performance. We continued to promote the development of potential LNG shipping projects to support the "secondary development curve" pedalled on pace.

(2) Shanghai LNG, a wholly-owned subsidiary of the Company, COSCO PetroChina SHIPPING Co., Ltd., a holding subsidiary of the Company with 51% stake and Glasford Shipping (Hong Kong) Limited, a wholly-owned subsidiary of PetroChina International (Hong Kong) Co., Ltd. set up a joint venture engaging in LNG transportation project, for which 3 LNG carriers of 174,000 cubic meters capacity were built. Through the project, the Group collaborated with reputable cargo owners and shipyards in shaping a LNG industry chain ecosystem that promotes shared prosperity and further elevates our business stability and anti-cyclical resilience.

## 4. COSTS AND EXPENSES ANALYSIS

In 2020, the Group's cost from principal operations was approximately RMB12.387 billion, representing a year-on-year increase of 11.3%:

The cost composition of the Group's principal operations for 2020 is as follows:

| Item | 2020 *(RMB'000)* | 2019 *(RMB'000)* | Increase/ (decrease) *(%)* | Composition in 2020 *(%)* |
|---|---|---|---|---|
| Continuing operations | | | | |
| Fuel costs | **3,083,442** | 3,174,443 | (2.9) | 24.9 |
| Port costs | **798,154** | 759,942 | 5.0 | 6.4 |
| Sea crew cost | **1,697,440** | 1,633,565 | 3.9 | 13.7 |
| Lubricants expenses | **327,083** | 258,534 | 26.5 | 2.6 |
| Depreciation | **2,926,756** | 2,787,199 | 5.0 | 23.6 |
| Insurance expenses | **205,261** | 176,435 | 16.3 | 1.7 |
| Repair expenses | **576,180** | 523,634 | 10.0 | 4.7 |
| Charter cost | **1,257,296** | 1,214,272 | 3.5 | 10.2 |
| Others | **674,000** | 596,999 | 12.9 | 5.4 |
| **Sub-Total** | **11,545,612** | 11,125,022 | 3.8 | 93.2 |
| Vessel impairment loss | **840,941** | – | – | 6.8 |
| **Total** | **12,386,553** | 11,125,022 | 11.3 | 100.0 |

Due to the recovery of the international oil tanker market in the second half of 2019, the drydocking schedules of some vessels were postponed to 2020. During the Reporting Period, the vessel drydocking increased by 20 shipments year-on-year, resulting in a year-on-year increase in the repair expenses.

During the Reporting Period, the Group introduced a total of eight new oil tankers, resulting in a year-on-year increase in the fees for shipping materials.

The Group measured the voyage speeds under the efficiency optimization model based on the specific vessel voyages to determine and monitor bunker fuel consumption, and recorded a year-on-year decrease of 7% in unit fuel consumption (total fuel consumption/transportation volume). Meanwhile, the Group paid close attention to the fuel market and adopted an operation model for procurement combining fixed, floating and spot pricing, so as to effectively keep the fuel cost in control.

Affected by the epidemic, while demand for oil consumption is slowly recovering, the fundamentals of oversupply in the oil transportation market have not yet been fundamentally improved. With regard to 10 aged foreign trade vessels of the Group, they face problems such as high energy consumption, many hidden dangers in safety management, and high greenhouse gas and sulfur oxide emissions, whose profitability was further constrained during downturn in the oil transportation market. The Group recognised an impairment provision of approximately RMB841 million for the 10 aged foreign trade vessels in the fourth quarter of 2020.

## 5. OPERATING RESULTS OF THE JOINT VENTURES AND THE ASSOCIATES

(1) The operating results achieved by the major joint venture of the Group during the Reporting Period are as follows:

| Company name | Interest held by the Group | Shipping volume | Operating revenue | Net profit |
|---|---|---|---|---|
| | | *(billion tonne-nautical miles)* | *(RMB'000)* | *(RMB'000)* |
| CLNG | 50% | 72.70 | 1,050,461 | 941,609 |

(2) The operating results achieved by an associate of the Group during the Reporting Period are as follows:

| Company name | Interest held by the Group | Shipping volume | Operating revenue | Net profit |
|---|---|---|---|---|
| | | *(billion tonne-nautical miles)* | *(RMB'000)* | *(RMB'000)* |
| Shanghai Beihai Shipping Company Limited | 40% | 15.35 | 1,589,050 | 559,277 |

## 6. FINANCIAL ANALYSIS

### (1) Net cash generated from operating activities

The net cash generated from operating activities of the Group for the Reporting Period was approximately RMB6,973,111,000, representing an increase of approximately 33.32% as compared to approximately RMB5,230,362,000 for the year ended 31 December 2019.

### (2) Capital commitments

| | Note | **31 December *2020* RMB'000** | 31 December *2019* RMB'000 |
|---|---|---|---|
| Authorized and contracted but not provided for: | | | |
| Construction and purchases of vessels | *(i)* | **5,382,212** | 6,156,464 |

*Note:*

(i) According to the construction and purchase agreements entered into by the Group, these capital commitments will fall due in 2021 to 2023.

In addition to the above, the Group's share of the capital commitments of its associates which are contracted but not provided for amounted to RMB43,168,000 (31 December 2019: RMB246,703,000). The Group's share of the capital commitments of its joint ventures, which are contracted but not provided for amounted to RMB nil (31 December 2019: RMB1,516,348,000).

### (3) Capital structure

Management monitors the Group's capital structure on the basis of a net debt-to-equity ratio. For this purpose, the Group defines net debt as total debts which includes interest-bearing bank and other borrowings, other loans, bonds payable and lease liabilities less cash and cash equivalents.

The Group's net debt-to-equity ratio as at 31 December 2020 and 31 December 2019 is as follows:

| | **31 December 2020 *RMB'000*** | 31 December 2019 *RMB'000* |
|---|---|---|
| **Total debts** | **26,034,274** | 32,238,569 |
| Less: cash and cash equivalents | **(4,869,963)** | (3,919,500) |
| Net debt | **21,164,311** | 28,319,069 |
| Total equity | **35,602,346** | 29,167,606 |
| Net debt-to-equity ratio | **59%** | 97% |

As at 31 December 2020, the balance of cash and cash equivalents amounted to RMB4,869,963,000, representing an increase of RMB950,463,000 and by 24% as compared to the end of last year. The Group's cash and cash equivalents are mainly denominated in RMB and USD, the remainder are denominated in Euro, Hong Kong dollar and other currencies.

As at 31 December 2020, the Group's net gearing ratio (i.e. net debts over total equity) was 59%, which was lower than 97% as at 31 December 2019. The decrease was primarily due to the funds raised by the Company's completion of the non-public issuance of A shares and repayment of parts of bank borrowings during the Reporting Period.

### (4) Trade and bills receivables and contract assets

| | **31 December 2020** *RMB'000* | 31 December 2019 *RMB'000* |
|---|---|---|
| Trade and bills receivables from third parties | **450,899** | 764,870 |
| Trade receivables from a joint venture | **35** | 132 |
| Trade receivables from fellow subsidiaries | **16,942** | 7,910 |
| Trade receivables from related companies *(Note)* | **211,935** | 197,331 |
| | **679,811** | 970,243 |
| Less: allowance for doubtful debts | **(11,302)** | (32,561) |
| | **668,509** | 937,682 |
| Current contract assets relating to oil shipment contracts | **636,761** | 473,262 |
| Less: allowance | **(4,718)** | (3,648) |
| Total contract assets | **632,043** | 469,614 |

*Note:* Related companies are entities that the fellow subsidiaries of the Company either have joint control or significant influence.

Trade receivables from fellow subsidiaries and related companies are unsecured, non-interest-bearing and under normal credit year as other trade receivables.

As at 31 December 2020, trade and bills receivables and contract assets of RMB686,523,000 (31 December 2019: RMB706,628,000) are denominated in USD.

As of the end of the year, the ageing analysis of trade and bills receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

| | **31 December 2020** | 31 December 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **514,041** | 619,775 |
| 4 – 6 months | **73,717** | 124,636 |
| 7 – 9 months | **31,587** | 68,726 |
| 10 – 12 months | **28,788** | 47,863 |
| 1 – 2 years | **19,984** | 63,443 |
| Over 2 years | **392** | 13,239 |
| | **668,509** | 937,682 |

### (5) Trade and bills payables

| | **31 December 2020** | 31 December 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade and bills payables to third parties | **937,020** | 1,204,403 |
| Trade payables to fellow subsidiaries | **662,178** | 699,865 |
| Trade payables to an associate | **5,353** | 5,860 |
| Trade payables to related companies *(Note)* | **5,553** | 12,185 |
| | **1,610,104** | 1,922,313 |

*Note:* Related companies are entities that the fellow subsidiaries of the Company either have joint control or significant influence.

Trade payables due to, fellow subsidiaries, an associate and related companies are unsecured, non-interest-bearing and under normal credit year as other trade payables.

As at 31 December 2020, trade and bills payables of RMB647,465,000 (31 December 2019: RMB728,198,000) are denominated in USD.

An ageing analysis of trade and bills payables at the end of the year, based on the invoice date, is as follows:

| | **31 December 2020** *RMB'000* | 31 December 2019 *RMB'000* |
|---|---|---|
| Within 3 months | **1,257,446** | 1,239,218 |
| 4 – 6 months | **61,626** | 276,028 |
| 7 – 9 months | **30,439** | 51,804 |
| 10 – 12 months | **13,382** | 68,396 |
| 1 – 2 years | **38,010** | 69,741 |
| Over 2 years | **209,201** | 217,126 |
| | **1,610,104** | 1,922,313 |

Trade and bills payables are non-interest-bearing and are normally settled within 1 to 3 months.

**(6) Derivative financial instruments**

As at 31 December 2020, the Group had interest rate swap agreements with total notional principal amount of approximately USD527,507,000 (equivalent to RMB3,441,930,000) (31 December 2019: approximately USD546,631,000 (equivalent to RMB3,813,407,000)) which will mature in 2031, 2032 and 2033 (31 December 2019: 2031, 2032 and 2033). These interest rate swap agreements are designated as cash flow hedges in respect of the Group's certain portion of bank borrowings with floating interest rates.

For the year ended 31 December 2020, the floating interest rates of the bank borrowings were 3-month London Inter-bank offered Rated ("**LIBOR**") plus 2.20% (31 December 2019: 3-month LIBOR plus 2.20%).

(7) Interest-bearing bank and other borrowings

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| **Current liabilities** | | |
| **(i) Bank borrowings** | | |
| Secured | **1,303,003** | 1,298,978 |
| Unsecured | **5,346,418** | 5,022,864 |
| | **6,649,421** | 6,321,842 |
| **(ii) Other borrowings** | | |
| Unsecured | **33,000** | 2,233,000 |
| Interest-bearing bank and other borrowings – current portion | **6,682,421** | 8,554,842 |
| **Non-current liabilities** | | |
| **(i) Bank borrowings** | | |
| Secured | **12,851,065** | 15,124,697 |
| Unsecured | **848,237** | 2,057,979 |
| | **13,699,302** | 17,182,676 |
| **(ii) Other borrowings** | | |
| Unsecured | | |
| | **109,850** | 142,850 |
| Interest-bearing bank and other borrowings – non-current portion | **13,809,152** | 17,325,526 |

As at 31 December 2020, the Group's interest-bearing bank borrowings were secured by pledges of the Group's 45 (31 December 2019: 45) vessels with total net carrying amount of RMB23,326,942,000 (31 December 2019: RMB25,869,196,000).

As at 31 December 2020, secured bank borrowings of RMB14,033,368,000 (31 December 2019: RMB16,274,975,000) and unsecured bank borrowings of RMB6,194,655,000 (31 December 2019: RMB7,080,843,000) are denominated in USD.

## (8) Bonds payable

The movement of the corporate bonds for the year is set out below:

| | **31 December 2020** *RMB'000* | 31 December 2019 *RMB'000* |
|---|---|---|
| At the beginning of the year | **2,493,477** | 3,989,691 |
| Interest charge | **2,347** | 3,786 |
| Less: principal repayment | **–** | (1,500,000) |
| | **2,495,824** | 2,493,477 |
| Non-current portion | **2,495,824** | 2,493,477 |

## (9) Contingent liabilities

(i) Aquarius LNG Shipping Limited ("**Aquarius LNG**") and Gemini LNG Shipping Limited ("**Gemini LNG**"), and Capricorn LNG Shipping Limited ("**Capricorn LNG**") and Aries LNG Shipping Limited ("**Aries LNG**") are associates of East China LNG Shipping Investment Co., Limited and North China LNG Shipping Investment Co., Limited, (the "**Four Associates**") respectively. Each associate entered into a ship building contract for one LNG vessel. After the completion of each LNG vessel, the Four Associates would, in accordance with time charters agreements to be signed, lease their LNG vessels to the following charterers respectively:

| **Company name** | **Charterer** |
|---|---|
| Aquarius LNG | Papua New Guinea Liquefied Natural Gas Global Company LDC |
| Gemini LNG | Papua New Guinea Liquefied Natural Gas Global Company LDC |
| Capricorn LNG | Mobil Australia Resources Company Pty Ltd. |
| Aries LNG | Mobil Australia Resources Company Pty Ltd. |

On 15 July 2011, the Company entered into four guaranteed leases (the "**Lease Guarantees**"). According to the Lease Guarantees, the Company irrevocably and unconditionally provided the charterers, successors and transferees of the Four Associates with guarantee (1) for the Four Associates to fulfill their respective obligations under the lease term, and (2) to secure 30% of amounts payable to charterers under lease term.

According to the term of the Lease Guarantees and taking into account the possible increase in the value of the lease commitments and the percentage of shareholdings by the Company in the Four Associates, the amount of lease guaranteed by the Company is limited to USD8,200,000 (equivalent to RMB53,504,000). The guarantee period is limited to the lease period of each LNG vessel leased by the Four Associates.

(ii) At the 2014 seventh Board meeting, the Board approved the ship building contracts, time charter agreements and supplemental construction contract signed by three joint ventures of the Group for the Yamal LNG project (the "**Three Joint Ventures**"). To secure the obligation of the ship building contracts, time charter agreements and supplemental construction contracts, the Company provides corporate guarantees to the shipbuilders, Daewoo Shipbuilding & Marine Engineering Co., Ltd. and DY Maritime Limited for the Three Joint Ventures, and provides owner's guarantees to the charterer YAMAL Trade Pte. Ltd. for the Three Joint Ventures. Three vessels were delivered in March 2018, October 2018 and August 2019 respectively.

As at 31 December 2019, the Company's guarantee responsibility of the ship building contracts was completely released. The balance of the corporate guarantees of the ship building contracts was nil. As at 31 December 2020, the balance of the owner's guarantees provided to YAMAL Trade Pte. Ltd. was USD6,400,000 (equivalent to approximately RMB41,759,000).

(iii) Subsequent to the approval by shareholder at the annual general meeting held on 8 June 2017, the Company entered into 3 financing guarantees with 2 banks (the "**Banks**"), to the extent of amount of USD377.5 million (equivalent to RMB2,463,150,000), in respect of 50% of the bank borrowings provided by the Banks to each of the Three Joint Ventures and was determined on a pro rata basis of the Company's indirect ownership interest in each of the Three Joint Ventures. The guarantee period provided by the Company for each of the Three Joint Ventures is limited to 12 years after the vessel construction project of each of the Three Joint Ventures is completed.

(iv) COSCO SHIPPING LNG Investment (Shanghai) Co., Limited, a wholly-owned subsidiary of the Company, holds 50% equity interest in each of Arctic Red LNG Shipping Limited, Arctic Orange LNG Shipping Limited, Arctic Yellow LNG Shipping Limited and Arctic Indigo LNG Shipping Limited ("**Four Single-vessel Companies**"). Subsequent to the approval by shareholders at the annual general meeting held on 28 June 2018, the Company provides owner's guarantee for the Four Single vessel Companies with the amount of Euro4.5 million (equivalent to approximately RMB36,113,000). The guarantee period is limited to the lease period.

**(10) Foreign exchange risk management**

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**") against RMB. Foreign currency risk arises from future commercial transactions, recognised assets and liabilities.

As at 31 December 2020, if USD and HKD had strengthened or weakened by 1% against RMB with all other variables held constant, profit before tax for the year would have been RMB12,173,000 higher/lower (31 December 2019: RMB23,287,000 higher/lower), mainly as a result of foreign exchange gains or losses on translation of USD and HKD denominated cash and cash equivalents, receivables, payables and borrowings.

**(11) Interest rate risk management**

Other than the deposits placed with banks and financial institutions and loan receivables, the Group has no other significant interest-bearing assets. As the average interest rates applied to the deposits are relatively low, the Directors are of the opinion that the Group is not exposed to any significant interest rate risk for these assets held as at 31 December 2020 and 31 December 2019.

The Group's exposures to interest rate risk also arises from its borrowings. Loan receivables and borrowings issued at variable rates expose the Group to cash flow interest rate risk. Management monitors the capital market conditions and certain interest rate swap agreements with banks have been used to achieve an optimal ratio between fixed and floating rates borrowings.

As at 31 December 2020, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's post-tax profit for the year would have been RMB93,214,000 lower/higher (31 December 2019: RMB109,969,000 lower/higher), mainly as a result of higher/lower interest income on loan receivables and interest expenses on borrowings issued at floating rates.

## 7. OTHERS

**Fleet expansion projects**

In 2020, the Group achieved further fleet expansion.

In 2020, the cash outflow from investment activities of the Group, including the payments for construction and purchase of new vessels, vessel reconstruction, capital increases and loans for associates and joint ventures of the Group, was approximately RMB5.857 billion including capital expenditure, of which approximately RMB4.552 billion was paid for the vessel construction progress and purchase of new vessels.

In terms of fleet expansion, 10 new oil tankers with a total capacity of approximately 1,734,000 DWT and 3 new jointly-invested LNG vessels with total capacity of approximately 522,000 cubic meters were delivered for use in 2020.

As at December 31, 2020, the specific composition of the Group's fleet was as follows:

| | Vessels in operation | | | Vessels under construction | |
|---|---|---|---|---|---|
| | **Number** | DWT/cubic meters '0000 | **Average age** | **Number** | DWT/cubic meters '0000 |
| **Holding subsidiaries of the Group** | | | | | |
| Oil tanker | 150 | 2,097 | 9.8 | 7 | 131.5 |
| LNG carrier | 6 | 105 | 3.4 | 3 | 52.2 |
| **Sub-total** | **156** | **2,097/105** | **9.6** | **10** | **131.5/52.2** |
| **Long-term charter-in** | | | | | |
| Oil tanker | 10 | 275 | 11.4 | | |
| **Sub-total** | 10 | 275 | 11.4 | | |
| **Joint ventures** | | | | | |
| Oil tanker | 13 | 81 | 8.6 | 1 | 1.5 |
| LNG carrier | 32 | 537 | 4.1 | 3 | 51.8 |
| **Sub-total** | **45** | **81/537** | **5.4** | **4** | **1.5/51.8** |
| **Total** | **211** | **2,453/642** | **8.8** | **14** | **133/104** |

## Epidemic prevention and control

In 2020, facing the severe challenges posed by the COVID-19 epidemic, the Group strictly deployed epidemic prevention and control measures on vessels to ensure the overall stability of production and operation; and coordinated with all parties in the industrial chain to jointly guarantee crew changes and safeguard the legitimate rights and interests of crew members. As of the end of March 2021, the Group ensured "zero imported cases" and "zero infection" of vessels, and all its fleets realized crew changes (excluding newly delivered vessels).

In terms of epidemic prevention and control on vessels, the Group deployed epidemic prevention measures on vessels incrementally according to the development trends of the epidemic, and dispatched vessels through compiling the Epidemic Information Bulletin on a regular basis to ensure that front-line crew members kept abreast of the development of the epidemic and understood the epidemic prevention requirements of the Company. Meanwhile, the Group actively coordinated the resources of all parties to ensure sufficiency of anti-epidemic supplies for vessels. Starting from April 2020, anti-epidemic supplies for vessels have changed from emergency equipment to normalized distribution, and the distribution channels have also changed from initially domestic distribution to global distribution.

In terms of crew changes, the Group closely tracked the development of the epidemic and the management and control policies for crew changes domestically and abroad, formulated crew change plans in accordance with the principles of “making policies on a port-by-port basis” and “one vessel, one policy”, and adjusted the plans in a timely manner in response to the development of the epidemic. By carrying out a dynamic trend analysis on the extension of crew service, the Group closely tracked the extension of crew service with a focus on the crew members who served for a considerable period of time abroad. It coordinated the resources of all parties to realize crew changes.

In October 2020, the Group carefully assessed the development trend of the epidemic in cold weather, and completed crew changes of all self-owned vessels by the end of December 2020, effectively reducing the frequency of crew changes during the peak epidemic seasons of winter and spring. The Group formulated the “Implementation Plan for Nine Measures of Caring for Crew During the Epidemic” based on the action plan of “caring for the crew for safety of the ship”. As of the end of March 2021, the Group has paid service extension allowances to around 1,200 crew members with a total amount of approximately RMB10 million. Meanwhile, the Group also developed a family assistance plan for the families of crew members who have served abroad for more than a year. According to the plan, the Company purchased “anti-epidemic health kits” for the families of crew members whose service was extended, sent condolence letters and condolence payments to their families, and organized crew companies and crew wives stations to visit families of crew members in difficulty, in an effort to help their families deal with difficulties in life.

Starting from February 2021, all crew members of the Group are required to receive COVID-19 vaccination before boarding vessels. As of the end of March 2021, the percentage of vaccinated crew members on board of the Group’s own vessels was approximately 11.7%. It is anticipated that by September 2021, the Group will achieve full coverage of vaccinations for crew members on board of its own vessels.

The Group will continue to play its leading role in the industry to provide support for the health and safety of its crew and ensure the smooth operation of its fleets.

## 8. OUTLOOK AND HIGHLIGHTS FOR 2021

### (1) Competitive landscape and trends in the industry

*International oil shipping market*

After experiencing the impact of the COVID-19 epidemic in 2020, global oil demand will gradually recover with the popularization of vaccination. OPEC+ will continue to implement the production reduction plan and evaluate and adjust the supply policy. The seaborne oil trade volume will be suppressed in the short term. A slowdown in the growth of crude oil exports from the United States has reduced the demand for long-haul transportation, and it is difficult to support the tonne-mile demand of tankers in the short term. Despite the rapid recovery of oil demand in Asia, the recovery of the international aviation industry and industrial activities was still lagging behind, the demand for petrol, diesel, aviation kerosene and other petroleum products and refining profits still lag far behind as compared with pre-epidemic demand levels. The operating rates of refineries in Europe and the United States are still low. The digestion of oil inventories will also take time. In the short term, changes in the OPEC+ export volume will become an important factor affecting the trend of the oil shipping market.

In terms of tonnage supply, as crude oil forward discount suppresses the demand for oil storage, effective tonnage has been released to return to the market, exacerbating the oversupply of tankers in the spot market. However, continuously sluggish freight rates and high fuel costs, combined with the catalysis of environmental protection policies, will make it more difficult for old tankers to operate. With a rebound in shipbreaking revenue, old tonnage is expected to accelerate its withdrawal from the market. Meanwhile, the delivery of new vessels is expected to remain low in the next two years, and the net growth rate of tonnage supply is expected to slow down.

Although the international oil shipping market will face a challenging start this year, as the global COVID-19 vaccine rollout continues, economic activities will gradually resume as the epidemic is brought under control, which in turn will drive a gradual pickup in the global oil demand. With the continuous optimization of the supply side, we believe that the long-term landscape of the international oil shipping market will continue to improve.

*Domestic oil shipping market*

With the exploitation and production of offshore oil, the domestic demand for offshore oil transportation is expected to increase year-by-year. Benefiting from the advancement of domestic refining-chemical integration projects, petrochemical production capacity in China will continue to grow, which will promote domestic crude oil transshipment demand. However, considering the construction of large terminals and the replacement of part of pipeline transportation, the crude oil transshipment market will generally remain stable in the next two years.

The commissioning of large-scale refining and chemical integration projects will also increase the demand for product oil transportation. With the changes in the sales landscape of product oil, the demand trends for larger vessels for transportation and for shorter voyages will become more obvious. Transportation flows will become more abundant, and market competition will become more intense.

*LNG shipping*

Benefiting from the decarbonization goals of many countries, the demand for LNG in the power and industrial sectors will remain strong, and the global LNG trade volume is expected to maintain a growth trend. As of the end of 2020, the global LNG liquefaction capacity was approximately 448 million tonnes/year, and is expected to reach nearly 575 million tonnes/year by 2025.

Asia will continue to be the driven power of LNG import growth. Although LNG imports by Japan and South Korea will decline with the restart of nuclear power plants, with the transformation of the global energy structure and the continuous development of LNG-related infrastructure, LNG imports by China are expected to grow further, leading LNG import demand in Asia.

In terms of tonnage supply, as of the end of 2020, there were orders for a total of 149 LNG vessels worldwide, among which 95 are expected to be delivered from 2021 to 2022. During this period, concentrated order delivery and limited liquefaction capacity growth will lead to an oversupply situation in the LNG transportation market in the short term. It is anticipated that from 2023, with the successive commissioning of LNG export projects, the supply and demand structure of the LNG transportation market will be greatly improved.

**(2) Development strategies of the Company**

Facing the “14th Five-Year Plan”, the Group will firmly adhere to the corporate vision of “being an excellent leader in global energy transportation” and “delivering energy to the world” by upholding the strategic goal of “four global leading”. The Group is committed to the mission and responsibilities of national energy transportation and will continue to enhance its competitiveness, innovation, control, influence and risk resistance. The Group will adhere to the general keynote of seeking progress while maintaining stability, promote high-quality development, implement the new development concept, refine the concept and system, and practically improve the standard of corporate management; take LNG and new energy transportation as the second development curve of the Group, accelerate and prioritize the development of LNG business, so as to become a global top-tier player. The Group will accurately grasp the cyclical trends in the shipping and capital markets to realize the “two-wheel drive” of production and capital operations. While seeking a technical leading-edge under the new industry rules, we strive to build our brand image as a “leader in sustainable development”.

### (3) Operational plans

In 2021, the Group expects to have 6 oil tankers delivered, with 1.265 million DWT. It is expected that there will be 166 oil tankers in operation during the year, totalling 24.985 million DWT, and 38 LNG vessels, totalling 6.422 million cubic meters (including joint ventures, associates and long-term chartered-in vessels).

According to the conditions of the domestic and international shipping market in 2021, combined with the Group's fleet expansion, the main operating targets of the Group in 2021 are as follows: completing a transportation volume of 597.8 billion tonne-nautical miles, generating an expected operating income of RMB14.12 billion and incurring operating costs of RMB11.73 billion.

### (4) Work initiatives of the Company

2021 marks the first year of the "14th Five-Year Plan". Given the global economic uncertainties in the wake of the COVID-19 epidemic as well as the opportunities and challenges brought about by the development of the oil and gas industry chain, the Group will set higher standards to achieve improved operational efficiency and corporate management and to embark upon a new era of high-quality development. The Group will mainly focus on the following tasks:

International oil tanker transportation: With an efficient and rational market allocation mechanism as the core, we will give full play to the operational advantages of our global routes and plan our capacity layout and operating methods reasonably in tune with the market. At the same time, we will optimize the positioning of our global network and strengthen our role in creating regional efficiencies.

Domestic oil transportation: The Group will consolidate its leading position in the operating mode and capacity structure of its domestic fleet size, deepen all-round cooperation with strategic customers and emerging private refineries, and expand its cargo profile in the domestic market.

LNG transportation business: The Group will accelerate the implementation of LNG shipping projects, strive for independent development of LNG and new energy transportation projects, so as to continue to augment the "safety cushion of benefits" of LNG; steadily promote the team-building of LNG ship management companies and ship crew, so as to lay the foundation for the development of LNG shipping projects and enhance the core competitiveness of the LNG transportation segment; take the signing of the letter of intent for VLEC cooperation as a breakthrough to keep close track of the opportunities in the new energy transportation market.

Safety management: The Group will strengthen the daily safety control of vessels and improve shore-based pre-control management to ensure the safety of fleet operations; continue to optimize the "three-in-one" safety management model and the "united high-level" fleet management system, highlighting the implementation of responsibilities and enhancing the awareness of ship and shore safety; deepen the implementation of the "caring for the crew members for the safety of the ships" action plan by strengthening epidemic prevention and control on ships and among crew members, and enhancing the occupational health management of crew members.

Cost control: The Group will put the concept of "cost wins" into practice , highlight key cost control initiatives and devise reasonable control objectives and measures. The Group will procure bunker fuel at spot and fixed pricing and adjust the procurement plan based on market changes; calculate and execute the best voyage speed, and accurately control bunker fuel consumption so as to reduce and control fuel cost. The Group will centralize procurement of ship supplies and coordinate the distribution of supplies in accordance with specific voyage arrangements, so as to reduce the operation cost. To control finance costs, the Group will reduce finance interest expenses and improve efficiency of the working capital.

Digital construction: The Group will empower business development with digitalization by enhancing operational and management efficiency. The Group will build a data management platform to form a unified technical support system; promote system optimization and data governance to enhance informatization capability; and develop smart applications around the three dimensions of operating needs, vessel management needs and commercial innovation needs.

Green development: The Group will strive to optimize the control of energy efficiency in the entire process of vessel transportation and operation, reasonably reduce the fuel consumption of vessels and improve energy efficiency; keep abreast of the latest technology for energy-saving, lay out a plan for ship carbon emissions management, and study and refine proposals to comply with IMO (International Maritime Organization) requirements on emissions reduction.

Talent development: The Group considers talent as the primary resource for high-quality corporate development. The Group will focus on cultivating a talent pool comprising international, professional and young talents for the quality development of the Company. To achieve this goal, the Group will set up a regular rotation mechanism for overseas talents, strengthen the team-building of professional talents and organize and implement a talent development program for young elites.

ESG management: Under the guidance of the Board, the Group will explore and establish an environmental, social and governance ("**ESG**") management system that is in line with the actual operations of the Group, strengthen top-level coordination and planning, realize the organic integration of multi-standard system and ESG concepts, and embed digitalization into institutional construction, so as to comprehensively enhance corporate governance standard and efficiency.

# CORPORATE GOVERNANCE REPORT

The Company has placed much emphasis on corporate governance and accountability. Good corporate governance can improve the Company's scientific decision-making and risk prevention abilities, ensure normal and effective operations, and promote the sustained development of the Company. The Board believes that shareholders of the Company ("**Shareholders**") can derive the greatest benefits from good corporate governance.

## I. IMPROVEMENT OF CORPORATE GOVERNANCE

During the Reporting Period, the Company was able to regulate its operations in accordance with domestic and overseas regulatory requirements. In accordance with the articles of association of the Company (the "**Articles**"), related laws and regulations as well as the securities regulatory rules of the jurisdictions in which the Company was listed, and having regard to the actual conditions of the Company, the Company constantly formulates, improves and implements various operational systems and related procedures for each of the Board and its special committees.

In 2020, in light of the Official Reply of the State Council of the People's Republic of China (the "**PRC**") on Adjusting the Notice Period for General Meetings and Other Matters Applicable to Overseas Listed Companies (Guo Han [2019] No. 97)* 《(國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》 (國函(2019)97號)), the Company made efforts to bring the relevant provisions of the articles of association and the rules and procedures of shareholders' general meetings of the Company in line with the relevant requirements under the Company Law of the PRC; better delineate the responsibility of the Board and the strategy committee of the Board in terms of sustainable development, environmental, social and corporate governance; and further enhance the efficiency of decision making at shareholders' general meetings, the Company make certain amendments to (i) the articles of association of the Company; (ii) the rules and procedures of shareholders' general meetings of the Company; and (iii) the rules and procedures of meetings of the board of directors of the Company in 2020.

During the Reporting Period, checks and balances were achieved through the coordination among the Shareholders' meeting, the Board and its related special Board committees, the supervisory committee of the Company ("**Supervisory Committee**") and management headed by the chief executive officer. Together with the effective internal control and management systems, the Company's internal management and operations were further standardised and the corporate governance of the Company was further enhanced.

## II. SITUATION OF INTERNAL CONTROL AND RISK MANAGEMENT

### 1. DEVELOPMENT

The Company has been committed to the perfection and improvement of its internal control and risk management system, complemented with special activities such as corporate governance to thoroughly strengthen the establishment of its internal management system. The Board is responsible for the establishment, improvement and effective implementation of internal control and risk management; the Supervisory Committee supervises the establishment and implementation of an internal control and risk management system by the Board; the management is responsible for organising and taking the lead in the daily operation of internal control of the Company; the Risk Control Committee of the Company ("**Risk Control Committee**") is responsible for guiding the evaluation of the effectiveness of internal control and risk management by internal organs of the Company.

In 2020, the Company focused on building the risk control systems for overseas companies, and basically completed construction of its risk control systems for "integration at home and abroad", thus fully enhancing the comprehensive immunity of the Company and preventing various risks. Firstly, to ensure implementation of its strategic objectives, innovate business models and assist in business development, the Company completed construction of the risk control system under the POOL operation model. Secondly, to ensure development of its overseas business, the Company has completed construction of the risk control systems for four overseas companies in Hong Kong, Singapore, the United Kingdom and the United States. According to its new strategic positioning of the overseas companies, the Company has sorted out the business authorization and approval process between various overseas companies and the head office, and has clarified the division of responsibilities and authorization between overseas companies and the head office. Through completing construction of the risk control systems of the aforesaid five companies, the Company has realised the goal of risk control and compliance to safeguard the objective of ensuring its business model innovation and globalization strategy implementation on the one hand; on the other hand, this also enabled the Company to take an important step towards the way to establish and improve its risk control system for "integration at home and abroad".

## 2. MANAGEMENT STRUCTURE

The Company has established a "three lines of defence model", which together with various operation activities, forms an internal control and risk management operation system in accordance with the COSO (Committee of Sponsoring Organization) Framework and the Guidelines on Comprehensive Risk Management of State-owned Enterprises (《中央企業全面風險管理指引》) based on environmental monitoring, risk assessment and countermeasures, supervision and improvement, as well as information communication and management.

The first line of defence comprises all departments and all units, which are responsible for participating in the construction of the risk control system, implementing systems related to risk management and business control, as well as responding to and reporting risk events; the second line of defence comprises the Company's risk management department, which is responsible for organizing, establishing and maintaining the risk control system, preparing risk control management reports regularly and reporting to the management, as well as participating in the control of high-risk businesses and giving advice from a risk perspective; and the third line of defence comprises the Company's audit department, which is responsible for the construction and evaluation of the risk control system, as well as supervising risk management and internal control.

The Company's management makes decisions on significant risk matters; considers and approves the Company's management rules and regulations; considers the Company's annual self-evaluation report on internal control and risk management report, and provides guidance on annual risk management work according to the Rules of Procedures for General Manager's Meeting.

The Risk Control Committee is established under the Board and is a specialized body for evaluating the effectiveness of internal control. Its major responsibilities are reviewing the Company's financial control, internal control and risk management systems; discussing with the management on the internal control system to ensure the management has performed its duties in establishing an effective internal control system; evaluating the appropriateness of the design of listed companies' internal control systems; reviewing the self-evaluation report on internal control. In 2020, two meetings were held by the Risk Control Committee to listen to the special reports on the construction of the internal control and risk management system, as well as operation monitoring, and to provide guidance on internal control and risk management efforts.

The Audit Committee is established under the Board and is a specialized body for evaluating the effectiveness of internal control. Its major responsibilities are reviewing the internal control audit report issued by external audit firms, and discussing with external audit firms on problems found and improvements; evaluating internal control evaluation and audit results, thereby supervising the rectification of defects on internal control.

### 3. WORK RESULTS OF 2020

Based on the building of a "trinity" comprehensive risk prevention and control system in 2019, the Company has generally established a risk control system featuring "domestic and overseas integration" in 2020, which has improved its comprehensive immunity to prevent all kinds of risks. In respect of the building of a risk control system overseas, firstly, the Company has built a risk control system under the POOL operation mode to ensure the implementation of its strategic goals, innovate its business model and facilitate its business development; secondly, the Company has built risk control systems for four overseas companies in Hong Kong, Singapore, UK and the United States to ensure the development of its overseas business and the risk prevention and control of its overseas companies. The completion of building of risk control systems for the above five companies has, on one hand, enabled the Company to achieve the goal of providing strong guarantee for innovating its business model and implementing its globalized strategy under the support of risk control and compliance efforts, and has enabled the Company to make the most significant stride toward the building and improvement of a risk control system featuring "domestic and overseas integration" on the other hand. In respect of the construction of rules and regulations system, the Company adhered to the working principle of "strengthening the top-level design, adapting to new mechanisms and procedures and coordinating the integration of different systems" and continuously promoted the construction of rules and regulations. 141 administrative and 36 party and mass rules and regulations were implemented in 2020, indicating that the construction and optimization of the Company's rules and regulations system were basically completed. In respect of the improvement of sanction risk control system, firstly, based on COSCO SHIPPING Group's overall plan for the building of international sanction risk control system, in order to address the increasingly grave sanction situations, in 2020, the Company revised the Administrative Measures on Sanction Risks (《制裁風險管理辦法》) and the Sanction Risk Control Manual (《制裁風控手冊》), established and enhanced four mechanisms, namely the risk warning and investigation mechanism, business due diligence mechanism, key operation monitoring mechanism and specific risk assessment mechanism; secondly, the Company conducted three inspections on sanction risk control, and strives to convene regular meetings for sanction risk control every quarter; thirdly, the Company carried out special audits on sanction risk control to identify the deficiencies in the procedures, execution and training of regulations, and caused the relevant functions to make rectifications. In respect of the building of an accountability system for investment in violation of rules, the Company included the accountability for operation and investment in violation of rules in the three-year reform of state-owned enterprises, and benchmarked against world-class action plans to formulate the Implementation Measures on Accountability for Operation and Investment in Violation of Rules of COSCO SHIPPING Energy Transportation Co., Ltd. (Interim) (《中遠海運能源運輸股份有限公司違規經營投資責任追究實施辦法(試行)》), which stipulates 69 circumstances for accountability in ten aspects.

## III. INDEPENDENCE OF THE COMPANY FROM THE CONTROLLING SHAREHOLDER

Save as disclosed in this annual report, the Company is independent of its direct controlling Shareholder, China Shipping Group Company Limited, and its indirect controlling Shareholder, China COSCO SHIPPING Corporation Limited, in respect of its business, personnel, asset, organisational structure and finance. The Company has independent and comprehensive business operations and management capabilities.

## IV. THE ESTABLISHMENT AND IMPLEMENTATION OF THE STAFF SALARY SYSTEM, PERFORMANCE APPRAISAL AND INCENTIVE MECHANISM

The Board has implemented the annual salary system and formulated requirements for annual salary system assessment for the senior operating management of the subsidiaries of the Company and the headquarters.

The Company evaluates the remuneration level of employees based on operating revenue, profitability and safety management, and revises and improves the current salary system by further optimizing the remuneration distribution system combining post wages and performance wages. Wage items include post wages, monthly performance salary, various subsidies and overtime wages, etc. Among them, post wages reflect the difference in responsibilities for different posts, performance wages reflect the difference in labour contribution. The Company wishes to adopt more effective measures in the future to continuously improve its internal management system so as to bring the incentive and restriction functions of the distribution system into full play.

As authorized by the Shareholders' meeting of the Company, the Board of Directors approved the granting of 35,460,000 share options to 133 participants on December 27, 2018. No share option was granted by the Company in 2020.

## V. CORPORATE GOVERNANCE REPORT

### 1. Compliance with Corporate Governance Code

The Board is committed to the principles of corporate governance for a transparent, responsible and value-driven management that is focused on enhancing Shareholders' value.

In the opinion of the Directors, save as disclosed below, the Company has complied with the Code Provisions set out in the Corporate Governance Code ("**Code**") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the Reporting Period.

According to the requirements of Code Provision E.1.2, the Chairman of the Board should attend the annual general meeting and invite the Chairman of the Audit Committee, the Remuneration Committee, the Nomination Committee and any other committees, where appropriate, to attend the meeting. The annual general meeting of the Company held on 22 June 2020 ("**2020 AGM**") was presided by Mr. Liu Hanbo (executive Director and chairman of the Board). In addition, Mr. Zhu Maijin (executive Director), and Mr. Rui Meng (independent non-executive Director and chairman of the Nomination Committee) attended the 2020 AGM and answered Shareholders' questions related to corporate governance of the Company.

As provided for in Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Teo Siong Seng, an independent non-executive Director, was unable to attend the 2020 AGM due to prior commitments. Mr. Liu Zhusheng and Mr. Zhao Jinsong attended the 2020 AGM as designate Directors, and three other designate Directors Mr. Zhang Qinghai, Mr. Victor Huang and Mr. Li Runsheng attended via telephone; Mr. Feng Boming, Mr. Zhang Wei, and Ms. Lin Honghua, each a non-executive Director, and Mr. Ruan Yongping and Mr. Ip Sing Chi, each an independent non-executive Director, were absent from the 2020 AGM since they had proposed resignation. Except for the 2020 AGM, Mr. Zhu Maijin, the executive Director, was unable to attend the seventh board meeting held on June 10, 2020 due to other official duties.

The Company will keep its corporate governance practices under continuous review to ensure their consistent application and will continue to improve its practices having regard to the latest developments including any new amendments to the Corporate Governance Code.

## 2. General Meetings

General meetings provide a good opportunity for direct communications and build a sound relationship between the Board and the Shareholders. In order to ensure that all Shareholders enjoy equal status and are able to exercise their rights effectively, the Company holds Shareholders' meetings every year in strict compliance with the requirements for notices and convening procedures laid down by the relevant laws, regulations and the Articles. In 2020, the Company held 1 general meeting. The table on page 40 of this annual report shows the attendance of the Directors at the general meetings. At the 2020 AGM, 14 resolutions were passed, among which the Report of the Directors for 2019, the Report of Supervisory Committee for 2019, the profit distribution plan for 2019, the remuneration domestic and proposal of the Directors and the Company's supervisors (the "**Supervisors**") for 2020, and the re-appointment of domestic and international auditors of the Company for 2020 were adopted.

According to the Articles, Shareholders individually or jointly holding more than 10% of the shares with voting rights at the extraordinary general meeting or class general meeting to be convened may sign one or more written requests with the same format and contents to propose to the Board to the convening of an extraordinary general meeting or class general meeting, and specify the topics thereof.

The Board is grateful to Shareholders for their views, and welcomes their questions and concerns raised in relation to the management and governance of the Group. Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company ("**Company Secretary**") at 7th Floor, 670 Dongdaming Road, Hongkou District, Shanghai, the PRC.

The registered Shareholders are entitled to putting forward a proposal at a general meeting if shareholder(s) individually or jointly holding more than 3% of the equity of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting within 2 days after receipt of the proposal and announce the contents thereof.

### 3. The Board

#### *(1) The responsibility of the Board*

The Board is elected in the Shareholders' meeting and is responsible to the shareholders' meeting.

The Board carries out actions in relation to corporate governance in a conscientious and responsible manner. During the Reporting Period, the Board also performed the following corporate governance duties:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

The Company elects its Directors in strict compliance with the procedures for election of Directors as set out in the Articles. Each Director shall act in the interests of the Shareholders, and shall use his best endeavours to perform his duties and obligations as a Director in accordance with all the applicable laws and regulations. Duties of the Board include making decisions of the Company's investment scheme and business plan, preparation of the Company's profit distribution and loss recovery proposals, formulation of the Company's capital operation proposal and implementation of resolutions approved at general meetings.

The Board is responsible for leading and controlling the Company as well as supervising the operations, strategic policy and performance of the Group. The Board also delegates its power and responsibilities to the management of the Group. In addition, the Board delegates responsibilities to professional committees under the Board. Details of those committees are set out in this report.

*(2) Composition of the Board*

According to the Articles, all Directors (including independent non-executive Directors) are elected by the general meeting of Shareholders with a term of three years. Directors may be re-elected upon the expiration of their terms. The terms of the independent non-executive Directors shall be the same with the other Directors, i.e. for three years but not exceeding six years.

The Directors during the Reporting Period were:

**Executive Directors:**
Mr. Liu Hanbo (劉漢波)
Mr. Zhu Maijin (朱邁進)

**Non-executive Directors:**

| | |
|---|---|
| Mr. Feng Boming (馮波鳴) | (Resigned on 22 June 2020[1]) |
| Mr. Zhang Wei (張煒) | (Resigned on 22 June 2020[1]) |
| Ms. Lin Honghua (林紅華) | (Resigned on 22 June 2020[1]) |
| Mr. Zhang Qinghai (張清海) | (Appointed on 22 June 2020[2]) |
| Mr. Liu Zhusheng (劉竹聲) | (Appointed on 22 June 2020[2]) |

**Independent non-executive Directors:**

| | |
|---|---|
| Mr. Ruan Yongping (阮永平) | (Resigned on 22 June 2020[3]) |
| Mr. Ip Sing Chi (葉承智) | (Resigned on 22 June 2020[3]) |
| Mr. Rui Meng (芮萌) | |
| Mr. Teo Siong Seng (張松聲) | |
| Mr. Victor Huang (黃偉德) | (Appointed on 22 June 2020[4]) |
| Mr. Li Runsheng (李潤生) | (Appointed on 22 June 2020[4]) |
| Mr. Zhao Jingsong (趙勁松) | (Appointed on 22 June 2020[4]) |

*Notes:*

1. Mr. Feng Boming (馮波鳴), Mr. Zhang Wei (張煒) and Ms. Lin Honghua (林紅華) had tendered their resignations as non-executive Directors due to changes in work allocation, with effect from 22 June 2020 after the conclusion of the 2020 AGM.

2. At the 2020 AGM, the appointments of Mr. Zhang Qinghai (張清海) and Mr. Liu Zhusheng (劉竹聲) as non-executive Directors, were duly approved by Shareholders and took effect immediately after the conclusion of the 2020 AGM.

3. Mr. Ruan Yongping (阮永平) and Mr. Ip Sing Chi (葉承智) had retired as independent non-executive Directors as they have reached the age of retirement, with effect from 22 June 2020 after the conclusion of the 2020 AGM.

4. At the 2020 AGM, the appointments of Mr. Victor Huang (黃偉德), Mr. Li Runsheng (李潤生) and Mr. Zhao Jingsong (趙勁松) as independent non-executive Directors, were duly approved by Shareholders and took effect immediately after the conclusion of the 2020 AGM.

Members of the Board, including the Chairman and the chief executive officer (the "**CEO**") of the Company, do not have any financial, business, family or other major/related relationship with one another. Such a balanced structure ensures the solid independence of the entire Board. Its composition has complied with the requirement under the Listing Rules that at least one third of the members of the Board shall be independent non-executive Directors. The biographies of all Directors are set out on pages 233 to 237 of this annual report and contain details on the diversified skills, expertise, experience and qualifications of all Directors.

The Board adopted the board diversity policy (the "**Board Diversity Policy**") in accordance with the requirement set out in the Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

*(3) The responsibility of Directors*

The Board ensures that each newly appointed Director has proper understanding of the operations and businesses of the Group and is fully aware of his/her responsibilities under the relevant rules and regulations and the common law, the Listing Rules, applicable statutory requirements and other regulatory requirements and the business and governance policy of the Company. Directors should closely follow the changes in legislations and compliance, operations and markets as well as the strategic development of the Group and be continuously updated about the relevant knowledge so as to perform their duties. Independent non-executive Directors play an active role in Board meetings and can make contribution to the formulation of strategies and policies and make reliable judgement on strategy, policy, performance, accountability, resources, major appointment and code of conduct. They also serve as members of various Board committees to monitor the overall performance of the Group in achieving predetermined corporate objectives and benchmarks and making reports for such performance.

## 4. Performance of Independent Non-executive Directors' Duties

The Company has adopted the rules and procedures on independent non-executive Directors' work. In 2020, the Company had five independent non-executive Directors exceeding one-third of the total number of Directors, in compliance with the minimum number of independent non-executive directors required under the Listing Rules. The independent non-executive Directors are professionals with extensive experience in the fields of finance, accounting, law and corporate management, respectively. Mr. Victor Huang, an independent non-executive Director, has appropriate accounting and financial experience as required under Rule 3.10 of the Listing Rules. For the biographical details of Mr. Victor Huang, please refer to the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT" in this annual report. The five independent non-executive Directors do not hold other positions in the Company. They perform their duties in accordance with the Articles and the relevant requirements under the applicable laws and regulations.

In 2020, the independent non-executive Directors earnestly and diligently performed their duties in accordance with the relevant laws and regulations and the Articles. The independent non-executive Directors actively attended Board meetings during the Reporting Period, and reviewed documents presented by the Company. They also provided professional and constructive advice on the Company's major decisions and worked with dedication to safeguard the legal interests of the Company and all its Shareholders as a whole. They expressed their views objectively and independently and played a part in the checks and balances of the decision making process of the Board. The independent non-executive Directors reviewed regular reports of the Company diligently. They had discussions with external auditors in regular and special meetings before and after their year-end auditing. Such meetings were held prior to Board meetings. During the Reporting Period, the independent non-executive Directors did not object to the motions, resolutions and other matters discussed at the meetings of the Board.

The Company has received confirmation from each of the independent non-executive Directors about their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that the independent non-executive Directors are completely independent of the Company, its substantial Shareholders and its affiliates and comply fully with the requirements concerning the independent non-executive Directors under the Listing Rules.

## 5. Securities Transactions by Directors

The Company has adopted a code of conduct regarding directors' securities transactions in accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules. Having made specific enquiries of all Directors, all Directors have confirmed that they have complied with the required standard as set out in the Model Code during the Reporting Period.

## 6. Board Meetings

In the Reporting Period, the Board convened a total of 14 meetings and considered and passed 43 Board resolutions so as to review the financial and operating performance of the Group. The Chairman also held meetings with the independent non-executive Directors without the presence of other Directors. The following table shows the attendance of the Directors at the Board meetings and general meetings.

| | | **Rate of attendance for Board meeting** | **Rate of attendance for general meeting** |
|---|---|---|---|
| **Executive Directors:** | | | |
| Mr. Liu Hanbo (劉漢波) (Chairman) | | 14/14 | 1/1 |
| Mr. Zhu Maijin (朱邁進) (CEO) | | 13/14 | 1/1 |
| **Non-executive Directors:** | | | |
| Mr. Feng Boming (馮波鳴) | (Resigned on 22 June 2020) | 7/7 | 0/1 |
| Mr. Zhang Wei (張煒) | (Resigned on 22 June 2020) | 7/7 | 0/1 |
| Ms. Lin Honghua (林紅華) | (Resigned on 22 June 2020) | 7/7 | 0/1 |
| Mr. Zhang Qinghai (張清海) | (Appointed on 22 June 2020) | 7/7 | 1/1 |
| Mr. Liu Zhusheng (劉竹聲) | (Appointed on 22 June 2020) | 7/7 | 1/1 |
| **Independent non-executive Directors:** | | | |
| Mr. Ruan Yongping (阮永平) | (Resigned on 22 June 2020) | 7/7 | 0/1 |
| Mr. Ip Sing Chi (葉承智) | (Resigned on 22 June 2020) | 7/7 | 0/1 |
| Mr. Rui Meng (芮萌) | | 14/14 | 1/1 |
| Mr. Teo Siong Seng (張松聲) | | 14/14 | 0/1 |
| Mr. Victor Huang (黃偉德) | (Appointed on 22 June 2020) | 7/7 | 1/1 |
| Mr. Li Runsheng (李潤生) | (Appointed on 22 June 2020) | 7/7 | 1/1 |
| Mr. Zhao Jingsong (趙勁松) | (Appointed on 22 June 2020) | 7/7 | 1/1 |

Minutes of all meetings are recorded by a designated officer of the Company, and all proposals and resolutions reviewed and approved in each meeting are filed in accordance with relevant laws, regulations and the Articles.

## 7. Chairman and CEO

The posts of the Chairman of the Board and the CEO are assumed by different individuals so as to maintain independence and balanced judgment views. The Board has appointed Mr. Liu Hanbo as the Chairman. The Chairman is responsible for execution and leading the Board so that the Board can operate and perform its duties effectively and handle all important and appropriate issues in a timely manner. Mr. Zhu Maijin, being the CEO and an executive Director, is responsible for executing the business policy and decisions on management and operations of the Group.

## 8. The Professional Committees of the Board

In compliance with the Code Provisions set out in the Code in Appendix 14 of the Listing Rules, the Company has established five professional committees under the Board, namely, the Audit Committee, the Remuneration and Appraisal Committee, the Strategy Committee, the Nomination Committee and the Risk Control Committee.

### *(1) Audit Committee*

The Audit Committee comprised 3 independent non-executive Directors as at 31 December 2020 with Mr. Victor Huang being the Chairman. The duties of the Audit Committee mainly include the review of the Company's financial reports, consideration of the appointment of independent domestic and international auditors, approval of audit-related services, supervision over the Company's internal financial reporting procedures and management policies. At least four meetings of the Audit Committee are convened annually to review the accounting policies and internal control system adopted by the Company and the relevant financial issues, so as to ensure the completeness, fairness and accuracy of the Company's financial statements and other relevant information.

In 2020, the Audit Committee held 5 meetings. Minutes of the meetings are recorded by a designated officer, and the proposals approved in each meeting are filed in accordance with relevant regulations. The following table shows the attendance of members of the Audit Committee during the Reporting Period:

| **Members of the Audit Committee** | **Rate of attendance** |
|---|---|
| Mr. Ruan Yongping (阮永平) (Chairman) | 3/3 |
| Mr.Victor Huang (黃偉德) (Chairman) | 2/2 |
| Mr. Rui Meng (芮萌) | 5/5 |
| Mr. Teo Siong Seng (張松聲) | 5/5 |

Due to the expiration of his term as an independent non-executive director, Mr. Ruan Yongping retired as the chairman of the Audit Committee, effective from the conclusion of the 2020 AGM; and independent non-executive director Mr. Victor Huang was appointed as the chairman of the Audit Committee, effective from the date of approval by the Board.

The following are the work reports prepared by the Audit Committee in respect of the performance of its responsibilities relating to the interim and annual results and the review of the internal control system and the performance of the other responsibilities set out in the Code during the Reporting Period.

The Audit Committee considered the proposals in respect of the annual report of the Company for 2019, appraisal report of the Company's internal control for 2020, the appointment of the Company's domestic and international auditors for 2020 and the interim report of the Company for 2020, and formed the written opinions of the Audit Committee in respect of the Company's annual report for 2019, the draft profit distribution plan for 2019 and the interim report of the Company for 2020.

The Audit Committee holds at least one meeting with the external auditors each year to discuss any issues in the course of the auditing and management is not allowed to attend the meeting. In 2020, the Audit Committee held 2 meetings with the external auditors. The Audit Committee reviews the quarterly results, interim and annual reports before submitting the results to the Board. When reviewing the quarterly results, interim and annual reports, the Audit Committee not only pays attention to changes in the accounting policies and practices but also complies with the relevant requirements, under such accounting policies, the Listing Rules and relevant laws. There was no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

*(2) Remuneration and Appraisal Committee*

During the Reporting Period, the Remuneration and Appraisal Committee comprised 3 members, all being independent non-executive Directors with Mr. Li Runsheng being the Chairman. The Remuneration and Appraisal Committee has adopted terms of reference which are in line with the terms of reference referred to in the Code are as follows:

(a) make recommendations on the remuneration of executive Directors and senior management of the Company to seek approval from the Board and the Shareholders' meeting; and

(b) consider the remuneration package of Directors and senior management and make recommendations on salaries and bonuses, including incentives.

In 2020, the Remuneration and Appraisal Committee held 3 meetings, and all members attended the meetings. In the meetings, the Remuneration and Appraisal Committee assessed performance of executive Directors, reviewed the current emoluments of Directors and senior management and assessed the implementation of the working plan of the Company for 2019. The Company's remuneration policy for 2019 is based on the market practice, the operating results achieved by the Company and the qualification, duties and responsibilities of Directors and senior management. The Remuneration and Appraisal Committee also provided professional opinions on the adjustment of stock option incentive plan and the achievement of the first exercise period exercise conditions.

The following table shows the attendance of members of the Remuneration and Appraisal Committee during the Reporting Period:

| **Members of the Remuneration and Appraisal Committee** | **Rate of attendance** |
|---|---|
| Mr. Ip Sing Chi (葉承智) (Chairman) | 1/1 |
| Mr. Li Runsheng (李潤生) (Chairman) | 2/2 |
| Mr. Ruan Yongping (阮永平) | 1/1 |
| Mr. Rui Meng (芮萌) | 3/3 |
| Mr. Teo Siong Seng (張松聲) | 3/3 |

Due to the expiration of his term as an independent non-executive director, Mr. Ip Sing Chi retired as the chairman of the Remuneration and Appraisal Committee, and Mr. Ruan Yongping retired as a member of the Remuneration and Appraisal Committee, effective from the conclusion of the 2020 AGM. Independent non-executive director Mr. Li Runsheng was appointed as the chairman of the Remuneration and Appraisal Committee, effective from the date of approval by the Board.

*(3) Strategy Committee*

The duties of the Strategy Committee include review and evaluation of the Company's long-term development strategy, significant investment projects, financial budget and strategic plan of investment returns and submit its advice to the Board. As at the end of the Reporting Period, The Strategy Committee consisted of 8 Directors, including 2 executive Directors, 2 non-executive Directors and 4 independent non-executive Directors. Mr. Liu Hanbo was the Chairman. Independent non-executive Directors, namely Mr. Rui Meng, Mr. Teo Siong Seng, Mr. Li Runsheng and Mr. Zhao Jingsong with extensive professional knowledge and work experience in shipping and finance, proactively proposed and opined for the Company's healthy and long-term development by playing the role of think-tank and advisers.

During 2020, the Strategy Committee held one meeting, reviewing the proposal on "the 'new cycle, new starting point, new strategy' action plan" of the Company. The following table shows the attendance of members of the Strategy Committee during the Reporting Period:

| **Members of the Strategy Committee** | **Rate of attendance** |
|---|---|
| **Executive Directors:** | |
| Mr. Liu Hanbo (劉漢波) (Chairman) | 1/1 |
| Mr. Zhu Maijin (朱邁進) | 1/1 |
| **Non-executive Directors:** | |
| Mr. Feng Boming (馮波鳴) | 1/1 |
| Mr. Zhang Wei (張煒) | 1/1 |
| Ms. Lin Honghua (林紅華) | 1/1 |
| Mr. Zhang Qinghai (張清海) | 0/0 |
| Mr. Liu Zhusheng (劉竹聲) | 0/0 |
| **Independent non-executive Directors:** | |
| Mr. Ip Sing Chi (葉承智) | 1/1 |
| Mr. Rui Meng (芮萌) | 1/1 |
| Mr. Teo Siong Seng (張松聲) | 1/1 |
| Mr. Li Runsheng (李潤生) | 0/0 |
| Mr. Zhao Jingsong (趙勁松) | 0/0 |

Due to changes in work arrangements, Mr. Feng Boming, Mr. Zhang Wei, and Ms. Lin Honghua resigned as members of the Strategy Committee. As their term of office as an independent non-executive director expired, Mr. Ip Sing Chi retired as a member of the Strategy Committee, effective from the conclusion of the 2020 AGM. Non-executive directors Mr. Zhang Qinghai and Mr. Liu Zhusheng, independent non-executive directors Mr. Li Runsheng and Mr. Zhao Jinsong were appointed as members of the Strategy Committee, effective from the date of approval by the Board.

*(4) Nomination Committee*

Pursuant to the Articles, election and replacement of Directors shall be proposed to the Shareholders' general meeting for approval. Shareholders whose shareholding represents 3% or more of the voting shares of the Company are entitled to make such proposal and request the Board to authorise the Chairman to consolidate a list of Director candidates nominated by the Shareholders who are entitled to make a proposal. As authorised by the Board, the Chairman shall consolidate a list of Director candidates and order the Secretariat of the Board together with the relevant departments to prepare the relevant procedural documents. Pursuant to the Articles, the Company is required to give notice of the Shareholders' meeting to Shareholders in writing 20 days in advance and dispatch a circular to the Shareholders. Pursuant to Rule 13.51(2) of the Listing Rules, the list, resume and emoluments of the candidates for directorship must be set out in the circular to the Shareholders to facilitate voting by Shareholders. The new Directors must be approved by more than half of the total voting shares held by the Shareholders present in person or by proxy at the Shareholders' general meeting.

The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies. When the Nomination Committee considers it appropriate, it invites nominations of candidates from Board members or any person and makes recommendations for the Board's consideration and approval.

In assessing the suitability of a proposed candidate, the Nomination Committee would consider factors including:

(a) reputation for integrity;
(b) experience in shipping industry and/or business strategy, management, legal and financial aspects;
(c) whether the proposed candidate is able to assist the Board in effective performance of its responsibilities;
(d) the perspectives and skills that the proposed candidate is expected to bring to the Board;
(e) diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
(f) commitment in respect of available time and relevant interest; and
(g) in the case of selection for independent non-executive Directors, the independence of the proposed candidate.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

During the Reporting Period, the Nomination Committee of the Company consisted of 3 Directors, all being independent non-executive Directors, and Mr. Rui Meng was the Chairman of the committee.

In 2020, the committee convened 2 meetings to consider the "Proposal on Suggesting the Appointment of the Company's Deputy General Manager" and the "Proposal on the Proposed Change of Directors".

The following table shows the attendance of members of the Nomination Committee during the Reporting Period:

| **Members of the Nomination Committee** | **Rate of attendance** |
|---|---|
| Mr. Rui Meng (芮萌) (Chairman) | 2/2 |
| Mr. Ruan Yongping (阮永平) | 2/2 |
| Mr. Ip Sing Chi (葉承智) | 2/2 |
| Mr. Victor Huang (黃偉德) | 0/0 |
| Mr. Li Runsheng (李潤生) | 0/0 |

Due to the expiration of their terms as independent non-executive Directors, Mr. Ip Sing Chi and Mr. Ruan Yongping retired as members of the Nomination Committee, effective from the conclusion of the 2020 AGM. Independent non-executive Directors Mr. Victor Huang and Mr. Li Runsheng were appointed as members of the Nomination Committee, effective from the date of approval by the Board.

*(5) Risk Control Committee*

In order to effectively to promote the rule of law of listed companies as required by supervisory agencies at home and abroad, an to give full play of the functions of special committees of the Board in the rule of law and risk control management, in 2019, the Company's Board approved the establishment of a risk control committee. The Risk Control Committee consists of three directors, two of whom are independent non-executive Directors, and the chairman of the committee is Mr. Zhao Jinsong.

The Risk Control Committee held 2 meetings in 2020 and reviewed the "Proposal on the Establishment of the Sanctions Risk Management Measures", the "Proposal on the Establishment of the Sanctions and Risk Control Manual", the "Proposals for the Annual Internal Control and Risk Management Work Report", and the "2020 Safety Work Report".

| **Members of the Risk Control Committee** | **Rate of attendance** |
|---|---|
| Mr. Liu Hanbo (劉漢波) (Chairman) | 2/2 |
| Mr. Ruan Yongping (阮永平) | 2/2 |
| Mr. Rui Meng (芮萌) | 2/2 |
| Mr. Zhao Jinsong (趙勁松) (Chairman) | 0/0 |

Due to changes in work arrangements, Mr. Liu Hanbo, the executive Director and chairman of the Board, resigned as the chairman of the Risk Control Committee but remained a member of the Risk Control Committee. Due to the expiration of his term as an independent non-executive Director, Mr. Ruan Yongping retired as a member of the Risk Control Committee, effective from the conclusion of the 2020 AGM. Independent non-executive Director Mr. Zhao Jinsong was appointed as the chairman of the Risk Control Committee, effective from the date of approval by the Board.

## 9. Accountability and Audit

*Financial Reporting*

The Board recognises the importance of integrity of financial information and acknowledges its responsibility for preparing interim financial information and annual consolidated financial statements that give a true and fair view of the Group's affairs and its consolidated financial performance and its consolidated cash flows in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and have been properly prepared in compliance with the disclosure requirements of Companies Ordinance (Cap. 622 of the Laws of Hong Kong) ("**Hong Kong Companies Ordinance**"). In presenting the financial information, as well as price-sensitive announcements and other financial disclosures as required by regulations, the Board endeavours to present in a timely manner to Shareholders and other stakeholders a balanced and understandable assessment of the Company's performance, position and prospects. Accordingly, appropriate accounting policies are selected and applied consistently, and judgements and estimates made by management for financial reporting purpose are prudent and reasonable. Prior to the adoption of the financial statements and the related accounting policies, the relevant financial information is discussed between the external auditors and management, and then submitted to the Audit Committee for review.

Management provides relevant explanations and information to the Board so that the Board can make informed assessments on the financial and other information submitted to it for approval.

The Board has confirmed its responsibility for preparing financial reports that can reflect the consolidated financial position of the Group in a true and fair way for each financial year. When submitting quarterly results, interim financial information and annual consolidated financial statements and announcement to Shareholders, Directors shall strive to submit a balanced and easily comprehensible assessment on the present conditions and prospects of the Group.

The Board is not aware of any material uncertainties on events or conditions which cast significant doubt on the sustained operating capability of the Group. Therefore, the Board will continue to adopt the sustained operating basis in preparation of the consolidated financial statements.

The Board has confirmed its responsibility for providing balanced, clear and easily comprehensible assessments in the Company's annual reports and interim reports, other price-sensitive announcements and other financial disclosures required by the Listing Rules and reporting to the regulatory bodies.

All Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2020. ShineWing Certified Public Accountants LLP ("**ShineWing**") and PricewaterhouseCoopers, the domestic and international auditors of the Company respectively, acknowledge reporting responsibilities in the auditor's reports on the consolidated financial statements for the year ended 31 December 2020.

*Reappointment of Auditors*

By a resolution passed at the annual general meeting of the Company held on 22 June 2020, the Company has reappointed ShineWing as its domestic auditor, and PricewaterhouseCoopers as its international auditor, in accordance with the relevant requirements of the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China and the Ministry of Finance of the People's Republic of China.

*External Auditors and Their Remuneration*

The external auditors provide an objective assessment of the financial information presented by management, and is considered one of the essential elements to ensure effective corporate governance. The Company reappointed ShineWing as the 2020 domestic audit institution, and reappointed PricewaterhouseCoopers as the overseas audit institution. The review/audit scope was basically consistent with that of 2019. The 2020 AGM approved ShineWing's 2020 annual review/audit expenses of RMB2.90 million, and PricewaterhouseCoopers of RMB3.50 million. The total cost was RMB6.40 million (including tax and travel expenses).

Besides, the Group paid Pricewaterhouse Coopers a non-audit fee of RMB737,000 in 2020 and paid ShineWing a non-audit fee of RMB263,000.

*Internal Control and Risk Management*

The Board is responsible for maintaining an adequate system of internal control and risk management and reviewing its effectiveness. The internal control and risk management system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. Further, the internal control and risk management system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against any material misstatement or loss.

During the year, the Audit Committee, as delegated by the Board, has reviewed the adequacy and effectiveness of the Group's internal controls, risk management and internal audit function, including financial, operational and compliance controls and risk management. It has also considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programmes and budgets.

The Company considers the risk management and internal control system effective and adequate during the Reporting Period.

*Internal Audit*

The Group has continued to engage the Internal Audit Department to perform internal audits for the Group. The Internal Audit Department performs independent internal audit reviews for all business units and functions in the Group on a systematic and ongoing basis. The frequency of review of individual business units or functions is determined after an assessment of the risks involved. The Audit Committee endorses the internal audit plan annually. The internal audit department has unrestricted access to all parts of the business and direct access to any level of management including the chairman of the Company and the chairman of the Audit Committee as it considers necessary. It submits regular reports for the Audit Committee's review in accordance with the approved internal audit plan. Concerns which have been reported by the Internal Audit Department are monitored by management by taking appropriate remedial actions.

*Inside Information*

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Company is aware of its obligations under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "**SFO**") and the Listing Rules and has established the inside information disclosure policy with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.

## 10. Delegation by the Board

Management is authorised to carry out daily management of the Company. Department heads are responsible for various aspects of the operations. The major corporate matters delegated by the Board to management include the preparation of quarterly results, interim and annual reports and announcements (for approval by the Board before publication), the execution of business strategies and measures adopted by the Board, the implementation of the internal control system and risk management procedure and compliance with relevant statutory requirements, rules and regulations.

## 11. Directors' and Company Secretary's Continuing Professional Development Programme

Each newly appointed Director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, rules and regulations.

Directors' training is an ongoing process. During the year, Directors were provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

A summary of training received by the Directors since 1 January 2020 up to 31 December 2020 is as follows:

| Name | Programme |
|---|---|
| **Executive Directors:** | |
| Mr. Liu Hanbo (劉漢波) (Chairman) | A, B, D |
| Mr. Zhu Maijin (朱邁進) (Chief Executive Officer) | A, B, D |
| **Non-executive Directors:** | |
| Mr. Feng Boming (馮波鳴) | A |
| Mr. Zhang Wei (張煒) | A |
| Ms. Lin Honghua (林紅華) | A |
| Mr. Zhang Qinghai (張清海) | B, C, D |
| Mr. Liu Zhusheng (劉竹聲) | B, C, D |
| **Independent non-executive Directors:** | |
| Mr. Ruan Yongping (阮永平) | A |
| Mr. Ip Sing Chi (葉承智) | A |
| Mr. Rui Meng (芮萌) | A, D |
| Mr. Teo Siong Seng (張松聲) | A, D |
| Mr. Victor Huang (黃偉德) | C, D |
| Mr. Li Runsheng (李潤生) | C, D, E |
| Mr. Zhao Jingsong (趙勁松) | C, D |

*Notes:*

A: Special training on the new Securities Law in March 2020

B: training provide by China Listed Companies Association and Shanghai Listed Companies Association

C: New director training provided by A-share/H-share compliance lawyers

D: The new Securities Law training provided by A-share compliance lawyers in October 2020

E: Independent non-executive director qualification training

In 2020, the Company Secretary took no less than 15 hours of relevant professional training and complied with Rule 3.29 of the Listing Rules.

## 12. Supervisory Committee

At the end of the Reporting Period, the Supervisory Committee consisted of 4 members, of which two Supervisors were elected from the staff as representatives of the employees of the Company. The Supervisors during 2020 were:

Mr. Weng Yi (翁羿) (Chairman)
Mr. Yang Lei (楊磊)
Mr. Xu Yifei (徐 一 飛) (Representative of the employees)
Ms. An Zhijuan (安志娟) (Representative of the employees)

The Supervisory Committee is responsible for supervision over the Board and its members and senior management, so as to prevent them from abusing their authorities and violating the legal interests of the Shareholders, the Company and its staff. In 2020, the Supervisory Committee convened 9 meetings, at which the Company's financial position, significant investment projects and legal compliance of cooperate operations as well as performance of the senior management were reviewed. In 2020, the Supervisory Committee has complied with the principle of credibility to proactively perform their functions. For the details, please refer to the section headed "REPORT OF THE SUPERVISORY COMMITTEE" in this annual report.

### 13. Dividend Policy

The Company seeks to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy. The Company's dividend policy aims to allow Shareholders to participate in the Company's profit and for the Company to retain adequate reserves for future growth. In proposing any dividend payout, the Company would consider various factors including the Company and the Group's actual and expected financial performance, general economic and financial conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and the Company's future expansion plan.

### 14. Investor Relations

The Company has actively and faithfully performed its duties regarding the disclosure of information and the work on investor relations. The Company has strictly abided by the principles of regulation, accuracy, completeness and timely disclosure of information. The Company has established a designated department for investor relations, which is responsible for the matters concerning investor relations and has formulated the "Investor Relations Management Measures" to regulate the relations with the investors. Through various approaches and channels such as organising results presentation, roadshow, telephone conference, a corporate website, investors' visits to the Company and answering the investors' enquiries in respect of the Company, the Company's management strengthened close communications and relationship with the investors and analysts, thereby enhancing investors' recognition of the Company. To the extent the requisite information of the Company is publicly available, Shareholders and the investment community may at any time make enquiry in respect of the Company in writing at the Company's head office in the PRC by post, facsimile or email via the numbers and email address provided on the Company's website. Shareholders may direct enquiries about their shareholdings to the Company's Share Registrars.

In order to further improve the information disclosure management system, to enhance the quality of annual report disclosure and transparency of the Company, the Company has, in accordance with relevant state laws and regulations, regulatory documents and the Articles, formulated the "Annual Report Disclosure of Major Accountability System for China Shipping Development". Accordingly, if there are significant errors in information disclosure of annual report, the person concerned should be held accountable and make the appropriate treatment.

The Board hereby presents their report and the audited consolidated financial statements of the Group for the Reporting Period.

## PRINCIPAL ACTIVITIES

The Company's principal activities consist of investment holding, and/or oil shipment along the coast of the PRC and internationally, and/or vessel chartering.

The principal activities of the principal subsidiaries of the Company, associates and joint ventures of the Group are oil shipment, LNG shipment, international chemical shipment, vessel chartering and banking and related financial services.

## SUMMARY FINANCIAL INFORMATION

A summary of the consolidated results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated as appropriate, is set out below.

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 (Restated) | 2016 |
| **Results** | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Continuing operations** | | | | | |
| Revenue | **16,268,197** | 13,721,140 | 12,099,685 | 9,504,935 | 9,808,889 |
| Operating costs | **(12,386,553)** | (11,125,022) | (10,304,074) | (7,251,227) | (7,059,385) |
| Gross profit | **3,881,644** | 2,596,118 | 1,795,611 | 2,253,708 | 2,749,504 |
| Other income and net gains | **12,100** | 146,480 | 221,919 | 878,734 | 14,727 |
| Marketing expenses | **(56,192)** | (49,296) | (22,805) | (29,206) | (14,697) |
| Administrative expenses | **(811,088)** | (876,990) | (748,155) | (633,986) | (707,835) |
| Net impairment (losses)/gains on financial and contract assets | **5,508** | (3,208) | (22,183) | – | – |
| Other expenses | **(25,925)** | (106,381) | (31,761) | (53,781) | (65,858) |
| Share of profits of associates | **247,150** | 287,807 | 276,245 | 266,902 | 268,099 |
| Share of profits of joint ventures | **690,558** | 427,085 | 231,906 | 151,591 | 163,807 |
| Finance costs | **(1,039,721)** | (1,419,627) | (1,287,714) | (778,949) | (874,374) |
| **Profit before tax** | **2,904,034** | 1,001,988 | 413,063 | 2,055,013 | 1,533,373 |
| Income tax expense | **(272,590)** | (330,384) | (119,657) | (161,644) | (323,047) |
| **Profit for the year from continuing operations** | **2,631,444** | 671,604 | 293,406 | 1,893,369 | 1,210,326 |
| **Discontinued operation** | | | | | |
| Profit for the year from discontinued operation, net of tax | **–** | – | – | – | 760,501 |
| **Profit for the year** | **2,631,444** | 671,604 | 293,406 | 1,893,369 | 1,970,827 |
| **Profit for the year attributable to:** | | | | | |
| Owners of the Company | **2,381,415** | 413,857 | 74,679 | 1,774,648 | 1,932,524 |
| Non-controlling interests | **250,029** | 257,747 | 218,727 | 118,721 | 38,303 |
| | **2,631,444** | 671,604 | 293,406 | 1,893,369 | 1,970,827 |
| | | | | (Restated) | |
| **Earnings per share** | **RMB cents** | RMB cents | RMB cents | RMB cents | RMB cents |
| Basic | **52.00** | 10.26 | 1.85 | 44.01 | 47.93 |
| Diluted | **51.96** | 10.26 | 1.85 | 44.01 | 47.93 |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 (Restated) | 2016 |
| **Assets, liabilities and non-controlling interests** | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **65,959,857** | 65,841,861 | 63,416,267 | 60,388,872 | 58,309,476 |
| Total liabilities and non-controlling interests | **31,338,029** | (37,717,126) | (35,224,647) | (32,465,629) | (30,896,387) |
| Equity attributable to owners of the Company | **34,621,828** | 28,124,735 | 28,191,620 | 27,923,243 | 27,413,089 |

This summary does not form part of the audited consolidated financial statements.

*Notes:*

1. The consolidated results of the Group for the years ended 31 December 2016 are extracted from the Company's 2017 annual report, the consolidated results of the Group for the years ended 31 December 2017 are extracted from the Company's 2018 annual report, the consolidated results of the Group for the years ended 31 December 2018 are extracted from the Company's 2019 annual report, while those for the years ended 31 December 2020 and 2019 were prepared based on the consolidated statement of profit or loss and other comprehensive income as set out on pages 106 and 107of the consolidated financial statements.

2. The consolidated total assets, total liabilities and non-controlling interests of the Group as at 31 December 2016 were extracted from the Company's 2017 annual report, the consolidated total assets, total liabilities and non-controlling interests of the Group as at 31 December 2017 were extracted from the Company's 2018 annual report, and those as at 31 December 2018 were extracted from the Company's 2019 annual report, while those as at 31 December 2020 and 2019 were prepared based on the consolidated statement of financial position as set out on pages 108, 109 and 110 of the consolidated financial statements.

3. The calculation of basic earnings per share for the year ended 31 December 2020 is based on the profit attributable to owners of the Company for that year of RMB2,381,415,000 and weighted average number of 4,762,692,000 ordinary shares.

4. The calculation of basic and diluted earnings per share for the year ended 31 December 2019 is based on the profit attributable to owners of the Company for that year of RMB413,857,000 and weighted average number of 4,032,033,000 ordinary shares.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 and the consolidated financial position of the Group at that date are set out in the consolidated financial statements on pages 106 to 110.

No net profit has been transferred to the statutory surplus reserve as the Company's statutory surplus reserve has reached the statutory minimum standard extract at the end of 2020. According to the relevant laws and regulations, the Company's reserves available for distribution are determined based on the lower of the amount determined under Accounting Standards for Business Enterprises in the PRC (the "**CAS**") and the amount determined under HKFRS.

The Board recommends the payment of a final dividend of RMB20 cents per share in respect of the year to the Shareholders. There was no arrangement under which a Shareholder has waived or agreed to waive any dividends. The proposed final dividend is subject to the approval of the Company's Shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the end of the Reporting Period.

The Company will separately announce the arrangement in relation to the closure of the H share register of members of the Company and the annual general meeting of the Company in due course. The final dividend will be distributed within two months from the date of approval by the forthcoming annual general meeting.

## BUSINESS REVIEW

Under the Disclosure of Financial Information set out in Appendix 16 to the Listing Rules, the Company is required to include a business review in the Report of the Directors. According to Schedule 5 to the Hong Kong Companies Ordinance, a business review shall cover certain aspects, the details of which are as follows:

### A fair review of the Company's business

Please refer to the section of "ANALYSIS OF THE INTERNATIONAL AND DOMESTIC SHIPPING MARKET DURING THE REPORTING PERIOD" and "REVIEW OF OPERATING RESULTS DURING THE REPORTING PERIOD" on pages 7 to 13 of this annual report.

### A description of the principal risks and uncertainties facing the Company

*(1) The risk of macroeconomic fluctuations*

The shipping of energy products, such as oil and LNG, operated by the Group is more prone to macroeconomic fluctuations. When the macro-economy is booming, the demand for energy products will increase rapidly, which will lead to the increment of the shipping demand for these products. On the contrary, when the macro-economy is in recession, the shipping demand for the aforesaid products will be affected inevitably. In addition, geopolitical events, natural disasters and accidents may possibly cause fluctuations in the shipping industry.

*(2) The risk of international economy and politics*

The increasing uncertainties in the current global political and economic situation, such as geopolitical conflicts and trade frictions between major economies, will bring uncertainties to the global economy, and will also influence supply and demand and freight rates of the global energy transportation. When geopolitical incidents such as local conflicts are prominent, it will also affect the safe operation of the Group's fleet.

*(3) Risk of change in energy structure*

Globally, the dual replacement process of substituting oil and gas for coal and non-fossil energy for fossil energy will continue to accelerate, and the transition to clean and low-carbon energy will continue. All of these will have a profound impact on the changes in energy transportation demand and bring challenges to the Company's business planning and business layout.

(4) *The risk of competition from other modes of transportation*

Shipping boasts the advantages of large capacity and low price, serving as a major mode of transportation for commodities, particularly for cargoes such as petroleum, coal and iron ore. But other modes of transportation still pose some threat to shipping. For example, the establishment of crude oil pipelines and deep water terminals at coastal ports of the PRC will reduce the demand for transshipment of crude oil. Therefore, although China has secured cruel oil import growth in recent years, the volume of transshipments of crude oil, due to the above factors, failed to increase in proportion to the import volume of crude oil.

(5) *The risk of freight rate fluctuations*

Freight rate is one of the core factors that determine the Group's profitability level, whose fluctuations will cause uncertainties to the Group's benefits. By the adoption of measures, such as signing COAs with large petroleum enterprises to increase the proportion of domestic oil shipping or establishing joint ventures to offset the fluctuations of freight rates, the Group is able to avoid the risks brought by volatility in shipping market freight rates to a certain extent. However, freight rate fluctuations still exert a relatively huge impact on the Group's business activities.

(6) *The risk of fuel price fluctuations*

The costs of principal operations of the Group mainly include, among other things, fuel costs, port charges, depreciation charges and crew expenses, of which fuel costs account for the largest proportion. In recent years, with greater crude oil price fluctuations in the international market, prices of bunker oil rendered more volatility, together with increasing revision and enhancement in new domestic and international requirements of vessel discharge; those would pose greater impact on the fuel costs of the Group. Therefore, future fluctuations in fuel prices will have considerable influence on the costs of principal operations and profitability level of the Group.

In recent years, the Group has reduced fuel consumption through various methods, including promoting the extensive utilisation of vessel energy-saving technology and adopting economic shipping speed, and has reduced the fuel purchasing costs by enhancing fuel purchase and supply management, adopting diversified purchasing methods and responding timely to new conditions in the fuel market. Although the above measures may offset some impact brought by fuel price fluctuations, they are still unable to fully cover the risk of such fluctuations.

(7) *The risk of safety in shipping*

Ships may encounter various types of accidents, such as running aground, fire, collision, sinking, pirate, environmental incidents, in the course of shipping at sea, as well as the possibility of bad weather and natural disaster, these will cause losses to the vessels and the cargoes carried on board. The Group may face the risks of litigation and compensation as a consequence, the vessels and cargoes may also be seized as a result. Among these, the level of hazard caused by oil leakage leading to environmental pollution is particularly severe. Once an oil leakage has occurred causing pollution, the Group will face the risk of compensation in huge amount, which will have considerable impact on, among other things, the Group's reputation and normal operation. The Group has purchased insurance actively to control risk as far as possible, but insurance compensation will still be unable to fully cover the possible losses resulting from the above-stated risks.

Moreover, events such as changes in international relations, regional conflicts, wars and terrorist attacks may also have impact on the safety of shipping and normal operations of vessels. In recent years, pirate activities have been unusually frequent, pirate problems in the Somali seas have become a focus of global concern, and pirates pose a material danger to the safety of shipping. Although the Group has adopted various types of preventive measures against pirates, nevertheless pirates still pose material risks to endanger the shipping industry.

## Particulars of important events affecting the Company that have occurred since the end of the Reporting Period

None

## An indication of likely development in the Company's business

Please refer to the section of "OUTLOOK AND HIGHLIGHTS FOR 2021" under the "MANAGEMENT DISCUSSION AND ANALYSIS" on pages 26 to 29 of this annual report.

## An analysis using financial key performance indicators

*Revenue*

Please refer to the section of "REVIEW OF OPERATING RESULTS DURING THE REPORTING PERIOD" under the "MANAGEMENT DISCUSSION AND ANALYSIS" on pages 9 to 13 of this annual report.

*Costs and expenses*

Please refer to the section of "COSTS AND EXPENSES ANALYSIS" under the "MANAGEMENT DISCUSSION AND ANALYSIS" on pages 14 and 15 of this annual report.

*Other income and net gains*

Other income and net gains of the Group resulted from the continuing operations of the year was approximately RMB12 million (2019:RMB146 million).

*Share of profits of associates and joint ventures*

Please refer to the section of "OPERATING RESULTS OF THE JOINT VENTURES AND THE ASSOCIATES" under the "MANAGEMENT DISCUSSION AND ANALYSIS" on page 15 of this annual report.

*Income tax*

Income tax of the Group resulted from the continuing operations of the year in 2020 was RMB273 million (2019: RMB330 million).

**The Company's environmental policies and performance**

The shipping industry shoulders important responsibilities of global logistics. Nevertheless, the pollutant discharge during navigation still poses a threat to marine environment. As a large shipping company, the Group adheres to the concept of "being an excellent marine citizen", keeps strengthening the environmental management system, advances the development of larger-scale, large, young and low-carbon fleet, reduces its impacts on the environment with improvement in the management and technology upgrading and pursues green, circular, low-carbon and sustainable development. The Group takes targeted measures including practicing low-speed navigation, reducing pollutant discharges and saving water to increase the efficiency of resource usage as much as possible and to reduce the environmental impact of ships during navigation.

**Compliance with relevant laws and regulations with a significant impact on the Company**

Save for Code Provisions E.1.2 and A.6.7 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (for details, please refer to the descriptions on page 35 under the "CORPORATE GOVERNANCE REPORT" herein), the Group has been in compliance with relevant laws and regulations that have a significant impact on the Company.

**Key relationships with employees, customers, suppliers and others**

The Group is not aware of any key relationships between itself and its employees, customers, suppliers and others that have a significant impact on the Company and on which the Company's success depends.

## CHARITABLE DONATIONS

The Group made a donation of approximately RMB8.49 million during 2020 (2019: RMB7.6 million).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 34 to the consolidated financial statements.

In March 2020, the Company completed the non-public issuance. The non-public issuance targeted at a total of 3 subscribers, namely, COSCO SHIPPING, Dalian Shipbuilding Industry Company Limited (大連船舶重工集團有限公司) and Hudong Zhonghua Shipbuilding (Group) Co., Ltd. (滬東中華造船(集團)有限公司).

On 10 March 2020, the subscription funds from the subscribers were transferred to the special account for raised funds designated by the Company. Baker Tilly China Certified Public Accountants (Special General Partnership) verified the transfer of the funds raised from the issuance to the issuer's account and issued the Capital Verification Report No. [2020]12332. According to the report, as of 10 March 2020, the actual number of RMB ordinary shares issued in the non-public issuance of A shares of the Company was 730,659,024, the total amount of funds raised was RMB5,099,999,987.52 and the actual net funds raised were RMB5,076,006,105.81. As of 10 March 2020, the registered capital of the Company after the issuance was RMB4,762,691,885.00, and the share capital amounted to RMB4,762,691,885.00.

COSCO SHIPPING, an indirect controlling Shareholder of the Company, participated in the subscription and subscribed for 601,719,197 shares, and the total number of shares directly and indirectly held by it increased from 1,554,631,593 to 2,156,350,790, with the percentage of shareholding increased from 38.56% before the issuance to 45.28% after the issuance.

The Company completed the procedures for registration and custody relating to the addition of shares arising from the issuance at China Securities Depository and Clearing Company Limited Shanghai Branch on 17 March 2020.

## PRE-EMPTIVE RIGHTS

According to the Articles, the existing Shareholders have pre-emptive rights to purchase shares in any new issue of shares of the Company in proportion to their shareholding.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## RESERVES

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

## DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution, as determined based on the lower of the amount determined under SAC and the amount determined under HKFRS, amounted to RMB9,909,607,000 before the proposed final dividend.

In addition, according to the Company Law of the PRC, an amount of approximately RMB12,096,429,000 standing to the credit of the Company's share premium account was available for distribution by way of future capitalization issues.

## BANK AND OTHER BORROWINGS

Details of the interest-bearing bank and other borrowings of the Group are set out in note 30 to the consolidated financial statements.

## MAJOR CUSTOMERS

During the Reporting Period, the five largest customers of the Group combined accounted for 61.18% of the Group's total turnover. The largest customer is China National Petroleum Corporation ("中國石油天然氣集團有限公司") and the sales to it accounted for 26.29% (in the year of 2019: China National Petroleum Corporation ("中國石油天然氣集團有限公司") was the largest customer of the Group and represented a sales percentage of 23.34%) (note: customers who are under the control of the same controller have been treated as one customer). None of the Directors, Supervisors, their close associates, or any Shareholders, which, to the best knowledge of the Directors and Supervisors, owns 5% or more of the Company's issued share capital, had any beneficial interest in the five largest customers of the Group.

## MAJOR SUPPLIERS

During the Reporting Period, the five largest suppliers of materials and services to the Group combined accounted for 77.42% of the Group's total purchases. The largest supplier is COSCO SHIPPING, and the purchases from it accounted for 47.80% (in the year of 2019: COSCO SHIPPING was the largest supplier of the Group and representing a supply proportion of 40.45%) (note: suppliers who are under the control of the same supplier have been treated as one supplier). Except as mentioned above, none of the Directors, Supervisors, their close associates, or any Shareholders, who, to the best knowledge of the Directors and Supervisors, owns 5% or more of the Company's issued share capital, had any beneficial interests in the five largest suppliers of the Group.

## DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the Reporting Period were:

**Executive Directors:**
Mr. Liu Hanbo (劉漢波)
Mr. Zhu Maijin (朱邁進)

**Non-executive Directors:**

| | |
|---|---|
| Mr. Feng Boming (馮波鳴) | (Resigned on 22 June 2020[1]) |
| Mr. Zhang Wei (張煒) | (Resigned on 22 June 2020[1]) |
| Ms. Lin Honghua (林紅華) | (Resigned on 22 June 2020[1]) |
| Mr. Zhang Qinghai (張清海) | (Appointed on 22 June 2020[2]) |
| Mr. Liu Zhusheng (劉竹聲) | (Appointed on 22 June 2020[2]) |

**Independent non-executive Directors:**

| | |
|---|---|
| Mr. Ruan Yongping (阮永平) | (Retired on 22 June 2020[3]) |
| Mr. Ip Sing Chi (葉承智) | (Retired on 22 June 2020[3]) |
| Mr. Rui Meng (芮萌) | |
| Mr. Teo Siong Seng (張松聲) | |
| Mr. Victor Huang (黃偉德) | (Appointed on 22 June 2020[4]) |
| Mr. Li Runsheng (李潤生) | (Appointed on 22 June 2020[4]) |
| Mr. Zhao Jingsong (趙勁松) | (Appointed on 22 June 2020[4]) |

**Supervisors:**
Mr. Weng Yi (翁羿)
Mr. Yang Lei (楊磊)
Mr. Xu Yifei (徐一飛)
Ms. An Zhijuan (安志娟)

Pursuant to the Articles, all the Directors are appointed for a term of three years.

The Company has received annual confirmations of independence from Mr. Rui Meng, Mr. Teo Siong Seng, Mr. Victor Huang, Mr. Li Runsheng and Mr. Zhao Jingsong as at the date of this report and still considers them to be independent.

*Notes:*

1. Mr. Feng Boming (馮波鳴), Mr. Zhang Wei (張煒) and Ms. Lin Honghua (林紅華) have tendered their resignations as executive Directors due to a change in work allocation, with effect from 22 June 2020 after the conclusion of the 2020 AGM of the Company.

2. At the 2020 AGM the appointment of\ Mr. Zhang Qinghai (張清海) and Mr. Liu Zhusheng (劉竹聲) as non-executive Directors were duly approved by Shareholders and took effect immediately after the conclusion of the 2020 AGM.

3. Mr. Ruan Yongping (阮永平) and Mr. Ip Sing Chi (葉承智) had retired as executive Directors as they have reached the age of retirement after the conclusion of the 2020 AGM.

4. At the 2020 AGM the appointment of Mr. Victor Huang (黃偉德), Mr. Li Runsheng (李潤生) and Mr. Zhao Jingsong (趙勁松) as Independent non-executive Directors were duly approved by Shareholders and took effect immediately after the conclusion of the 2020 AGM.

5. The term of all directors and supervisors is until June 27, 2021 or the date of the annual general meeting held in 2021, whichever is earlier.

## DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and Supervisors and the senior management of the Group are set out on pages 233 to 240 of this annual report.

## SERVICE CONTRACT OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company, which will expire on 27 June 2021 (or the date of the Company's annual general meeting in 2021, whichever is earlier) and is subject to termination by either party giving not less than three months' written notice.

No Director or Supervisor has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

## REMUNERATION BY BANDS

The emoluments paid or payable to the Directors, Supervisors and senior management during the Reporting Period fell within the following bands:

| Remuneration by bands | Number of Directors | Number of Supervisors | Number of Senior Management |
|---|---|---|---|
| RMBnil to RMB500,000 | 12 | 2 | – |
| RMB500,001 to RMB1,000,000 | – | – | – |
| RMB1,000,001 to RMB1,500,000 | – | – | – |
| RMB1,500,001 to RMB2,000,000 | – | 1 | – |
| RMB2,000,001 to RMB2,500,000 | – | 1 | 2 |
| RMB2,500,001 to RMB3,000,000 | – | – | 4 |
| RMB3,000,001 and above | 2 | – | – |

Certain senior management are also executive Directors and Supervisors. The amounts disclosed above represented emoluments paid or receivable in respect of the executive Directors and Supervisors' other services in connection with the management of the affairs of the Company or its subsidiary undertakings.

## REMUNERATION AND APPRAISAL COMMITTEE

The Remuneration and Appraisal Committee is headed by Mr. Li Runsheng, an independent non-executive Director. The other two members of the Remuneration and Appraisal Committee are Mr. Rui Meng and Mr. Teo Siong Seng, all being independent non-executive Directors. The Remuneration and Appraisal Committee has adopted terms of reference which are in line with the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

## MANAGEMENT CONTRACTS

Pursuant to the services agreement as described in note 42 to the consolidated financial statements, COSCO SHIPPING Group (excluding the Group) provided miscellaneous management and other services to the Group during the year for a total fee of RMB20,896,000 (2019: RMB17,045,000).

## PERMITTED INDEMNITY PROVISIONS

No permitted indemnity provision is in force for the benefit of one or more Directors or Supervisors or the directors or supervisors of an associated company of the Company.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the 31 December 2020, so far as was known to the Directors, supervisors or chief executive(s) of the Company, the interests or short positions of the Shareholders who are entitled to exercise or control 5% or more of the voting power at any general meeting or other persons (other than a Director, supervisor or chief executive(s) of the Company) in the shares or underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO or which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") were as follows:

| Name of substantial shareholders | Class of shares | Number of shares held | Percentage of the total number shares of the relevant class | Percentage of the total number of issued shares |
|---|---|---|---|---|
| China Shipping Group Company Limited (3) | A | 1,536,924,595 (L) | 44.33% | 32.27% |
| COSCO SHIPPING (3) | A | 2,156,350,790 (L) | 62.20% | 45.28% |
| Prudential plc (4) | H | 102,536,000 (L) | 7.91% | 2.15% |
| GIC Private Limited (5) | H | 100,156,500 (L) | 7.73% | 2.10% |
| M&G Plc (6) | H | 88,995,600 (L) | 6.87% | 1.87% |
| | | 8,032,000 (S) | 0.62% | 0.17% |
| Eastspring Investments | H | 66,288,000 (L) | 5.11% | 1.39% |
| UBS Group AG (7) | H | 64,988,553 (L) | 5.01% | 1.36% |
| | | 38,424,484 (S) | 2.96% | 0.81% |

*Note 1:* A – A share
H – H share
L – Long position
S – Short position

*Note 2:* As at 31 December 2020, the total issued share capital of the Company was 4,762,691,885 shares of which 1,296,000,000 were H shares and 3,466,691,885 were A shares.

*Note 3:* COSCO SHIPPING directly holds 619,426,195 A shares, accounting for approximately 13.01% of the total issued share capital of the Company. COSCO SHIPPING is the sole shareholder of China Shipping. Therefore, COSCO SHIPPING (itself and through its subsidiaries) is interested in 2,156,350,790 shares in total.

*Note 4:* As at 31 December 2020, in accordance with the information disclosed to the Company by Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, Prudential plc owns H shares through a number of subsidiaries, of which 66,288,000 H shares (long position) are held by it as interest of corporation controlled by it.

*Note 5:* As at 31 December 2020, in accordance with the information disclosed to the Company by Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, GIC Private Limited as an investment manager holds the above-mentioned shares of the Company.

*Note 6:* As at 31 December 2020, M&G Plc held the above-mentioned shares of the Company in the capacity as interest of corporation controlled by it.

*Note 7:* As at 31 December 2020, UBS Group AG held the above-mentioned shares of the Company in the capacity as interest of corporation controlled by it.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as disclosed in this report of the Directors (including but not limited to the connected transactions and continuing connected transactions stated below), as at 31 December 2020, none of the Directors or Supervisors, or an entity connected with a Director or a Supervisor, had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY

As at 31 December 2020, the directors, supervisors and chief executive(s) of the Company who had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO that was required to be entered into the register kept by the Company pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

### (i) Long positions in the shares, underlying shares or debentures of the Company

| Name of Director | Class of shares(1) | Number of shares held(2) | Approximate percentage of the total number of shares of the relevant class | Approximate percentage of the total number of issued shares |
|---|---|---|---|---|
| Liu Hanbo ("**Mr. Liu**")(3) | A | 475,000 (L) | 0.01370% | 0.00997% |
| Zhu Maijin ("**Mr. Zhu**")(4) | A | 416,000 (L) | 0.01200% | 0.00873% |
| Zhao Jinsong | H | 6,000(L) | 0.00046% | 0.00013% |

*Notes:*

(1) A – A shares

H – H shares

(2) L – Long position

(3) This represents Mr. Liu's entitlement to purchase up to 475,000 shares of the Company pursuant to the exercise of 475,000 share options granted to him on 27 December 2018 under the A share option incentive scheme (the "**Incentive Scheme**"), subject to fulfillment of the conditions of exercise of those share options.

(4) This represents Mr. Zhu's entitlement to purchase up to 416,000 shares of the Company pursuant to the exercise of 416,000 share options granted to him on 27 December 2018 under the Incentive Scheme, subject to fulfillment of the conditions of exercise of those share options.

(ii) **Long positions in the shares, underlying shares or debentures of associated corporations of the Company**

| Name of associated corporation | Name of Director/ Supervisor | Nature of interest | Class of shares | Number of shares held | Approximate percentage of the number of shares of the relevant associated corporation | Approximate percentage of the total number of issued shares of the relevant associated corporation |
|---|---|---|---|---|---|---|
| COSCO SHIPPING Holdings Co., Ltd. | Mr. Teo Siong Seng | Beneficial owner | H | 150,000 (L) | 0.00581% | 0.00122% |
| | Mr. Yang Lei | Beneficial owner | H | 28,000 (L) | 0.00109% | 0.00023% |
| COSCO SHIPPING Development Co., Ltd. | Mr. Yang Lei | Beneficial owner | H | 213,000 (L) | 0.00579% | 0.00183% |
| COSCO SHIPPING Ports Limited | Mr. Yang Lei | Beneficial owner | Ordinary shares | 26,597 (L) | 0.00080% | 0.00080% |
| COSCO SHIPPING International (Hong Kong) Co., Ltd. | Mr. Yang Lei | Beneficial owner | Ordinary shares | 660,000 (L) | 0.04305% | 0.04305% |

*Notes:* A – A shares
H – H shares
L – Long position

As at 31 December 2020, save as disclosed above, none of the Directors, Supervisors and chief executive(s) of the Company had any interests or short positions in the shares, underlying shares or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be entered into the register kept by the Company pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Reporting Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Supervisor or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2020, none of the Directors had any interest in any business which competes or may compete with the business of the Group.

## MATERIAL LITIGATION AND CONTINGENT LIABILITIES

Details of the Group's litigation and contingent liabilities as at 31 December 2020 are set out in note 40 to the consolidated financial statements.

## CONNECTED TRANSACTIONS

Details of those related party transactions which also constitute non-exempt connected transactions or continuing connected transactions of the Company are disclosed below, in compliance with Chapter 14A of the Listing Rules.

1. On 12 November 2018, the Company entered into the 2018 Financial Services Framework Agreement with COSCO SHIPPING whereby COSCO SHIPPING shall procure COSCO SHIPPING Finance Company Limited ("**COSCO SHIPPING Finance**"), a company controlled by COSCO SHIPPING, to provide the Group, subject to independent shareholders' approval, with a range of financial services. The 2018 Financial Services Framework Agreement became effective subsequent to the approval by independent shareholders at the extraordinary general meeting held on 17 December 2018. Pursuant to the 2018 Financial Services Framework Agreement, COSCO SHIPPING Finance will provide the Group with a range of financial services including (i) deposit services; (ii) loan services; (iii) settlement services; (iv) foreign exchange services; and (v) other financial services as approved by China Banking and Insurance Regulatory Commission ("**CBIRC**") for 3 years commencing from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Financial Services Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

Under the 2018 Financial Services Framework Agreement:

(i) COSCO SHIPPING Finance may accept deposits from the Group at interest rates not lower, and thus no less favourable to the Group, than (a) the relevant rates stipulated by the People's Bank of China (the "**PBC**") for similar type of deposits; and (b) the market interest rates (which refers to interest rates for similar type of deposits offered by independent third party commercial banks in their ordinary course of business in the same or neighboring areas under normal commercial terms); in addition, in determining the interest rates COSCO SHIPPING Finance should also make reference to the interest rates offered by COSCO SHIPPING Finance to similar companies of the COSCO SHIPPING Group (excluding the Group);

(ii) COSCO SHIPPING Finance may provide loans to the Group at interest rates not higher than (a) the upper limit of the relevant rates stipulated by the PBC for similar type of loans; and (b) the market interest rates (which refers to interest rates for similar type of loans offered by independent third party commercial banks in their ordinary course of business in the same or neighboring areas under normal commercial terms); in addition, the terms of the loans shall be better than the terms offered to the Group by independent third parties for similar type of loans; and (b) the terms offered by COSCO SHIPPING Finance to independent third parties with same credit rating for similar type of loans;

(iii) COSCO SHIPPING Finance will not charge the Group any fees for the provision of settlement services for the time being; and

(iv) The fees charged by COSCO SHIPPING Finance for the provision of foreign exchange services and other financial services shall be (a) in accordance with the requirements stipulated by the PBC or CBIRC for similar type of services (if applicable); (b) not higher than the fees charged by independent third party commercial banks for similar type of services to the Group; and (c) the fees charged by COSCO SHIPPING Finance for similar type of services to an independent third party with the same credit rating.

2. On 12 November 2018, the Company entered into the 2018 Shipping Materials and Services Framework Agreement with COSCO SHIPPING whereby the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) certain supplies and services subject to independent shareholders' approval. The 2018 Shipping Materials and Services Framework Agreement became effective subsequent to the approval by independent shareholders at the extraordinary general meeting held on 17 December 2018. Pursuant to the 2018 Shipping Materials and Services Framework Agreement, the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the necessary supporting shipping materials and services for the ongoing operations of the transportation business including supply of marine lubricant, supply of shipping fuel, supply of shipping materials and relevant repair services as well as other services for 3 years commencing from 1 January 2019 to 31 December 2021.

The fees for the Shipping Materials and Services will be determined by reference to the prevailing market price for similar type of shipping materials and/or services.

Subject to compliance with the Listing Rules, the 2018 Shipping Materials and Services Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

3. On 12 November 2018, the Company entered into the 2018 Sea Crew Framework Agreement with COSCO SHIPPING whereby the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the crew management, training, hiring and related services subject to independent shareholders' approval. Pursuant to the 2018 Sea Crew Framework Agreement, the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the crew management, training, hiring and related services for 3 years commencing from 1 January 2019 to 31 December 2021.

   The fees for the Crew Services will be determined by reference to the prevailing market price for similar type of crew services.

   Subject to compliance with the Listing Rules, the 2018 Sea Crew Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

4. On 12 November 2018, the Company entered into the 2018 Services Framework Agreement with COSCO SHIPPING whereby the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) miscellaneous services subject to independent shareholders' approval. The 2018 Services Framework Agreement became effective subsequent to the approval by independent shareholders at the extraordinary general meeting held on 17 December 2018. Pursuant to the 2018 Services Framework Agreement, the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the necessary supporting miscellaneous services, including computer and software maintenance services, accommodation, transportation and conference services as well as other services for 3 years commencing from 1 January 2019 to 31 December 2021.

   The fees for the miscellaneous services will be determined by reference to the prevailing market price for similar type of services.

   Subject to compliance with the Listing Rules, the 2018 Services Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

5. On 12 November 2018, the Company entered into the 2018 Lease Framework Agreement with COSCO SHIPPING pursuant to which the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) with property and land use right leasing services. Pursuant to the 2018 Lease Framework Agreement, the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) with property and land use right leasing services for 3 years commencing from 1 January 2019 to 31 December 2021.

   The rent for the leasing services will be determined by reference to the prevailing market price.

   Subject to compliance with the Listing Rules, the 2018 Lease Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

As at 31 December 2020, China Shipping and COSCO SHIPPING hold approximately 32.27% and 13.01% of the issued share capital of the Company respectively. China Shipping is a wholly-owned subsidiary of COSCO SHIPPING. COSCO SHIPPING and China Shipping are therefore the Company's controlling shareholders as defined under the Listing Rules. As such, COSCO SHIPPING and China Shipping are connected persons of the Company within the meaning of the Listing Rules.

COSCO SHIPPING Finance is a company controlled by COSCO SHIPPING and therefore a connected person of the Company. As such, the transactions pursuant to the 2018 Financial Services Framework Agreement constitute continuing connected transactions for the Company. The transactions pursuant to the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement, the 2018 Services Framework Agreement and the 2018 Lease Framework Agreement also constitute continuing connected transactions of the Company as such agreements were entered are with COSCO SHIPPING.

The Board believes that by securing deposit and loan services from COSCO SHIPPING Finance for the three years ending 31 December 2021 would ensure availability of funds to the Group at reasonable costs and reduced working capital risks.

The terms of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement have been arrived at after arm's length negotiation. The Board believes that securing the shipping materials and services, crew services and miscellaneous services from the COSCO SHIPPING Group (excluding the Group), which is an experienced service provider in the shipping industry, and/or its associates will strengthen the competitiveness of the Group.

The reason for the bilateral arrangement in relation to the 2018 Lease Framework Agreement is mainly because of the geographical location of the leased properties. The Board considers that the 2018 Lease Framework Agreement can set up a framework and streamline the leasing procedures in respect of the leasing of properties between members of the Group and the COSCO SHIPPING Group (excluding the Group) and/or its associates.

The following table sets out the relevant annual caps and the actual transaction amounts for the year ended 31 December 2020 in relation to the non-exempt continuing connected transactions of the Group:

| **Transactions** | **Annual cap for the year ended 31 December 2020** ('000) | **Actual transaction amount for the year ended 31 December 2020** ('000) |
|---|---|---|
| **1. 2018 Financial Services Framework Agreement** | | |
| (a) Maximum daily outstanding balance of deposits (including accrued interest and handling fee) to be placed by the Group with COSCO SHIPPING Finance | 10,000,000 | 3,216,186 |
| (b) Maximum daily outstanding balance of loans (including accrued interest and handling fee) to be granted by COSCO SHIPPING Finance | 2,000,000 | – |
| **2. 2018 Shipping Materials and Services Framework Agreement** | | |
| (a) Proposed annual caps for provision of the Shipping Materials and Services by the Group to the COSCO SHIPPING Group (excluding the Group) and/or its associates | 180,000 | 101,021 |
| (b) Proposed annual caps for receipt of the Shipping Materials and Services by the Group from the COSCO SHIPPING Group (excluding the Group) and/or its associates | 9,200,000 | 4,695,807 |
| **3. 2018 Sea Crew Framework Agreement** | | |
| (a) Proposed annual caps for provision of the Crew Services by the Group to the COSCO SHIPPING Group (excluding the Group) and/or its associates | 18,000 | – |
| (b) Proposed annual caps for receipt of the Crew Services by the Group from the COSCO SHIPPING Group (excluding the Group) and/or its associates | 2,100,000 | 1,469,089 |
| **4. 2018 Services Framework Agreement** | | |
| (a) Proposed annual caps for provision of the Miscellaneous Services by the Group to the COSCO SHIPPING Group (excluding the Group) and/or its associates | 40,000 | – |
| (b) Proposed annual caps for receipt of the Miscellaneous Services by the Group from the COSCO SHIPPING Group (excluding the Group) and/or its associates | 130,000 | 20,896 |
| **5. 2018 Lease Framework Agreement** | | |
| (a) Proposed annual caps for provision of the Leasing Services by the Group to the COSCO SHIPPING Group (excluding the Group) and/or its associates | 30,000 | 690 |
| (b) Proposed annual caps for receipt of the Leasing Services by the Group from the COSCO SHIPPING Group (excluding the Group) and/or its associates | 30,000 | 4,846 |

The independent non-executive Directors have reviewed the connected transactions and continuing connected transactions set out in note 43 to the consolidated financial statements, and have confirmed that, during the Reporting Period, such transactions were entered into:

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

(2) on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Each of the independent non-executive Directors has further confirmed that, the values of all connected transactions and continuing connected transactions between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged its international auditor to perform certain factual finding procedures in respect of the continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “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 has reported the factual findings on these procedures to the Board and confirmed that in respect of the disclosed continuing connected transactions:

a. nothing has come to the auditor’s attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

b. for transactions involving the provision of goods or services by the Group, nothing has come to the auditor’s attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c. nothing has come to the auditor’s attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the continuing connected transactions set out in note 43 to the consolidated financial statements, nothing has come to the auditor’s attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company and disclosed in the previous announcements dated 12 November 2018 made by the Company in respect of the disclosed continuing connected transactions.

On 29 May 2019, the Company entered into the supplemental agreement with COSCO SHIPPING to incorporate consequential changes to the subscription agreement as a result of the amendment resolution for the proposed non-public issuance of A shares, details of which are set out in the circular of the Company dated 5 July 2019.

In March 2020, the Company has completed the proposed non-public issuance of A shares, details of which are referred to in the paragraph headed SHARE CAPITAL in page 211 of this report.

On 25 September 2019, the Company and COSCO SHIPPING Heavy Industry (Dalian) Co., Ltd.* (大連中遠海運重工有限公司) ("**Dalian COSCO SHIPPING Heavy Industry**") entered into vessel construction agreements, pursuant to which the Company has agreed to purchase and take delivery of, and Dalian COSCO SHIPPING Heavy Industry has agreed to construct and sell two oil tankers, each of 49,900 DWT, with total consideration of US$67,800,000. Dalian COSCO SHIPPING Heavy Industry is an indirect wholly-owned subsidiary of COSCO SHIPPING and therefore is a connected person of the Company. The Directors are of the view that the construction of the oil tankers will enable the Group to capture the increase in demand for oil tankers and capitalize on the positive market environment of the oil tanker industry, as well as bring about economies of scale, overall route arrangement optimization and operation efficiency and profitability improvements through an expanded fleet.

The installment of the shipbuilding contract paid by the Group to Dalian COSCO SHIPPING Heavy Industry in 2020 was USD14,644,800, equivalent to RMB100,609,776.

On 24 April 2020, the Company, COSCO Shipping Tanker (Dalian) Co., Ltd.* (大連中遠海運油品運輸有限公司) ("**Dalian Tanker**"), a wholly-owned subsidiary of the Company, and the other existing shareholders of COSCO SHIPPING Finance Company Limited* (中遠海運集團財務有限責任公司) ("**COSCO SHIPPING Finance**") entered into the capital increase agreement, pursuant to which the parties have agreed to increase the registered capital of COSCO SHIPPING Finance by RMB3,200,000,000 in proportion to their respective shareholding. Upon completion of the capital increase, the registered capital of COSCO SHIPPING Finance increased from RMB2,800,000,000 to RMB6,000,000,000 while the shareholding of the Group in COSCO SHIPPING Finance remained unchanged at 10.9145%. The Directors are of the view that the capital increase will provide additional capital for COSCO SHIPPING Finance to further develop its business and enhance its overall profitability, thereby maximizing Shareholders' value, and enable the Group to maintain its shareholding in and steady investment returns from COSCO SHIPPING Finance.

On 12 June 2020, (i) Dalian Tanker and COSCO SHIPPING Investment Dalian Co., Ltd.* (中遠海運大連投資有限公司) ("**COSCO SHIPPING Investment Dalian**") entered into the equity transfer agreements, pursuant to which Dalian Tanker has agreed to dispose of, and COSCO SHIPPING Investment Dalian has agreed to acquire: (a) 70% of the equity interests in Shenzhen COSCO Longpeng LPG Transportation Co., Ltd.* (深圳中遠龍鵬液化氣運輸有限公司) at the consideration of RMB77,455,500; (b) 60% of the equity interests in COSCO Shipping Tanker (Dalian) Electronics Co., Ltd.* (大連中遠海運油運電子有限公司) at the consideration of RMB2,442,200; (c) 57.5% of the equity interests in COSCO Shipping Tanker (Dalian) Haven Automation Co., Ltd.* (大連中遠海運油運希雲自動化有限公司) at the consideration of RMB1,833,200; and (d) 15% of the equity interests in Da-In Ferry Co., Ltd.* (大仁輪渡有限公司) at the consideration of RMB7,102,900; (ii) Dalian Tanker and COSCO SHIPPING Investment Dalian entered into the asset transfer agreement, pursuant to which Dalian Tanker has agreed to dispose of, and

COSCO SHIPPING Investment Dalian has agreed to acquire, certain properties, land, vehicles and equipment of Dalian Tanker at the consideration of RMB220,599,600; and (iii) Dalian Tanker and COSCO Shipping Tanker (Dalian) Material Supply Co., Ltd.* (大連中遠海運物資供應有限公司) ("**Dalian Material Supply**") entered into the asset transfer agreement, pursuant to which Dalian Tanker has agreed to dispose of, and Dalian Material Supply has agreed to acquire certain assets, inventories and creditor's right of COSCO Shipping Tanker (Dalian) Supply Branch Company* (大連油運供應分公司), a branch company of Dalian Tanker, at the aggregate consideration of RMB92,664,500. The Directors are of the view that the disposals will enable the Group to divest its non-principal businesses, optimize resources and assets allocation and is in line with the strategic positioning of the Group in developing the oil and gas transportation businesses.

## EMPLOYEES

As at the end of 2020, the Company had approximately 7,398 employees. Adjustment of employee remuneration are calculated in accordance with the Company's turnover and profitability and is determined by assessing the correlation between the total salary paid and the economic efficiency of the enterprise. Under this mechanism, management of employees remuneration will be more efficient while employees will be motivated to work hard to bring encouraging results to the Company. Save for the remuneration disclosed above and the incentive scheme, the Company does not maintain any share option scheme for its employees and the employees are not entitled to enjoy any bonus. The Company regularly provides for its administrative personnel training on various subjects, including operation management, foreign languages, computer skills, industry know-how and policies and laws. Trainings are provided in different forms including seminars, site visits and interview.

In 2020, the total staff costs was approximately RMB2.720 billion (2019: approximately RMB2.547 billion).

## EMPLOYEE HOUSING

According to the relevant local laws and regulations in the PRC, both the Group and its employees in the PRC are required to contribute to an accommodation fund according to a certain percentage of the salaries and wages of the employees. There are no other significant contributory obligations beyond the contributions to the said fund.

The Company provided staff quarters to selected employees and, according to a housing reform scheme in Shanghai, the PRC, arrangements were made to transfer the staff quarters to employees who agreed to remain in service for the Company for a period of 10 years. As at the date of this report, nearly all of the staff quarters have been transferred to relevant employees on the above basis.

## MEDICAL INSURANCE SCHEME

As required by the regulations of the local government in the PRC effective from 1 July 2001, the Company participates in a defined contribution medical insurance scheme organised by local social security authorities. Under the scheme, the Company is required to make monthly contributions at the rate of 12% of the total salaries of the employees. In addition, pursuant to the aforementioned regulations, the contributions are accounted for as staff welfare payables accrued by the Company. The Company has no obligation for the payment of medical benefits beyond such contributions to the registered insurance companies.

## PENSION AND ENTERPRISE ANNUITY SCHEMES

Details of the pension and enterprise annuity schemes of the Group are set out in note 38 to the consolidated financial statements.

No forfeited contributions were available as at 31 December 2020 to reduce future contributions.

## SHARE OPTION SCHEME

On 17 December 2018, the Incentive Scheme was approved by shareholders at the extraordinary general meeting and class meetings of, and adopted by, the Company. On 27 December 2018 (the "**Grant Date**"), pursuant to the authorisation granted by shareholders, the Board approved the grant of 35,460,000 share options to 133 participants.

### (A) Purpose of the Incentive Scheme

The purpose of the Incentive Scheme is to:

1. effectively bond the interests of shareholders and the senior management of the Company, maximising shareholders' interest and increasing the value of state-owned assets;

2. ensure the Company offers remuneration and incentive package which is competitive in the PRC labour market, attracting and incentivising key personnel of the Company to strive for the strategic goals of the Company; and

3. align the remuneration of the senior management and key personnel of the Company with the overall performance of the Company through the Incentive Scheme, motivating such persons to attend to and jointly strive for the long-term strategic targets of the Company.

### (B) Participants of the Scheme

There are 133 participants of the Incentive Scheme, including Directors (excluding independent non-executive Directors), senior management and other management and core technical personnel of the Group who have direct impact on the operation results and development of the Company. Such participants do not include substantial Shareholders or controllers of the Company who individually or jointly hold 5% or more of the Shares, or their spouse, parents or children.

The allocation of options granted to the participants of the Scheme is set out below:

| Names | Positions | Share Options granted (thousands) | Percentage of the total number of Share Options under this grant (approximately) |
|---|---|---|---|
| Liu Hanbo (劉漢波) | General Manager | 475 | 1.34% |
| Lu Junshan (陸俊山) | Secretary of Party Committee | 475 | 1.34% |
| Yang Shicheng (楊世成) | Deputy General Manager | 427 | 1.20% |
| Qing Jiong (秦炯) | Deputy General Manager | 427 | 1.20% |
| Xiang Yongmin (項永民) | General Accountant | 427 | 1.20% |
| Luo Yuming (羅宇明) | Deputy General Manager | 427 | 1.20% |
| Tu Shiming (屠士明) | Secretary of Committee for Discipline Inspection | 427 | 1.20% |
| Zhao Jinwen (趙金文) | Deputy General Manager | 427 | 1.20% |
| Li Zhuoqiong (李倬瓊) | General Counsel, Secretary of the Board | 380 | 1.07% |
| Zhao Yuguang (趙宇光) | Assistant to General Manager | 380 | 1.07% |
| Other management and core technical personnel (123 persons) | | 31,188 | 87.95% |
| Total (133 Participants): | | 35,460 | 100% |

## (C) Total number of shares available for issue under the Incentive Scheme

The total number of shares subject to the options that may be granted to the participants under the Incentive Scheme shall not exceed 35,460,000 shares (being approximately 0.88% of the Company's total issued shares as at the date of this report).

## (D) Maximum entitlement of each participant

The number of options to be granted to each participant under the Incentive Scheme shall not exceed 1% of the total share capital of the Company as of 30 October 2018.

### (E) Vesting period

Vesting period represents the period from the Grant Date to the exercise date of the options, which is 24 months pursuant to the relevant requirements of the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China.

### (F) Exercise period

The date on which a participant is entitled to exercise his options must be a trading day.

If the conditions of exercise as stipulated under the Incentive Scheme are fulfilled after the expiry of a 24-month period from the Grant Date, the participants may exercise their options in stages within the following 60 months as follows:

| Exercise period | Duration | Exercise proportion |
|---|---|---|
| First exercise period | Commencing on the first trading day after the expiry of a 24-month period from the Grant Date and ending on the last trading day of a 36-month period from the Grant Date | 33% |
| Second exercise period | Commencing on the first trading day after the expiry of a 36-month period from the Grant Date and ending on the last trading day of a 48-month period from the Grant Date | 33% |
| Third exercise period | Commencing on the first trading day after expiry of a 48-month period from the Grant Date and ending on the last trading day of a 84-month period from the Grant Date | 34% |

If the conditions of exercise are not fulfilled, the options available for exercise during any given exercise period shall not be exercised and shall not be accumulated to the next exercise period, and such portion of the options shall be cancelled by the Company.

If the conditions of exercise are met, but the options available for exercise are not exercised during the relevant exercise period, they will lapse automatically upon expiry of such exercise period.

### (G) Exercise price

The exercise price of the options granted to the participants under the Incentive Scheme is RMB6.05 per A share (before adjustment as set out in the paragraph below), being the highest of the following:

1. the average trading price of the A shares on the last trading day immediately preceding the 19 December 2017 (being the date of the Company's announcement in relation to the proposed adoption of the initial A share option incentive scheme) (RMB6.02);

2. the average of the trading prices of the A shares for the last 20 trading days immediately preceding 19 December 2017 (RMB6.04);

3. the closing price of the A shares on the last trading day immediately preceding 19 December 2017 (RMB6.01);

4. the average of the closing prices of the A shares for the last 30 trading days immediately preceding 19 December 2017 (RMB6.05); and

5. RMB1.00, being the nominal value of an A share.

As set out in the Company's announcement dated 30 October 2018, on 13 July 2018, the Company has distributed a final dividend of RMB0.05 per share in respect of the period ended 31 December 2017 to holders of the A shares. Pursuant to the price adjustment mechanism set out in the Incentive Scheme, the exercise price of the options granted to the participants under the Incentive Scheme has been adjusted from RMB6.05 per A share to RMB6.00 per A share.

As set out in the Company's announcement dated 30 March 2020, on 28 June 2019, the Company has distributed a final dividend of RMB0.02 per share in respect of the period ended 31 December 2018 to holders of the A shares. Pursuant to the price adjustment mechanism set out in the Incentive Scheme, the exercise price of the options granted to the participants under the Incentive Scheme has been adjusted from RMB6.00 per A share to RMB5.98 per A share.

As set out in the Company's announcement dated 29 October 2020, on 10 July 2020, the Company has distributed a final dividend of RMB0.04 per share in respect of the period ended 31 December 2019 to holders of the A shares. Pursuant to the price adjustment mechanism set out in the Incentive Scheme, the exercise price of the options granted to the participants under the Incentive Scheme has been adjusted from RMB5.98 per A share to RMB5.94 per A share.

### (H) Validity period

The Incentive Scheme shall be effective for seven years from the Grant Date.

## (I) Movement of options granted under the Incentive Scheme

Details of movement of the options granted under the Incentive Scheme for the year ended 31 December 2020 and up to the date of this report were as follows:

| Name or category of participants | Number of options: As at 1 January 2020 | Cancelled during the year | Exercised during the year | As at the date of this report | Grant Date | Vesting period | Exercise period | Exercise price (RMB) |
|---|---|---|---|---|---|---|---|---|
| Liu Hanbo (Director) | 475,000[1] | - | - | 475,000 | 27 December 2018 | 2 years from Grant Date | 28 December 2020 to 27 December 2025 | 5.94[2] |
| Zhu Maijin (Director) | 416,000[1] | - | - | 416,000 | 27 December 2018 | 2 years from Grant Date | 28 December 2020 to 27 December 2025 | 5.94[2] |
| Subtotal | 891,000 | - | - | 891,000 | | | | |
| Other management and core technical personnel (131 participants) | 34,569,000[1] | (6,099,000)[3] | - | 28,470,000 | 27 December 2018 | 2 years from Grant Date | 28 December 2020 to 27 December 2025 | 5.94[2] |
| Total | 35,460,000 | (6,099,000)[3] | - | 29,361,000 | | | | |

(1) The closing price of the A shares immediately before the date on which the options were granted was RMB4.50.

(2) The exercise price was adjusted from RMB6.00 to RMB5.98 at the Board meeting on 30 March 2020. The exercise price was adjusted from RMB5.98 to RMB5.94 at the Board meeting on 29 October 2020.

(3) 3,740,000 share options held by 12 participants has been cancelled at the Board meeting on 30 March 2020. 2,359,000 share options held by 9 participants has been cancelled at the Board meeting on 28 December 2020.

## COMPLETION OF THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

On 17 March 2020, the Company has completed the proposed non-public issuance of A shares (the "**Proposed Noon-public Issuance of A Shares**") and registered such new shares with the China Securities Depository and Clearing Company Limited (Shanghai Branch). Upon completion of the Proposed Non-public Issuance of A Shares, the total number of Shares increased from 4,032,032,861 Shares to 4,762,691,885 Shares, and the total number of A Shares increased from 2,736,032,861 A Shares to 3,466,691,885 A Shares.

The proceeds raised from the Proposed Non-public Issuance of A Shares are intended to be used for the construction of 14 additional oil tankers, and for the completion of acquisition of two Panamax oil tankers previously entered into.

Basic Information on the Proposed Non-public Issuance of A Shares

(1) Class of Shares: A Shares

(2) Nominal value per Share: RMB1.00

(3) Number of Shares issued: 730,659,024 A Shares

(4) Issue price: RMB6.98 per A Share

(5) Net price: Approximately RMB6.95 per A Share

(6) Market price of A Shares on the price determination date (being 4 March 2020): RMB5.88 per A Share

(7) Gross proceeds: RMB5,099,999,987.52

(8) Costs of the issuance: RMB23,993,881.71 (taking into account the deduction of value-added tax: RMB23,126,594.94)

(9) Net proceeds: RMB5,076,006,105.81

The following sets forth the results of the Proposed Non-public Issuance of A Shares and certain information on the subscribers:

| No. | Name of subscriber | Number of A Shares subscribed | Subscription amount (RMB) | Lock-up period |
|---|---|---|---|---|
| 1. | COSCO SHIPPING | 601,719,197 | 4,199,999,995.06 | 36 months |
| 2. | Dalian Shipbuilding Industry Group Co., Ltd.* (大連船舶重工集團有限公司) | 85,959,885 | 599,999,997.30 | 12 months |
| 3. | Hudong Zhonghua Shipbuilding (Group) Co., Ltd.* (滬東中華造船(集團)有限公司) | 42,979,942 | 299,999,995.16 | 12 months |
| | Total | 730,659,024 | 5,099,999,987.52 | |

Details of the usage of the proceeds raised:

unit: RMB million

| No. | Project | Net proceeds | Utilized proceeds as of 30 December 2020 | Unutilized proceeds as of 30 December 2020 | Expected timeline for the use of unutilized proceeds |
|---|---|---|---|---|---|
| 1 | Acquisition of 14 oil tankers | 4,688.23 | 4,148.14 | 560.09 | It is expected that the unutilised proceeds is to changes due to the delivery time of vessels expected to be used in full in 2021, subject and actual payment of the funds |
| | Including: 4 VLCC oil tankers | 1,971.51 | 1,527.20 | 444.31 | |
| | 3 Suez oil tankers | 992.10 | 963.21 | 28.90 | |
| | 3 Aframax oil tankers | 778.04 | 798.04 | | |
| | 2 LR2 product oil tankers | 531.67 | 444.79 | 86.88 | |
| | 2 Panamax oil tankers | 414.90 | 414.90 | – | |
| 2 | Acquisition of two Panamax oil tankers (72,000-tonne class) | 387.78 | 387.78 | – | |
| Total | | 5,076.01 | 4535.92 | 560.09 | |

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

By order of the Board
**Liu Hanbo**
*Chairman*

Shanghai, the PRC
30 March 2021

# DUTY PERFORMANCE REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We, as independent non-executive Directors of COSCO SHIPPING Energy Transportation Co., Ltd. (hereinafter referred to as the "**Company**"), now prepare and disclose the Duty Performance Report of Independent Non-executive Directors in 2020 in accordance with the format and requirement provided in the Memorandum for Periodic Work Reporting of Listed Companies (No.5) – Guidance on Independent Non-executive Directors' Work during Annual Duty Reporting Period (《上市公司定期報告工作備忘錄(第五號)—獨立董事年度報告期間工作指引》) as below.

## I. PROFILE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

As independent non-executive Directors of the ninth Board of the Company with tenures of no more than six consecutive years, we are familiar with the basic knowledge of the operation of listed companies and the relevant laws and regulations, and possess the work experience and qualification necessary for due performance of the duties as independent non-executive Directors. We hereby reiterate that we never have any relations with the Company which would impact our independence, and that none of us are identified by the China Securities Regulatory Commission as personnels whose entry into the securities market is banned and the ban has not been lifted so far. We undertake again that any one of us will voluntarily resign as an independent non-executive Director in case of any disqualification to act as an independent non-executive Director during our tenure.

As at 31 December 2020, the Board comprises 9 Directors, including 2 shareholding Directors, 2 management Directors and 5 independent non-executive Directors. The constitution is in compliance with the minimum number of independent non-executive Directors required under the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and the Listing Rules. The independent non-executive Directors are professionals with work experience in the fields of finance, shipping and accounting, respectively and meet with the duty requirement as verified and confirmed by the relevant securities regulatory institutions. The five independent non-executive Directors are Mr. Rui Meng and Mr. Teo Siong Seng, Mr. Victor Huang, Mr. Li Runsheng and Mr. Zhao Jinsong. Mr. Victor Huang, Mr. Li Runsheng, Mr. Rui Meng and Mr. Zhao Jinsong act as Chairman of the relevant committee (as the case may be), in four professional committees, i.e., the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Risk Control Committee under the Board. For further information of the biographical details of the five independent non-executive Directors, please refer to the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT" disclosed in the annual report.

## II. PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS' DUTIES

Our five independent non-executive Directors all earnestly performed their duties with independent judgment by fulfilling the statements and undertakings we made during selection since the date on which we were selected and appointed at the general meeting of the Company. We acted independently of the substantial shareholders and the ultimate controlling shareholder of the Company or other entities or individuals who have a stake in the Company, protecting the legitimate rights and interests of shareholders as a whole according to law.

## II. PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS' DUTIES (Continued)

### 1. Attendance of Board Meetings and General Meetings

In 2020, we attended shareholders' general meetings and Board meetings in person or by proxy. The Company provided the relevant information and agenda for our preview prior to the dates of the said meetings, ensuring sufficient time for us to know and study the relevant issues. At the Board meetings, we have earnestly considered each proposal through active participation in the discussion and with independent judgement, and presented professional and constructive opinions for the significant decisions of the Company. We have also exercised our voting rights on the proposals of the meetings for the pursuit of the lawful rights and interests of the Company and shareholders as a whole. At the general meetings, we have earnestly heard the queries raised by shareholders present at the meetings in relation to the issues they were concerned about and the production and operation of the Company, which were studied as problems that had to be paid attention on during our duty performance, thus helping us to have a deeper understanding of the Company aiming for better performance of our duties.

In 2020, the Company convened 14 Board meetings (10 meetings of which were held by way of correspondence) and 1 general meeting. We have reported our duty performance report in the 2020 Annual General Meeting and the report is published in the Company's website and the website of the Shanghai Stock Exchange.

The following table shows the attendance of independent non-executive Directors at the above meetings in 2020:

| **Name** | **Number of Board meetings required to attend this year** (times) | **Attend Board meetings in person** (times) | **Attend Board meetings by proxies** (times) | **Board meetings absence** (times) |
|---|---|---|---|---|
| Mr. Ruan Yongping (阮永平) | 7 | 7 | 0 | 0 |
| Mr. Ip Sing Chi (葉承智) | 7 | 7 | 0 | 0 |
| Mr. Rui Meng (芮萌) | 14 | 14 | 0 | 0 |
| Mr. Teo Siong Seng (張松聲) | 14 | 14 | 0 | 0 |
| Mr. Victor Huang (黃偉德) | 7 | 7 | 0 | 0 |
| Mr. Li Runsheng (李潤生) | 7 | 7 | 0 | 0 |
| Mr. Zhao Jinsong (趙勁松) | 7 | 7 | 0 | 0 |

## II. PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS' DUTIES (Continued)

### 1. Attendance of Board Meetings and General Meetings (Continued)

| **Name** | **Number of general meetings required to attend this year** (times) | **Attend general meetings in person** (times) | **general meetings absence** (times) |
|---|---|---|---|
| Mr. Ruan Yongping (阮永平) | 1 | 0 | 1 |
| Mr. Ip Sing Chi (葉承智) | 1 | 0 | 1 |
| Mr. Rui Meng (芮萌) | 1 | 1 | 0 |
| Mr. Teo Siong Seng (張松聲) | 1 | 0 | 1 |
| Mr. Victor Huang (黃偉德) | 1 | 1 | 0 |
| Mr. Li Runsheng (李潤生) | 1 | 1 | 0 |
| Mr. Zhao Jinsong (趙勁松) | 1 | 1 | 0 |

### 2. Work of Professional Committees of the Board

During the Reporting Period,

(1) The Strategy Committee of the Board of the Company consisted of 8 Directors, including 2 executive Directors, 2 non-executive Directors and 4 independent non-executive Directors, and Mr. Liu Hanbo was the Chairman. Mr. Rui Meng, Mr. Teo Siong Seng, Mr. Li Runsheng and Mr. Zhao Jinsong, our independent non-executive Directors, with extensive professional knowledge and work experience in shipping and finance, proactively proposed and opined for the Company's healthy and long-term development by playing the role of think-tank and advisers. During 2020, the Strategy Committee held one meeting to review the "Proposal on the Establishment of Joint Venture for PetroChina's LNG Transportation Project and Investment of 3 LNG Carriers".

## II. PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS' DUTIES (CONTINUED)

### 2. Work of Professional Committees of the Board (Continued)

(2) The Audit Committee comprised 3 members, all being independent non-executive Directors, and Mr. Victor Huang was the Chairman. During 2020, the Audit Committee held 5 meetings, considered the proposals in respect of the Company's 2019 annual financial report, 2020 domestic and foreign audit institutions hiring, 2020 interim financial report, and formed opinions of the Audit Committee on the Company's 2019 financial report and 2020 interim financial report. Relevant opinions were issued for the reference of the Board to ensure the completeness, fairness and accuracy of the Group's consolidated financial statements and the relevant information.

The Audit Committee holds at least one meeting with the external auditors each year to discuss any issues in the course of the auditing and management is not allowed to attend the meeting. In 2020, the Audit Committee held 2 meetings with the external auditors. The Audit Committee will first review the interim and annual reports before submitting the results to the Board. When reviewing the interim and annual reports, the Audit Committee will not only pay attention to changes in the accounting policies and practices but also comply with the relevant requirements, under such accounting policies, the Listing Rules and relevant laws. There was no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

(3) The Remuneration and Appraisal Committee consisted of 3 members, all being independent non-executive Directors and Mr. Li Runsheng was the Chairman. In 2020, the Remuneration and Appraisal Committee held 3 meetings, reviewed the current emoluments of Directors and senior management and assessed the implementation of the working plan of the Company for 2019. The Company's remuneration policy for 2019 is based on the qualification, duties and responsibilities of Directors and senior management. The Remuneration and Appraisal Committee also provided professional opinions on the adjustment of the Incentive Scheme and the achievement of the first exercise period exercise conditions.

(4) The Nomination Committee consisted of 3 Directors, all being independent non-executive Directors, and Mr. Rui Meng was the Chairman. In 2020, the Nomination Committee convened 2 meetings to consider the issues of the appointment of a senior management personnel and the change of Directors, and submitted relevant proposals to the Board for approval.

(5) The Risk Control Committee consisted of three Directors, two of whom were independent non-executive Directors, and Mr. Zhao Jinsong was the Chairman. In 2020, the Risk Control Committee held 2 meetings, mainly considered the "Proposal on the Report on the Company's Internal Control and Risk Management in 2019", the "Proposal on the Company's Risk and Internal Control Manual" and the "Proposal on the Company's Safety Work Report in 2020", and submitted relevant proposals to the Board for approval.

Each of us earnestly executed our duties as independent non-executive Directors in the above-mentioned five professional committees under the Board.

## III. KEY CONCERNS IN THE ANNUAL DUTY PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

### 1. Connected Transactions

The Company formulated and executed the "System for the Administration of Connected Transactions of COSCO SHIPPING Energy", pursuant to which, the connected transactions business was operated according to law and regulation. For example, a class general meeting is convened as required at which the substantial shareholders abstain from voting, the minority shareholders vote and approve the execution of transactions while independent non-executive Directors all make statements and express independent opinions, which eradicates the occurrence of the transfer of profits by the substantial shareholders through connected transactions.

### 2. External Guarantee and Funds Embezzlement

The Company monitored its external guarantee actions in strict compliance with the external guarantee procedures explicitly provided in the Articles. The "Measures for the Administration of Preventing Funds Embezzlement by Controlling Shareholder and Related Parties in COSCO SHIPPING Energy Transportation Co., Ltd." (《中遠海運能源運輸股份有限公司防範控股東及關聯方資金佔用管理辦法》) was implemented and executed, and so far there has occurred neither any illegal guarantee action in the Company, nor the funds embezzlement by the substantial shareholders.

### 3. Use of the Raised Funds

The Company complied with the relevant laws and regulations in respect of the deposit and use of the raised funds during the course of funds-raising management. The raised funds were deposited in separate accounts and used for professional purposes, there was no illegal use of the funds nor situations which may impair shareholders' interests.

### 4. Nomination of Senior Managerial Staff and their Remuneration

In 2020, the Board appointed Ms. Li Zhuoqiong as the Deputy General Manager of the Company for a term of three years, with effect from April 2020.

The Company has established incentive mechanisms that correlated with business results in order to refine management exploit potentials, increase profitability and to promote activeness of managers and technicians.

As authorized by the Shareholders' meeting of the Company, the Board of Directors approved the granting of 35,460,000 share options to 133 participants on December 27, 2018.

## III. KEY CONCERNS IN THE ANNUAL DUTY PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

### 4. Nomination of Senior Managerial Staff and their Remuneration (Continued)

We believed that there was no difference between the Company's arrangements for granting share options to participants and the Incentive Scheme. The implementation of the Incentive Scheme by the Company was conducive to the realization of its development strategy and operation objectives, and no harm would be caused to the interests of the Company and all shareholders.

### 5. Results Forecast and Preliminary Financial Data

The Company released a positive profit alert in July 2020 as there was an expected substantial growth of profit for the six months ended 30 June 2020.

The Company released a positive profit alert in January 2021 as there was an expected substantial growth of profit for the year ended 31 December 2020, which was mainly attributable to: during the first half of 2020, the suppressed oil prices led to increasing global oil trade volumes and hence soaring tanker demand, substantially driving up international tanker rates. In the second half of the year, impact of COVID-19 continued to weaken economic activity and keep oil inventories sitting at historic highs, so that oil transportation demand softened and the charter rates declined and fluctuated around depressed levels. Nonetheless, time charter equivalent (TCE) on the TD3C (Middle East – China) route of VLCC averaged about USD48,179 per day for the year, representing an improvement of approximately 21.78% year-on-year. The Group adopted prudent management philosophy and sound planning of fleet arrangements, effectively responding to the market volatility.

### 6. Appointment or Replacement of Certified Public Accountants

The Company's 2020 AGM considered and approved the proposal on appointing the Company's 2020 domestic and overseas audit institutions and their remuneration, including:

Reappoint PricewaterhouseCoopers and ShineWing Certified Public Accountants LLP as the overseas auditors and the domestic auditors of the Company for the year ending 31 December 2020 respectively.

ShineWing Certified Public Accountants LLP is qualified by national authorities for dealing with securities and futures-related business, which can meet the relevant requirements of the Company's domestic audit work; PricewaterhouseCoopers is qualified with the registration certificate issued by the Hong Kong Institute of Certified Public Accountants and the business registration certificate issued by the Hong Kong Inland Revenue Department. Subject to Rule 4.03 of the Listing Rules, certified public accountants who are qualified under the Professional Accountants Ordinance for appointment as auditors can meet the Company's requirements for H shares audit work.

## III. KEY CONCERNS IN THE ANNUAL DUTY PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

### 6. Appointment or Replacement of Certified Public Accountants (Continued)

We agreed to continue to hire ShineWing to serve as the Company's domestic audit institution and PricewaterhouseCoopers as the overseas audit institution in 2020. We believed that the Company's decision-making procedures were legally compliant and no damage would be caused to the Company or the interests of small and medium shareholders.

### 7. Cash Dividends and Other Returns for Investors

In 2019, the Company achieved a net profit attributable to owners of the Company RMB414 million. The Board recommended the distribution of a final dividend if RMB4 cents per share (tax inclusive) for the financial year of 2019 which had been approved at the 2020 AGM and the dividend has been paid to shareholders in July 2020.

### 8. Fulfillment of Undertakings by the Company and Shareholders

China Shipping Group Company Limited, the direct controlling shareholder of the Company, and China COSCO SHIPPING Corporation Limited, the indirect controlling shareholder of the Company, successively made the commitments of competition avoidance and reduction of related party transactions, profit forecasting and compensation, capital security, independence, etc. to the Company.

From then to date, no breach of the undertaking was committed.

### 9. Implementation of Information Disclosure

The Company has earnestly fulfilled the obligation of information disclosure through better consideration of the difference in the areas of laws and regulations, listing rules, disclosure procedures, habit of domestic and overseas investors between Shanghai and Hong Kong to make information disclosure in a timely, legal, truthful and complete manner, which has effectively integrated the information disclosure between the PRC and Hong Kong. In the meantime, the Company has promoted the investor relations management and the exchange and communication with investors at home and abroad, and has disclosed information according to laws and regulations to improve the transparency of the Company, in order to ensure the informed right of the investors from domestic and abroad.

## III. KEY CONCERNS IN THE ANNUAL DUTY PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

### 10. Implementation of Internal Controls

In 2020, the Company focused on building the risk control systems for overseas companies, and basically completed construction of its risk control systems for "integration at home and abroad", thus fully enhancing the comprehensive immunity of the Company and preventing various risks. Firstly, to ensure implementation of its strategic objectives, innovate business models and assist in business development, the Company completed construction of the risk control system under the POOL operation model. Secondly, to ensure development of its overseas business, the Company has completed construction of the risk control systems for four overseas companies in Hong Kong, Singapore, the United Kingdom and the United States. According to its new strategic positioning of the overseas companies, the Company has sorted out the business authorization and approval process between various overseas companies and the head office, and has clarified the division of responsibilities and authorization between overseas companies and the head office. Through completing construction of the risk control systems of the aforesaid five companies, the Company has realised the goal of risk control and compliance to safeguard the objective of ensuring its business model innovation and globalization strategy implementation on the one hand; on the other hand, this also enabled the Company to take an important step towards the way to establish and improve its risk control system for "integration at home and abroad".

### 11. Operation of the Board and its Professional Committees

The Board was established with clear terms of reference and sound systems, and the independent non-executive directorship system was effectively implemented. In accordance with the provisions of relevant laws and regulations such as the Company Law of the PRC as well as the Articles, the Company formulated the Rules and Procedures of Meetings of the Board of Directors, which formed an integral part of the Articles. All procedures, rules and systems required by the Rules and Procedures of Meetings of the Board of Directors were strictly followed.

According to the Implementation Rules, professional committees of the Board convened regular or ad hoc meetings to conduct special discussions or researches on any resolution relating to significant matters before it was proposed to the Board for consideration and approval. This not only ensured the quality of resolutions proposed to the Board, but also strengthened the communications and exchanges among the Company, our independent non-executive Directors and relevant intermediaries. It was also instrumental in improving the operation efficiency of the Board and making scientific decisions for significant matters, and played an active role in promoting the standardised operation of the Company.

## III. KEY CONCERNS IN THE ANNUAL DUTY PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

### 12. Other Matters which are Required by the Independent Non-executive Directors to be Improved

We, the 5 independent non-executive Directors, unanimously consider that the Company is in compliance with the requirements of relevant laws and regulations and other regulatory documents of the PRC in respect of standardised operation and corporate governance, and currently identify no matter which requires improvement. During 2020, we did not oppose any proposal discussed at Board meetings and other meetings of the Company.

We hope that in the coming year, the Company will further expand its market presence, strive to achieve stable development and reward its shareholders with excellent results.

## IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

In 2020, we maintained regular communication with management of the Company and, while attending relevant meetings held by the Company, developed a comprehensive understanding of the Company's production operations and standardised operation by talking with employees, paying site visits to the workplaces and communicating with accountants. We actively attended general meetings, Board meetings and meetings of professional committees of the Board and expressed fair and objective independent opinions on relevant significant matters discussed by the Board, thereby giving our advice on the long-term development of the Company. Adhering to the principle of serving the interests of all shareholders of the Company, we performed our duties independently and diligently in strict compliance with the requirements of applicable laws and regulations.

In 2021, we will continue to comply with the laws and regulations and the provisions of the Articles in the spirit of integrity and diligence, subject ourselves to the supervision of securities regulatory authorities, play the role of independent non-executive Directors and lawfully safeguard the legal interests of all shareholders, especially the small and medium shareholders of the Company.

We would like to take this opportunity to express our respect and gratitude to the Board, the management team and relevant staff of the Company for their positive and effective cooperation and support for our performance of duties.

Independent Non-executive Directors:
**Rui Meng**
**Teo Siong Seng**
**Victor Huang**
**Li Runsheng**
**Zhao Jinsong**

30 March 2021

# REPORT OF THE SUPERVISORY COMMITTEE

## 1. WORK OF THE SUPERVISORY COMMITTEE

(1) In 2020, the Supervisory Committee held 9 meetings, details of which are set out below:

30-Mar-20

1. Report on the work of the Company's Supervisory Committee in 2019
2. 2019 Annual Report of the Company
3. 2019 audited financial report of the Company
4. 2019 profit distribution plan of the Company
5. 2019 social responsibility report of the Company
6. 2019 internal control and risk management report of the Company
7. Proposal on the risk and internal control manual of the Company
8. Proposal on the adjustment of the exercise price, the list of participants and the number of shares under the Incentive Scheme

07-Apr-20

1. Proposal on the replacement of self-financing funds pre-committed to the investment project with fundraising

29-Apr-20

1. First quarterly report of 2020

01-June-20

1. Proposal on the new guarantee amount during the period from 1 July 2020 to 30 June 2021
2. Proposal on the merger by absorption by the Company of Shanghai Tanker, a wholly-owned subsidiary of the Company

11-June-20

1. Proposal on disposals of equity interests and assets hold by Dalian Tanker

21-July-20

1. Proposal on the change of part of the fund-raising investment project implementation body and capital increase to Hainan Company

27-Aug-20

1. Interim report and results announcement for the six months ended 30 June
2. Proposal on the special report on the deposit and actual use of the Company's fund raising for the half-year of 2020

29-Oct-20

1. Third quarterly report of 2020
2. Proposal on the adjustment of the bench-marking companies and exercise price of the Incentive Scheme

28-Dec-20

1. Proposal on the adjustment of the list of participants and the number of options under the Incentive Scheme and cancellation of some of the share options granted but not yet exercised
2. Proposal on the achievement of exercise conditions of the first exercise period of the Incentive Scheme

(2) Composition of the Supervisory Committee and the attendance of Supervisors at the above meetings in 2020:

| Name | Position | Number of Supervisory Committee meetings required to attend this year | Attend Supervisory Committee meetings in person | Attend Supervisory Committee meetings by proxies | Absence |
|---|---|---|---|---|---|
| Weng Yi (翁羿) | Chairman | 9 | 9 | 0 | 0 |
| Yang Lei (楊磊) | Supervisor | 9 | 9 | 0 | 0 |
| Xu Yifei (徐一飛) | Supervisor as a representative of employees | 9 | 9 | 0 | 0 |
| An Zhijuan (安志娟) | Supervisor as a representative of employees | 9 | 9 | 0 | 0 |

(3) Attendance of Supervisors at the general meetings in 2020

| Name | Position | Number of general meetings required to attend this year | Attend general meetings in person | Absence |
|---|---|---|---|---|
| Weng Yi (翁羿) | Chairman | 1 | 1 | 0 |
| Yang Lei (楊磊) | Supervisor | 1 | 1 | 0 |
| Xu Yifei (徐一飛) | Supervisor as a representative of employees | 1 | 1 | 0 |
| An Zhijuan (安志娟) | Supervisor as a representative of employees | 1 | 1 | 0 |

## 2. SUPERVISORY COMMITTEE'S VIEW OF THE COMPANY'S OPERATION IN 2020:

(1) The Company has established a comparatively complete internal control system and followed legitimate decision-making process. The operation of the Company was in strict compliance with the PRC laws and regulations, as well as the normalized process for listed companies. As far as the Supervisory Committee is aware, the directors and the senior management of the Company have not contravened any laws and regulations and/or the Articles or damaged the interests of the Company when performing their duties.

(2) During the Reporting Period, the Company's assets are optimized continuously and the Company achieved sustainable profit. The Company's stable financial condition, sound financial management, and strict internal controlling system enabled the smooth operation of the Company. The 2020 annual consolidated financial statements represented a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows in 2020 and the 2020 annual consolidated financial statements were audited by ShineWing and PricewaterhouseCoopers.

(3) During the Reporting Period, the Company's asset disposal price was reasonable, and no insider trading was found in such transactions; connected transactions conformed to the principles of fairness, openness, and impartiality. Such transactions were not detrimental to the interests of the shareholders, nor resulted in any loss of the Company's assets.

(4) During the Reporting Period, according to the Company Law of the PRC, the Securities Law of the PRC, the Listing Corporation Governance Guidelines of CSRC and relevant laws and regulations, and in light of the actual conditions of the Company, the Company constantly formulates, improves and implements various systems and related procedures of the Company and improves the corporate governance of the Company. Checks and balances were achieved through the coordination among the Shareholders at the general meeting, the Board and its related special Board committees, the Supervisory Committee and management headed by the General Manager. With the implementation of the effective internal control and management systems, the Company's internal management and operations are further standardised and the corporate governance of the Company is further enhanced.

(5) During the Reporting Period, the Company has earnestly fulfilled the obligation of information disclosure through better consideration of the difference in the areas of laws and regulations, listing rules, disclosure procedures, habit of domestic and overseas investors between Shanghai and Hong Kong to make information disclosure in a timely, legal, truthful and complete manner, which has effectively integrated the information disclosure between the PRC and Hong Kong.

(6) During the Reporting Period, the Company has completed the proposed non-public issuance of A shares and the Directors and senior management could perform their duties, earnestly implement the resolutions of the Shareholders' meeting and the Board. The Company stored and used the raised funds specifically, and did not change the use of raised funds in any other forms or damage the Shareholders' interests. The Company did not use the raised funds unlawfully. For the corporate bonds issued by the Company, the Company has paid pre-determined annual interests on time in accordance with the terms of the issue.

By order of the Supervisory Committee
**Weng Yi**
*Chairman of the Supervisory Committee*

Shanghai, the PRC
30 March 2021

羅兵咸永道

**TO THE MEMBERS OF COSCO SHIPPING ENERGY TRANSPORTATION CO., LTD.**
(Incorporated in the People's Republic of China with limited liability)

## OPINION

### What we have audited

The consolidated financial statements of COSCO SHIPPING Energy Transportation Co., Ltd. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 106 to 230, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss and other 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 2020, 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.

## 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 matters identified in our audit are summarized as follows:

- Valuation and impairment of vessels

- Freight revenue for vessel voyages in progress at year end

## KEY AUDIT MATTERS (Continued)

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Valuation and impairment of vessels**<br><br>Refer to notes 2.8, 4.1, 8 and 15 to the consolidated financial statements.<br><br>As of December 31, 2020, the Group had property, plant and equipment with total carrying amount of approximately RMB48,497 million, of which vessels with total carrying amount of approximately RMB45,928 million. The Group recognised an impairment provision of RMB841 million of vessels for the year ended 31 December 2020. | Our procedures in relation to management's impairment assessment of vessels included the following:<br><br>• obtained an understanding of the management's internal control and assessment process of the impairment of the vessels and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;<br><br>• assessed the resonableness of identification of cash-generating units;<br><br>• assessed whether the future discounted cash flow forecasts have been prepared according to the asset grouped at the lowest level (cash-generating units);<br><br>• assessed the reasonableness of key input data and assumptions used in future cash flow forecasts by comparing them with historical actual information, management's approved budget and industry reports on the future macro and micro economic outlook;<br><br>• involved our internal valuation expert in assessing the discount rates used; |

## KEY AUDIT MATTERS (Continued)

**Key Audit Matter**

**Valuation and impairment of vessels** (Continued)

For the purpose of the impairment assessment of the vessels, management involved an independent external valuer to help determine the recoverable amounts of vessels based on the higher of the assets' fair value less costs of disposal and value-in-use calculations. The value-in-use calculations are based on future discounted cash flows of cash-generating units for those vessels and involves significant management judgements and assumptions in particular forecast utilisation, daily time-charter equivalent ("**TCE**") rates, cost inflation rates and discount rates applied to the future cashflows forecasts.

We focused on this area because of the significance of carrying amount of vessels and the impairment loss for the year ended 31 December 2020, and the estimation of the recoverable amount is subject to high degree of estimation uncertainty. The inherent risk in relation to the impairment assessment of the vessels is considered significant due to the significant assumptions used and significant judgements involved in determined the recoverable amounts.

**How our audit addressed the Key Audit Matter (Continued)**

- assessed the competence, capabilities and objectivity of the external valuer;
- checked the mathematical accuracy of the value-in-use calculations;
- performed sensitivity analysis on key assumptions;
- assessed the adequacy of the disclosures related to the impairment of the vessels in the context of HKFRSs; and
- consider whether the judgements made in selecting the significant assumptions and data would give rise to indicators of possible management bias.

Based on the audit procedures performed, we found key judgements and assumptions used in the impairment assessments to be supportable based on the evidence we gathered.

## KEY AUDIT MATTERS (Continued)

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Freight revenue for vessel voyages in progress at year end**<br><br>Refer to notes 2.18 and 5 to the consolidated financial statements.<br><br>As at 31 December 2020, the Group recognised revenues of RMB16,268 million out of which RMB14,961 million was related to freight revenue which represents revenue, from oil shipment excluding vessel chartering.<br><br>The Group recognises freight revenue on a percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage with reference to the voyage details such as freight rates, port loading and discharging information.<br><br>We focused on the recognition of freight revenue at year end due to the complex calculations involved in the estimation of freight revenue for vessel voyages in progress at year end. | Our procedures in relation to management's estimation of freight revenue for vessel voyages in progress at year end included:<br><br>• evaluated and tested the key controls that management has established in respect of recording freight revenue, focusing on management's controls over the estimate of freight revenue for vessel voyages which were still in progress at year end;<br><br>• tested the freight rates maintained in the Group's operation system on a sample basis by comparing with supporting documents such as customer and vendor contracts;<br><br>• checked the port loading and discharging information (i.e. time and date) on a sample basis against the supporting documents such as terminal records; and<br><br>• recomputed the estimated freight revenue and calculations of vessels voyages in progress recorded in the Group's operation system and reconciled to the accounting records.<br><br>Based on the audit procedures performed, we found the freight revenue for vessel voyages in progress at year end was supportable based on the evidence we gathered. |

## OTHER INFORMATION

The directors of the Company (the "**Directors**") 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 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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism 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.

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

- 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, actions taken to eliminate threats or safeguards applied.

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 Mang, Kwong Fung Frederick.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 30 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | Note | For the year ended 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Revenues | 5 | **16,268,197** | 13,721,140 |
| Operating costs | | **(12,386,553)** | (11,125,022) |
| Gross profit | | **3,881,644** | 2,596,118 |
| Other income and net gains | 6 | **12,100** | 146,480 |
| Marketing expenses | | **(56,192)** | (49,296) |
| Administrative expenses | | **(811,088)** | (876,990) |
| Reversal of/(provision for) impairment losses on financial and contract assets | | **5,508** | (3,208) |
| Other expenses | | **(25,925)** | (106,381) |
| Share of profits of associates | 18 | **247,150** | 287,807 |
| Share of profits of joint ventures | 19 | **690,558** | 427,085 |
| Finance costs | 7 | **(1,039,721)** | (1,419,627) |
| **Profit before tax** | 8 | **2,904,034** | 1,001,988 |
| Income tax expense | 9 | **(272,590)** | (330,384) |
| **Profit for the year** | | **2,631,444** | 671,604 |
| **Other comprehensive loss** | | | |
| *Item that will not be reclassified to profit or loss, net of tax:* | | | |
| Changes in the fair value of equity investments at fair value through other comprehensive income | | **52,594** | 96,092 |
| Remeasurement of defined benefit plan payable | | **4,026** | 2,980 |
| Exchange differences from retranslation of financial statements of subsidiaries, joint ventures and associates | | **12,222** | – |
| *Items that may be reclassified to profit or loss, net of tax:* | | | |
| Exchange differences from retranslation of financial statements of subsidiaries, joint ventures and associates | | **(477,154)** | 147,039 |
| Net loss on cash flow hedges | | **(383,875)** | (320,272) |
| Hedging gain reclassified to profit or loss | 7 | **111,471** | 50,517 |
| Share of other comprehensive profit/(loss) of associates | | **17,535** | (17,529) |
| Share of other comprehensive loss of joint ventures | | **(230,990)** | (107,171) |
| Remeasurement of investment properties | | **–** | 4,558 |
| Disposal of investment properties | | **(4,558)** | – |
| **Other comprehensive loss for the year** | | **(898,729)** | (143,786) |
| **Total comprehensive income for the year** | | **1,732,715** | 527,818 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the year ended 31 December 2020

| | Note | For the year ended 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Profit for the year attributable to:** | | | |
| Equity holders of the Company | | **2,381,415** | 413,857 |
| Non-controlling interests | | **250,029** | 257,747 |
| **Profit for the year** | | **2,631,444** | 671,604 |
| **Total comprehensive income for the year attributable to:** | | | |
| Equity holders of the Company | | **1,604,171** | 386,391 |
| Non-controlling interests | | **128,544** | 141,427 |
| | | **1,732,715** | 527,818 |
| **Earnings per share** | 13 | | |
| – Basic (RMB cents/share) | | **52.00** | 10.26 |
| – Diluted (RMB cents/share) | | **51.96** | 10.26 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As 31 December 2020

| | Note | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment properties | 14 | **10,387** | 50,714 |
| Property, plant and equipment | 15 | **48,497,144** | 49,160,894 |
| Right-of-use assets | 16 | **1,690,724** | 2,414,753 |
| Goodwill | 17 | **73,325** | 73,325 |
| Investments in associates | 18 | **2,772,302** | 2,355,055 |
| Investments in joint ventures | 19 | **3,286,382** | 3,186,957 |
| Loan receivables | 20 | **1,245,027** | 1,230,929 |
| Financial assets at fair value through other comprehensive income | 21(a) | **462,317** | 396,439 |
| Deferred tax assets | 22(a) | **42,776** | 45,165 |
| | | **58,080,384** | 58,914,231 |
| **CURRENT ASSETS** | | | |
| Current portion of loan receivables | 20 | **38,561** | 27,786 |
| Inventories | 23 | **859,472** | 774,260 |
| Contract assets | 24 | **632,043** | 469,614 |
| Trade and bills receivables | 24 | **668,509** | 937,682 |
| Prepayments, deposits and other receivables | 25 | **810,161** | 797,927 |
| Pledged bank deposits | 26 | **764** | 861 |
| Cash and cash equivalents | 26 | **4,869,963** | 3,919,500 |
| | | **7,879,473** | 6,927,630 |
| **TOTAL ASSETS** | | **65,959,857** | 65,841,861 |

| | Note | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Provision and other liabilities | | **15,286** | 25,297 |
| Derivative financial instruments | 29 | **847,983** | 631,235 |
| Interest-bearing bank and other borrowings | 30 | **13,809,152** | 17,325,526 |
| Other loans | 31 | **977,193** | 1,089,247 |
| Bonds payable | 32 | **2,495,824** | 2,493,477 |
| Employee benefits payable | 33 | **164,218** | 187,499 |
| Lease liabilities | 16 | **1,699,996** | 2,145,306 |
| Deferred tax liabilities | 22(b) | **455,017** | 428,476 |
| | | **20,464,669** | 24,326,063 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 27 | **1,610,104** | 1,922,313 |
| Other payables and accruals | 28 | **1,136,151** | 1,060,783 |
| Contract liabilities | | **18,824** | 28,704 |
| Current portion of interest-bearing bank and other borrowings | 30 | **6,682,421** | 8,554,842 |
| Current portion of other loans | 31 | **44,562** | 43,443 |
| Current portion of employee benefits payable | 33 | **23,094** | 15,975 |
| Current portion of lease liabilities | 16 | **325,126** | 586,728 |
| Taxes payable | | **52,560** | 135,404 |
| | | **9,892,842** | 12,348,192 |
| **TOTAL LIABILITIES** | | **30,357,511** | 36,674,255 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As 31 December 2020

| | Note | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 34 | **4,762,692** | 4,032,033 |
| Reserves | 35 | **29,859,136** | 24,092,702 |
| | | **34,621,828** | 28,124,735 |
| Non-controlling interests | | **980,518** | 1,042,871 |
| **TOTAL EQUITY** | | **35,602,346** | 29,167,606 |

**Liu Hanbo**
*Director*

**Zhu Maijin**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Revaluation reserve RMB'000 | Capital reserve RMB'000 | Merger reserve RMB'000 | Statutory reserve RMB'000 | Safety fund reserve RMB'000 | General surplus reserve RMB'000 | Hedging reserve RMB'000 | FVOCI revaluation reserve RMB'000 | Translation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2019 | 4,032,033 | 7,749,939 | 273,418 | 76,341 | (286,027) | 2,877,435 | 30,134 | 93,158 | (169,148) | 29,945 | 165,650 | 12,934,554 | 27,807,432 | 1,080,318 | 28,887,750 |
| Profit for the year | - | - | - | - | - | - | - | - | - | - | - | 413,857 | 413,857 | 257,747 | 671,604 |
| Changes in the fair value of equity investments at fair value through other comprehensive income | - | - | - | - | - | - | - | - | - | 49,007 | - | - | 49,007 | 47,085 | 96,092 |
| Remeasurement of defined benefit plan payable | - | - | - | - | - | - | - | - | - | - | - | 2,980 | 2,980 | - | 2,980 |
| Currency translation differences | - | - | - | - | - | - | - | - | - | - | 148,725 | - | 148,725 | (1,686) | 147,039 |
| Net loss on cash flow hedges | - | - | - | - | - | - | - | - | (130,671) | - | - | - | (130,671) | (189,601) | (320,272) |
| Hedging gain reclassified to profit or loss | - | - | - | - | - | - | - | - | 20,611 | - | - | - | 20,611 | 29,906 | 50,517 |
| Share of other comprehensive profit of associates | - | - | - | - | - | - | - | - | (18,408) | 2,903 | - | - | (15,505) | (2,024) | (17,529) |
| Share of other comprehensive loss of joint ventures | - | - | - | - | - | - | - | - | (126,528) | - | 19,357 | - | (107,171) | - | (107,171) |
| Remeasurement of investment properties | - | - | 4,558 | - | - | - | - | - | - | - | - | - | 4,558 | - | 4,558 |
| Total comprehensive income for the year | - | - | 4,558 | - | - | - | - | - | (254,996) | 51,910 | 168,082 | 416,837 | 386,391 | 141,427 | 527,818 |
| Accrual of safety fund reserve | - | - | - | - | - | - | 95,269 | - | - | - | - | (104,103) | (8,834) | 8,834 | - |
| Utilisation of safety fund reserve | - | - | - | - | - | - | (115,686) | - | - | - | - | 121,853 | 6,167 | (6,167) | - |
| Dividends paid to non-controlling interests of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | (179,882) | (179,882) |
| Dividends paid to shareholders of the Company | - | - | - | - | - | - | - | - | - | - | - | (80,641) | (80,641) | - | (80,641) |
| Fair value of share options granted | - | - | - | 12,561 | - | - | - | - | - | - | - | - | 12,561 | - | 12,561 |
| Transaction with non-controlling interests | - | - | - | 1,659 | - | - | - | - | - | - | - | - | 1,659 | (1,659) | - |
| At 31 December 2019 | 4,032,033 | 7,749,939 | 277,976 | 90,561 | (286,027) | 2,877,435 | 9,717 | 93,158 | (424,144) | 81,855 | 333,732 | 13,288,500 | 28,124,735 | 1,042,871 | 29,167,606 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2020

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Revaluation reserve RMB'000 | Capital reserve RMB'000 | Merger reserve RMB'000 | Statutory reserve RMB'000 | Safety fund reserve RMB'000 | General surplus reserve RMB'000 | Hedging reserve RMB'000 | FVOCI revaluation reserve RMB'000 | Translation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 31 December 2019 | 4,032,033 | 7,749,939 | 277,976 | 90,561 | (286,027) | 2,877,435 | 9,717 | 93,158 | (424,144) | 81,855 | 333,732 | 13,288,500 | 28,124,735 | 1,042,871 | 29,167,606 |
| Profit for the year | - | - | - | - | - | - | - | - | - | - | - | 2,381,415 | 2,381,415 | 250,029 | 2,631,444 |
| Changes in the fair value of equity investments at fair value through other comprehensive income | - | - | - | - | - | - | - | - | - | 26,823 | - | - | 26,823 | 25,771 | 52,594 |
| Remeasurement of defined benefit plan payable | - | - | - | - | - | - | - | - | - | - | - | 4,026 | 4,026 | - | 4,026 |
| Currency translation differences | - | - | - | - | - | - | - | - | - | - | (477,154) | - | (477,154) | 12,222 | (464,932) |
| Net loss on cash flow hedges | - | - | - | - | - | - | - | - | (156,621) | - | - | - | (156,621) | (227,254) | (383,875) |
| Hedging gain reclassified to profit or loss | - | - | - | - | - | - | - | - | 45,480 | - | - | - | 45,480 | 65,991 | 111,471 |
| Share of other comprehensive profit of associates | - | - | - | - | - | - | - | - | 17,776 | (2,026) | - | - | 15,750 | 1,785 | 17,535 |
| Share of other comprehensive loss of joint ventures | - | - | - | - | - | - | - | - | (248,833) | - | 17,843 | - | (230,990) | - | (230,990) |
| Disposal of investment properties | - | - | (4,558) | - | - | - | - | - | - | - | - | - | (4,558) | - | (4,558) |
| Total comprehensive income for the year | - | - | (4,558) | - | - | - | - | - | (342,198) | 24,797 | (459,311) | 2,385,441 | 1,604,171 | 128,544 | 1,732,715 |
| Issue of ordinary shares | 730,659 | 4,346,214 | - | - | - | - | - | - | - | - | - | - | 5,076,873 | - | 5,076,873 |
| Accrual of safety fund reserve | - | - | - | - | - | - | 162,946 | - | - | - | - | (171,732) | (8,786) | 8,786 | - |
| Utilisation of safety fund reserve | - | - | - | - | - | - | (158,188) | - | - | - | - | 162,838 | 4,650 | (4,650) | - |
| Non-controlling interests on disposal of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | (53,399) | (53,399) |
| Dividends paid to non-controlling interests of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | (227,665) | (227,665) |
| Dividends paid to shareholders of the Company | - | - | - | - | - | - | - | - | - | - | - | (190,508) | (190,508) | - | (190,508) |
| Fair value of share options granted | - | - | - | 10,693 | - | - | - | - | - | - | - | - | 10,693 | - | 10,693 |
| Contribution from non-controlling interests of the subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | - | 86,031 | 86,031 |
| At 31 December 2020 | 4,762,692 | 12,096,153 | 273,418 | 101,254 | (286,027) | 2,877,435 | 14,475 | 93,158 | (766,342) | 106,652 | (125,579) | 15,474,539 | 34,621,828 | 980,518 | 35,602,346 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

| | | For the year ended 31 December | |
|---|---|---|---|
| | | 2020 | 2019 |
| | Note | RMB'000 | RMB'000 |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | 37 | **6,973,111** | 5,230,362 |
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **98,242** | 117,101 |
| Payments for construction in progress | | **(5,504,703)** | (1,254,080) |
| Purchases of property, plant and equipment | | **(1,458)** | (21,461) |
| Investments in an associate | | **(349,264)** | – |
| Investments in a joint venture | | **–** | (232,886) |
| Payments for financial assets at fair value through other comprehensive income | | **(1,288)** | – |
| Proceeds from/(payments for) disposal of property, plant and equipment | | **256,224** | (7) |
| Proceeds from disposal of investment properties | | **40,229** | – |
| Loans to joint ventures | | **–** | (13,784) |
| Repayment from associates | | **20,375** | 262,475 |
| Repayment from joint ventures | | **19,693** | – |
| Dividends received from associates | | **196,703** | 461,136 |
| Dividends received from joint ventures | | **387,613** | – |
| Dividends received from financial assets at fair value through other comprehensive income | | **12,675** | 10,850 |
| Disposal of subsidiaries, net of cash acquired/(deduction) | | **7,850** | (4,579) |
| Decrease/(increase) in pledged bank deposits | | **97** | (3) |
| Proceeds from sale of financial assets at fair value through other comprehensive income | | **8,826** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(4,808,186)** | (675,238) |

| | Note | For the year ended 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| Interest paid | | **(1,202,321)** | (1,356,689) |
| Dividends paid | | **(190,508)** | (80,641) |
| Dividends paid to non-controlling interests of subsidiaries | | **(244,807)** | (177,137) |
| Dividends paid to former share holder of a subsidiaries | | **–** | (14,397) |
| Repayment of other loans | | **(39,828)** | (69,700) |
| Increase in interest-bearing bank and other borrowings | | **4,515,532** | 6,986,513 |
| Repayment of interest-bearing bank and other borrowings | | **(8,486,423)** | (7,310,074) |
| Repayment of bonds payable | | **–** | (1,500,000) |
| Contribution from non-controlling interests of the subsidiary | | **86,031** | – |
| Contribution from shareholders of the Company | | **5,089,200** | – |
| Principal elements of finance lease payments | | **(561,897)** | (646,857) |
| Share issue cost and borrowings acquisition cost | | **(7,909)** | – |
| **NET CASH USED IN FINANCING ACTIVITIES** | | **(1,042,930)** | (4,168,982) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **1,121,995** | 386,142 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **3,919,500** | 3,467,924 |
| Effect of foreign exchange rate changes, net | | **(171,532)** | 65,434 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | | **4,869,963** | 3,919,500 |

## 1. CORPORATE INFORMATION

COSCO SHIPPING Energy Transportation Co., Ltd. (the "**Company**") is a joint stock company with limited liability established in the People's Republic of China (the "**PRC**"). The registered office of the Company is Room A-1015, No.188 Ye Sheng Road, China (Shanghai) Pilot Free Trade Zone, the PRC and the principal place of business is 670 Dongdaming Road, Hongkou District, Shanghai, the PRC.

During the year, the Company and its subsidiaries (together the "**Group**") were involved in the following principal activities:

(a) investment holding; and/or

(b) oil shipment along the PRC coast and international shipment; and/or

(c) vessel chartering; and/or

(d) liquefied natural gas ("**LNG**") shipping and liquefied petroleum gas ("**LPG**") shipping.

The Board regards China COSCO SHIPPING Corporation Limited ("**COSCO Shipping**"), a state-owned enterprise established in the PRC, as being the Company's parent company. The Board regard China Shipping Group Company Limited, a state-owned enterprise established in the PRC, as the immediate parent company.

The H-Shares and A-Shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Shanghai Stock Exchange respectively.

These consolidated financial statements are presented in Renminbi ("**RMB**"), which is the functional currency of the Company, and all values are rounded to the nearest thousand except where otherwise indicated.

These consolidated financial statements were approved for issue by the Board on 30 March 2021.

## 2. SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

### 2.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2020 have been prepared in accordance with HKFRSs issued by the HKICPA and the applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

These consolidated financial statements have been prepared under the historical cost convention, except that the following assets and liabilities are measured at fair values, as explained in the accounting policies set out below:

– investment properties (see note 2.7);

– certain equity investments that are measured at fair value/financial assets at fair value through other comprehensive income ("**FVOCI**") (see note 2.10); and

– derivative financial instruments (see note 2.17).

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The preparation of consolidated financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

Judgements made by management in the application of HKFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment are discussed in note 3 to the consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies and disclosures

*(a) New and amended standards adopted by the Group*

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. None of which has significant financial impact to the Group.

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKFRS 3 (Amendments) | Definition of a Business | 1 January 2020 |
| HKAS 1 and HKAS 8 (Amendments) | Definition of Material | 1 January 2020 |
| Revised Conceptual Framework | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |
| HKFRS 9, HKAS 39 and HKFRS 7 (Amendments) | Interest Rate Benchmark Reform | 1 January 2020 |
| HKFRS 16 (Amendments) | Covid-19-related Rent Concessions | 1 June 2020 |

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies and disclosures (Continued)

*(b) New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 31 December 2020 and have not been adopted by the Group. These standards and interpretations are not expected to have a material impact of the Group in the current or future reporting period.

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKAS 1 (Amendments) | Classification of Liabilities as Current or Non-current | 1 January 2022 |
| HKAS 16 (Amendments) | Property, Plant and Equipment: Proceeds before Intended Use | 1 January 2022 |
| HKAS 37 (Amendments) | Onerous Contracts – Cost of Fulfilling a Contract | 1 January 2022 |
| HKFRS 3 (Amendments) | Reference to the Conceptual Framework | 1 January 2022 |
| HKFRS 17 | Insurance Contracts | 1 January 2023 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |
| Annual improvements to HKFRS Standards 2018-2020 | | 1 January 2022 |

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary other than business combination under common control begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Basis of consolidation (Continued)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

*Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "Financial Instruments: Recognition and Measurement", when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Business combinations

#### (a) *Business combination involving entities under common control*

Business combination involving entities under common control has been accounted for by applying the principles of merger accounting in accordance with Accounting Guideline 5 issued by the HKICPA.

In applying merger accounting, the consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised for goodwill or excess of acquirers' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where there is a shorter year, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements have been restated as if the business combination had been completed on the earliest date of the periods being presented or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses incurred in relation to the common control combination that are to be accounted for by using merger accounting are recognised as expenses in the year in which they were incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Business combinations (Continued)

*(b) Business combination not involving entities under common control*

Acquisitions of businesses not involving entities under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Sharebased Payment” at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another HKFRS.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Business combinations (Continued)

*(b) Business combination not involving entities under common control* (Continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement year adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement year adjustments are adjustments that arise from additional information obtained during the ‘measurement year’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement year adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKFRS 9, or HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement year (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent years.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### 2.6 Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.6 Investments in associates and joint ventures (Continued)

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the year in which the investment is acquired.

The requirements of HKFRS 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When an entity of the Group transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from change in fair value of investment properties are included in profit or loss in the year in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Upon the transfer of an item from investment properties to property, plant and equipment because its use has changed due to owner-occupation, the fair value of the item as at the date of transfer is recognised as cost and subsequently depreciated over its estimated remaining useful life.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the item is derecognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.8 Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price, costs transferred from construction in progress, any directly attributable costs of bringing the asset to its working condition and location for its intended use, as well as interest charges relating to funds borrowed during the years of construction, installation and testing. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of the asset or as a replacement.

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

| | |
|---|---|
| Leasehold improvements | Over the remaining terms of lease |
| Vessels | 22-30 years (note) |
| Machinery and equipment | 3-5 years |
| Motor vehicles | 8 years |
| Buildings | 8-40 years |

Note: Used vessel acquired is depreciated over its estimated remaining useful life.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.8 Property, plant and equipment and depreciation (Continued)

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress mainly represents the construction or renovation of vessels, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the years of construction, installation and testing. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use are completed. No provision for depreciation is made on construction in progress until such time when the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Investments and other financial assets

*(i) Classification*

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

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortized cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

*(ii) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Investments and other financial assets (Continued)

*(iii) Measurement*

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

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 OCI, 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.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Investments and other financial assets (Continued)

*(iv) Impairment*

The group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. 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, see note 24 for further details.

### 2.11 Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Derecognition of financial assets (Continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### 2.12 Inventories

Inventories comprise bunker oil inventories, ship stores and spare parts, and are stated at lower of cost and net realizable value. Cost is determined on the weighted average cost method basis. Net realizable value of bunkers is the expected amount to be realized from use as estimated by the Directors or management.

### 2.13 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See note 24 for further information about the Group's accounting for trade receivables and note 4.5 for a description of the Group's impairment policies.

### 2.14 Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted to use.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.15 Financial liabilities at amortized cost

Financial liabilities, including trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings, other loans, obligations under finance leases and bonds payable, are initially recognised at fair value less directly attributable transaction costs. They are subsequently measured at amortized cost using the effective interest method, except when the effect of discounting would be insignificant in which case, they are carried at cost.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortization process.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter year. Interest expense is recognised on an effective interest basis.

### 2.16 Derecognition of financial liabilities

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

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

### 2.17 Derivative financial instruments and hedging

The Group uses derivative financial instruments, such as interest rate swap agreements to hedge its risks associated with interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.17 Derivative financial instruments and hedging (Continued)

The fair value of interest rate swap agreements is determined by reference to the present value of estimated future cash flows.

*Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item of transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.17 Derivative financial instruments and hedging (Continued)

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

*Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised immediately in profit or loss.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

### 2.18 Revenue recognition

*(a) Revenue from contracts with customers*

Revenue are recognised when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point of time.

When control of goods or services is transferred over time, the progress towards complete satisfaction of performance obligation is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

(i) direct measurements of the value of individual services transferred by the Group to the customer, such as units produced or delivered, contract milestones, or surveys of work performed; or

(ii) the Group's efforts or inputs to the satisfaction of the performance obligation.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.18 Revenue recognition (Continued)

*(a) Revenue from contracts with customers* (Continued)

A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer, and it should be presented separately. Incremental costs incurred to obtain a contract, if recoverable, are capitalised and presented as contract assets and subsequently amortized when the related revenue is recognised. A contract asset becomes a receivable when receipt of the consideration is conditional only on the passage of time.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortized cost.

Contract liabilities are recognised for advance from customers with contracts.

The Group do not have any significant variable consideration such as discounts, refunds, rebates, credits, penalties, performance bonuses or royalties. Trade receivables and contract assets expected to be recovered in one year or less are classified as current assets. If not, they are represented as non-current assets.

The Group assesses, and includes in the transaction price at contract inception, the amount of variable, consideration to which it expects to be entitled. There is no material contract fulfillment cost or cost of obtaining contracts of the Group.

The following is a description of accounting policy for the revenue streams of the Group:

(i) Revenue from oil shipment

Freight revenue from oil shipment is mainly derived from the operation of international and domestic oil transportation business on voyage charter, recognised on a percentage-of-completion basis, which is determined on the time proportion method of each individual voyage.

(ii) Revenue from vessel chartering

Revenue from vessel chartering are mainly derived from time charter of vessels recognised on a straight-line basis over the year of each charter.

(iii) Other revenue is recognised when the services are rendered.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.18 Revenue recognition (Continued)

*(b) Other revenue*

(i) rental income arising from assets leased out under operating leases are recognised on a straight-line basis over the year of each lease;

(ii) interest income, on an accrual basis using the effective interest method;

(iii) dividend income, when the shareholders' right to receive payment has been established.

### 2.19 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

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 reporting period.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial year of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.20 Leases

Lease 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.

The Group leases various offices, vessels and cars. Rental contracts are typically made for fixed periods but may have extension options as described below. 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, but leased assets may not be used as security for borrowing purposes.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss 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 the net present value of fixed payments (including in-substance fixed payments).

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.20 Leases (Continued)

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

All land in the People's Republic of China (the "**PRC**") is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortized over the lease periods using the straight-line method.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Extension options are included in a number of property and equipment leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 6). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss, OCI or in equity if it relates to items that are recognised in the same or a different year directly in equity.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

– in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Income tax (Continued)

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit and loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 2.22 Foreign currency translation

*(a) 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**"). These consolidated financial statements are presented in RMB, which is the Group's presentation currency and Company's functional currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.22 Foreign currency translation (Continued)

*(c) Translation for foreign operations*

For the foreign operations, the Company translated all items into reporting currency – RMB. All the assets and liabilities at the end of the reporting period are translated into RMB at the market rates of exchange prevailing as at that date. The equity accounts except for the "undistributed profits" are translated into RMB at the exchange rate on the date of occurrence. Income and expenses are translated at average exchange rates. The translation difference between the assets, liabilities and equity is listed as a separate item under "undistributed profits". Foreign exchange gains and losses resulting from the settlement of transactions and from the monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### 2.23 Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### 2.24 Government subsidies

Subsidies from the government are recognised at their fair value when there is a reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Subsidies relating to income are deferred and recognised in profit or loss over the year necessary to match them with the costs they are intended to compensate, otherwise subsidies with no future related costs are recognised as income in the year in which they become receivable.

Subsidies relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.25 Contingent liabilities and contingent assets

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 consolidated 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.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### 2.26 Trade and bills payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and bills payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortized cost using the effective interest method.

### 2.27 Provisions

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.27 Provisions (Continued)

*Provision for onerous contracts*

Provision for an onerous contract is recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfill the contract.

### 2.28 Employee benefits

*(a) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(b) Bonus entitlements*

The expected cost of bonus payment is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

*(c) Housing funds*

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.28 Employee benefits (Continued)

*(d) Retirement benefit costs*

(i) Defined contribution retirement plans

For employees in the PRC, the Group contributes to a defined contribution retirement scheme managed by the local municipal government in the PRC. The local municipal government in the PRC undertakes to assume the retirement benefit obligations payable to the qualified employees in the PRC for post-retirement benefits beyond the contributions made. The Group's contributions to the retirement scheme are expensed as incurred.

For Hong Kong employees, the Group contributes to the Mandatory Provident Fund Scheme (the "**MPF Scheme**") in accordance with Hong Kong Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme by the Group and its employees are calculated as a percentage of employees' remuneration received. The Group's contributions to the MPF Scheme are expensed as incurred. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

(ii) Defined benefit retirement plans

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/income on the net defined benefit liability/asset are recognised in profit or loss. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current year. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.28 Employee benefits (Continued)

*(d) Retirement benefit costs* (Continued)

(ii) Defined benefit retirement plans (Continued)

Net interest expense for the year is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on government bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained profits. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability).

*(e) Enterprise annuity*

The annuity scheme confirms that the employer's contributions will be 8% of the total staff costs of previous year. The employees' contributions will be 2% of their income from previous year and the employer's contributions for the management staff should not be five times more than the staff average. The Group's contributions to the enterprise annuity scheme are expensed as incurred.

*(f) 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 at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; (b) when the Group recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. 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 twelve months after the end of the reporting period are discounted to present value.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.28 Employee benefits (Continued)

*(g) Housing subsidies*

The Group has provided one-off cash housing subsidies based on the PRC regulations to those eligible employees who have not been allocated with staff quarters at all or who have not been allocated with quarters up to the prescribed standards before 31 December 1998 when the staff quarter allocation schemes were terminated. The subsidies are determined based on a staff member's years of service, position and other criteria. In addition, monthly cash housing allowances should be made to other employees following the withdrawal of allocation of staff quarters regulations, which are recognised as incurred. The liabilities recognised in the consolidated statement of financial position is the present value of the obligation of the one-off housing subsidies at the end of the reporting period and the past-service costs are recognised immediately in profit or loss.

*(h) Share-based compensation*

The Company operates an equity-settled, share-based compensation plan and provides equity compensation benefit, in the form of share options, to the Directors and employees of the Company and the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become vested. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.29 Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision makers for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### 2.30 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 3. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments include cash and cash equivalents, derivative financial instruments and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to raise fund for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and contract assets and trade and bills payables, which arise directly from its operations.

The Group also enters into interest rate swap transactions. The purpose is to manage the interest rate risk arising from the Group's operations and its sources of finance. It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Management regularly manages the financial risks of the Group. Management identifies, evaluates and mitigates financial risks in close co-operation with the Group's operating units.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Market risk

#### *(i) Foreign currency risk*

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**") against RMB. Foreign currency risk arises from future commercial transactions, recognised assets and liabilities.

As at 31 December 2020, if USD and HKD had strengthened or weakened by 1% against RMB with all other variables held constant, profit before tax for the year would have been RMB12,173,000 higher/lower (31 December 2019: RMB23,287,000 higher/lower), mainly as a result of foreign exchange gains or losses on translation of USD and HKD denominated cash and cash equivalents, receivables, payables and borrowings.

#### *(ii) Interest rate risk*

Other than the deposits placed with banks and financial institutions and loan receivables, the Group has no other significant interest-bearing assets. As the average interest rates applied to the deposits are relatively low, the Directors are of the opinion that the Group is not exposed to any significant interest rate risk for these assets held as at 31 December 2020 and 31 December 2019.

The Group's exposures to interest rate risk also arises from its borrowings. Loan receivables and borrowings issued at variable rates expose the Group to cash flow interest rate risk. Management monitors the capital market conditions and certain interest rate swap agreements with banks have been used to achieve an optimal ratio between fixed and floating rates borrowings.

As at 31 December 2020, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's post-tax profit for the year would have been RMB93,214,000 lower/higher (31 December 2019: RMB109,969,000 lower/higher), mainly as a result of higher/lower interest income on loan receivables and interest expenses on borrowings issued at floating rates.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Market risk (Continued)

#### *(iii) Price risk*

As at 31 December 2020, the Group's financial assets at FVOCI amounted to RMB462,317,000 (31 December 2019: RMB396,439,000) as disclosed in note 21 to the consolidated financial statements are measured at fair value at the end of each reporting period. The Group closely monitors the pricing trends in the open market in determining their long-term strategic stockholding decisions.

### (b) Credit risk

Credit risk is managed on a group basis. The Group's credit risk mainly arises from trade and bills receivables, contract assets, deposits and other receivables, loan receivables, financial guarantees, pledged bank deposits and cash and cash equivalents. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

The Group has put in place policies to ensure that provision of shipping services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances. The Group's exposure to credit risk arising from default of counterparties is limited as most of the counterparties are large state-owned enterprises with good credit standing and the Group does not expect any significant loss from trade debtors and for uncollected advances to those entities that have not been provided for other than impairment of trade receivables and contract assets and impairment of other receivables as set out in note 24 to the consolidated financial statements.

As at 31 December 2020, trade and bills receivables due from the top five debtors amounted to RMB343,598,000 (31 December 2019: RMB325,557,000), representing 51% (31 December 2019: 34%) of the total trade and bills receivables.

The Group has provided lease and corporate guarantees relating to the time charter agreements, ship buildings contracts and bank borrowings in respect of certain associates and joint ventures in their ordinary course of business. The Group controls its credit risk to non-performance by its counterparties through monitoring the credit rating of these counterparties. As at 31 December 2020, the Directors are of the opinion that the credit risk is minimal as the associates and joint ventures have good credit standing.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Credit risk (Continued)

As at 31 December 2020 and 31 December 2019, the Group maintains most of its bank deposits in several major government-related financial institutions in the PRC and several non-bank financial institutions which are related parties of the Group. In view of strong state support provided to those government-related financial institutions, the Directors are of the opinion that there is no significant credit risk on such assets being exposed.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities. The Group aims to maintain flexibility in funding by keeping credit lines available at all times.

As at 31 December 2020, the Group's current liabilities exceeded its current assets by approximately RMB2,013,369,000. As at 31 December 2020, the Group has total unutilised uncommitted and committed credit facilities of approximately RMB17,909,000,000 from banks. The Directors believe that, based on experience to date, it is likely that the Group will continue to be able to drawdown loans from these facilities in the foreseeable future if required. In preparing the financial statements, the Directors consider the adequacy of cash inflows from operations and financing to meet its financial obligations as and when they fall due and prepared a cash flow forecast for the Group for the coming 12 months. With the cash inflows from operations and available credit facilities, the Directors consider that the Group will be able to obtain sufficient financing to enable it to operate, meet its liabilities as and when they become due, and satisfy its capital expenditure requirements at least for the coming 12 months. Accordingly, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Liquidity risk (Continued)

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the respective balance sheet dates to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows, except that the amount for derivative financial instruments is the fair value.

| | Within 1 year RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 31 December 2020** | | | | |
| Trade and bills payables | **1,610,104** | **–** | **–** | **1,610,104** |
| Financial liabilities included in other payables and accruals (excluding interest payable) | **864,744** | **–** | **–** | **864,744** |
| Interest payable in relation to borrowings and bonds | **114,990** | **–** | **–** | **114,990** |
| Derivative financial instruments | **–** | **–** | **847,983** | **847,983** |
| Lease liabilities | **402,808** | **396,869** | **1,480,799** | **2,280,476** |
| Interest-bearing bank and other borrowings | **7,196,648** | **2,713,206** | **14,257,613** | **24,167,467** |
| Other loans | **99,138** | **95,707** | **1,132,822** | **1,327,667** |
| Bonds payable | **126,800** | **2,586,917** | **–** | **2,713,717** |
| | **10,415,232** | **5,792,699** | **17,719,217** | **33,927,148** |
| **At 31 December 2019** | | | | |
| Trade and bills payables | 1,922,313 | – | – | 1,922,313 |
| Financial liabilities included in other payables and accruals (excluding interest payable) | 880,752 | – | – | 880,752 |
| Interest payable in relation to borrowings and bonds | 162,647 | – | – | 162,647 |
| Derivative financial instruments | – | – | 631,235 | 631,235 |
| Lease liabilities | 706,248 | 430,338 | 1,998,711 | 3,135,297 |
| Interest-bearing bank and other borrowings | 9,450,137 | 3,268,839 | 19,226,001 | 31,944,977 |
| Other loans | 104,103 | 101,903 | 1,269,213 | 1,475,219 |
| Bonds payable | 126,800 | 126,800 | 2,586,917 | 2,840,517 |
| | 13,353,000 | 3,927,880 | 25,712,077 | 42,992,957 |

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Fair value measurement

*(i) Financial assets and liabilities measured at fair value*

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

| | |
|---|---|
| Level 1 valuations: | Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. |
| Level 2 valuations: | Fair value measured using Level 2, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available. |
| Level 3 valuations: | Fair value measured using significant unobservable inputs. |

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **At 31 December 2020** | | | | |
| Financial assets: | | | | |
| Financial assets at FVOCI | **462,317** | **–** | **–** | **462,317** |
| Financial liabilities: | | | | |
| Derivative financial instruments | **–** | **847,983** | **–** | **847,983** |
| **At 31 December 2019** | | | | |
| Financial assets: | | | | |
| Financial assets at FVOCI | 390,905 | – | 5,534 | 396,439 |
| Financial liabilities: | | | | |
| Derivative financial instruments | – | 631,235 | – | 631,235 |

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Fair value measurement (Continued)

#### (i) *Financial assets and liabilities measured at fair value* (Continued)

Fair value hierarchy (Continued)

During the year ended 31 December 2020 and 31 December 2019, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair values of the listed equity investments are based on the current bid price.

The fair value of other unlisted financial assets is determined by reference to valuation report or the valuation performed by management using valuation techniques (including price/earnings multiple method and direct market quote). The inputs are mainly price/earnings multiples. Discount rates ranging from 20% to 30% are applied to compute the fair value on top of market price/earnings multiples.

The fair value of interest rate swap agreements as derivative financial instruments is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

#### (ii) *Fair value of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial assets and liabilities carried at amortized cost are not materially different from their fair values as at 31 December 2020 and 31 December 2019.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (e) Capital 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 shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Management monitors the Group's capital structure on the basis of a net debt-to-equity ratio. For this purpose, the Group defines net debt as total debts which includes interest-bearing bank and other borrowings, other loans, bonds payable and lease liabilities less cash and cash equivalents.

The Group's net debt-to-equity ratio as at 31 December 2020 and 31 December 2019 is as follows:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| **Total debts** | **26,034,274** | 32,238,569 |
| Less: cash and cash equivalents | **(4,869,963)** | (3,919,500) |
| Net debt | **21,164,311** | 28,319,069 |
| Total equity | **35,602,346** | 29,167,606 |
| Net debt-to-equity ratio | **59%** | 97% |

## 4. ACCOUNTING ESTIMATES AND JUDGEMENTS

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis. The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

### 4.1 Impairment of vessels

The Group's major operating assets represent vessels in property, plants and equipments and right-of-use assets. Management performs review for impairment of the vessels whenever events or changes in circumstances indicate that the carrying amounts of the vessels may not be recoverable.

The recoverable amounts of vessels based on value-in-use calculations which involve significant management judgements and assumptions in particular forecast utilisation, daily time-charter equivalent ("**TCE**") rates, cost inflation rates and discount rates applied to the future cash flows forecasts which have been prepared according to the asset grouped at the lowest level (cash-generating units).

### 4.2 Freight revenue for vessel voyages in progress at year end

The Group recognises freight revenue on a percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage with reference to the voyage details such as freight rates, port loading and discharging information.

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

The Group's major operating assets represent vessels. Management determines the estimated useful lives, residual values and related depreciation expenses for vessels. Management estimates useful lives of vessels by reference to the Group's business model, its assets management policy, the industry practice, expected usage of the vessels, expected repair and maintenance, and technical or commercial obsolescence arising from changes or improvements in the vessel market.

Management determines the estimated residual value for its vessels by reference to all relevant factors (including the use of the current scrap values of steels in an active market) at each measurement date. The depreciation expense will change where the useful lives or residual value of vessels are different from the previous estimate.

## 4. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### 4.3 Estimated useful lives and residual values of vessels (Continued)

Had the useful lives been extended/shortened by 10% from management's estimates as at 31 December 2020 with all other variables held constant, the estimated depreciation expenses of vessels for the year would have been decreased by RMB266,605,000 (for the year ended 31 December 2019: RMB212,254,000) or increased by RMB325,851,000 (for the year ended 31 December 2019: RMB259,421,000) for the year ended 31 December 2020.

Had the residual values been increased/decreased by 10% from management's estimates as at 31 December 2020 with all other variables held constant, the estimated depreciation expenses of vessels for the year would have been decreased or increased by RMB43,865,000 (for the year ended 31 December 2019: RMB64,845,000) for the year ended 31 December 2020.

### 4.4 Income taxes and withholding taxes

The Group is subject to income taxes and withholding taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes and withholding taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the year in which such determination is made.

Deferred tax liabilities have not been established for income tax and withholding tax that would be payable on certain profits of overseas subsidiaries to be repatriated and distributed by way of dividends as the Directors consider that the timing of the reversal of the related temporary differences can be controlled or such profits will not be distributed and such temporary differences will not be reversed in the foreseeable future (see note 22).

If those undistributed earnings of the overseas subsidiaries had been repatriated and distributed by way of dividends, the deferred income tax charge for the year and deferred income tax liabilities as at 31 December 2020 would have been increased by the same amount of RMB616,956,000 (31 December 2019: RMB494,421,000).

Recognition of deferred tax assets, which principally relate to temporary differences, depend on the management's expectation of the timing of reversal and the taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation or reversal may be different (see note 22).

## 4. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### 4.5 Provision for impairment losses on trade and other receivables, contract assets and loan receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. For other receivables and loan receivables, management makes periodic assessments on a portfolio basis on the recoverability based on historical settlement records and past experiences and adjusts for forward looking information.

Management generally assesses whether, other receivables and loan receivables, have not had a significant increase in credit risks since initial recognition, if not, a 12 month expected credit loss approach that results from possible default event within 12 months of each reporting date is adopted by management.

As at 31 December 2020, allowance for trade and other receivables, contract assets and loan receivables amounted to RMB54,637,000 (31 December 2019: RMB63,313,000).

## 5. REVENUES AND SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's business segments are categorized as follows:

a. **oil shipment**

- oil shipment
- vessel chartering

b. **LNG**

c. **others**

- Others mainly include LPG shipping.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of other business segments.

## 5. REVENUES AND SEGMENT INFORMATION (Continued)

### Business segments

There is seasonality for the Group's revenue but the effect is small. An analysis of the Group's revenues and contribution to profit from operating activities by principal activity and geographical area of operations for the year is set out as follows:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2020** | | 2019 | |
| | **Revenues** | **Contribution** | Revenues | Contribution |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| By principal activity: | | | | |
| Oil shipment | | | | |
| – Oil shipment | **13,608,089** | **3,013,119** | 11,223,943 | 1,721,032 |
| – Vessel chartering | **1,352,838** | **193,330** | 1,078,204 | 130,271 |
| | **14,960,927** | **3,206,449** | 12,302,147 | 1,851,303 |
| LNG | **1,266,743** | **662,585** | 1,321,364 | 712,522 |
| Others | **40,527** | **12,610** | 97,629 | 32,293 |
| | **16,268,197** | **3,881,644** | 13,721,140 | 2,596,118 |
| Other income and net gains | | **12,100** | | 146,480 |
| Marketing expenses | | **(56,192)** | | (49,296) |
| Administrative expenses | | **(811,088)** | | (876,990) |
| Reversal of/(provision for) impairment losses on financial and contract assets | | **5,508** | | (3,208) |
| Other expenses | | **(25,925)** | | (106,381) |
| Share of profits of associates | | **247,150** | | 287,807 |
| Share of profits of joint ventures | | **690,558** | | 427,085 |
| Finance costs | | **(1,039,721)** | | (1,419,627) |
| Profit before tax | | **2,904,034** | | 1,001,988 |

## 5. REVENUES AND SEGMENT INFORMATION (Continued)

**Business segments** (Continued)

The Group's revenues for the year are recognised over-time.

The Group's revenues are mainly with contract period of less than one year. So, the Group takes the expedient not to disclose the unsatisfied performance obligation under HKFRS 15.

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Total segment assets | | |
| Oil shipment | **51,845,833** | 51,622,800 |
| LNG | **13,117,400** | 13,413,037 |
| Others | **996,624** | 806,024 |
| | **65,959,857** | 65,841,861 |
| Total segment liabilities | | |
| Oil shipment | **21,361,993** | 27,206,955 |
| LNG | **8,990,598** | 9,437,799 |
| Others | **4,920** | 29,501 |
| | **30,357,511** | 36,674,255 |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2 to the consolidated financial statements. Segment contribution represents the gross profit incurred by each segment without allocation of central administration costs (including emoluments of directors, supervisors and senior management), marketing expenses, reversal of/(provision for) impairment losses on financial and contract assets, other expenses, share of profits of associates, share of profits of joint ventures, other income and net gains and finance costs. This is the measure reported to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment.

## 5. REVENUES AND SEGMENT INFORMATION (Continued)

**Business segments** (Continued)

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment liabilities are these operating liabilities that result from the operating activities of a segment.

As at 31 December 2020, the total net carrying amount of the Group's oil tankers, LNG vessels and LPG vessels were RMB37,623,611,000 (31 December 2019: RMB36,964,619,000), RMB8,304,052,000 (31 December 2019: RMB9,159,126,000) and RMBnil (31 December 2019: RMB106,173,000) respectively.

**Geographical segments**

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2020** | | 2019 | |
| | **Revenues** | **Contribution** | Revenues | Contribution |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| By geographical area: | | | | |
| Domestic | **5,425,735** | **1,498,852** | 5,033,071 | 1,255,558 |
| International | **10,842,462** | **2,382,792** | 8,688,069 | 1,340,560 |
| | **16,268,197** | **3,881,644** | 13,721,140 | 2,596,118 |
| Other income and net gains | | **12,100** | | 146,480 |
| Marketing expenses | | **(56,192)** | | (49,296) |
| Administrative expenses | | **(811,088)** | | (876,990) |
| Reversal of/(provision for) impairment losses on financial and contract assets | | **5,508** | | (3,208) |
| Other expenses | | **(25,925)** | | (106,381) |
| Share of profits of associates | | **247,150** | | 287,807 |
| Share of profits of joint ventures | | **690,558** | | 427,085 |
| Finance costs | | **(1,039,721)** | | (1,419,627) |
| Profit before tax | | **2,904,034** | | 1,001,988 |

During the years ended 31 December 2020 and 2019, total segment revenue represents total consolidated revenue as there were no inter-segment transactions between the business segments.

## 5. REVENUES AND SEGMENT INFORMATION (Continued)

### Other information

| | Oil shipment RMB'000 | LNG RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Year ended 31 December 2020** | | | | |
| Additions to non-current assets | **4,380,960** | **386,539** | **–** | **4,767,499** |
| Depreciation and amortization | **2,693,251** | **307,852** | **3,340** | **3,004,443** |
| Impairment vessels | **840,941** | **–** | **–** | **840,941** |
| Gains/(losses) on disposal of property, plant and equipment, net | **1,076** | **(9)** | **–** | **1,067** |
| Interest income | **74,541** | **26,543** | **560** | **101,644** |
| **Year ended 31 December 2019** | | | | |
| Additions to non-current assets | 1,778,510 | 386 | 2,145 | 1,781,041 |
| Depreciation and amortization | 2,559,236 | 308,036 | 6,268 | 2,873,540 |
| Losses on disposal of property, plant and equipment, net | (902) | – | – | (902) |
| Interest income | 77,027 | 26,236 | 519 | 103,782 |

The principal assets employed by the Group are located in the PRC and, accordingly, no geographical segment analysis of assets and expenditures has been prepared for the years ended 31 December 2020 and 2019.

## 6. OTHER INCOME AND NET GAINS

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Other income | | |
| Government subsidies (note) | **39,993** | 66,414 |
| Interest income from loan receivables | **45,019** | 68,654 |
| Bank interest income | **56,625** | 35,128 |
| Dividends received from financial assets at FVOCI | **12,675** | 10,850 |
| Rental income from investment properties | **1,056** | 5,509 |
| Others | **(9,616)** | (46,889) |
| | **145,752** | 139,666 |
| Other (losses)/gains | | |
| Losses on disposal of shares in subsidiaries | **(40,504)** | (7,926) |
| Losses on disposal of investment properties, net | **(3,513)** | – |
| Exchange (losses)/gains, net | **(104,834)** | 6,623 |
| Gains/(losses) on disposal of property, plant and equipment, net | **1,067** | (902) |
| Losses on revaluation of investment properties, net | **–** | (122) |
| Others | **14,132** | 9,141 |
| | **(133,652)** | 6,814 |
| | **12,100** | 146,480 |

Note: The government subsidies mainly represent the subsidies granted for business development purpose, and refund of tax. There were no unfulfilled conditions or contingencies relating to these subsidies.

## 7. FINANCE COSTS

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| **Total finance costs** | | |
| Interest expenses on: | | |
| – bank loans and other loans and borrowings | **744,259** | 1,109,136 |
| – corporate bonds | **129,147** | 193,469 |
| – interest rate swaps: cash flow hedges, reclassified from other comprehensive income | **111,471** | 50,517 |
| – lease liabilities | **98,678** | 118,019 |
| – exchange gain, net | **(43,834)** | (51,514) |
| | **1,039,721** | 1,419,627 |

During the year, no interest expense is capitalised (for the year ended 31 December 2019: nil).

## 8. PROFIT BEFORE TAX

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| **Cost of shipping services rendered:** | | |
| Bunker oil inventories consumed and port fees | **3,881,596** | 3,934,385 |
| Others (including vessels depreciation and crew expenses, which amount is also included in respective total amounts disclosed separately below) | **7,664,016** | 7,190,637 |
| | **11,545,612** | 11,125,022 |
| Staff costs (including emoluments of directors, supervisors and management (note 10)): | | |
| Wages, salaries, crew expenses and related expenses (including bonus and share-based payments) | **2,711,566** | 2,449,706 |
| Costs for defined benefit plan (note 33) | **2,700** | 64,734 |
| Pension scheme contributions | **3,924** | 32,953 |
| Total staff costs | **2,718,190** | 2,547,393 |
| Auditor's remuneration | **7,400** | 6,749 |
| – Audit services | **6,400** | 6,400 |
| – Non-audit services | **1,000** | 349 |
| Impairment of vessels* | **840,941** | 23,779 |
| Depreciation of property, plant and equipment | **2,450,935** | 2,347,150 |
| Depreciation and amortization of right-of-use assets | **553,508** | 526,390 |
| Dry-docking and repairs | **587,119** | 523,633 |
| (Reversal of)/provision for impairment losses on trade receivables and contract assets | **(19,414)** | 1,244 |
| Provision for impairment losses on other receivables | **13,906** | 1,964 |

* Affected by the epidemic, demand for oil consumption is slowly recovering, the fundamentals of oversupply in the oil transportation market have not yet been fundamentally improved. With regard to the 10 aged foreign trade vessels, they face problems such as high energy consumption, many hidden dangers in safety management, and high greenhouse gas and sulfur oxide emissions, whose profitability was further constrained during downturn in the oil transportation market. Management believes that there are obvious indications of impairment of the aforesaid 10 aged foreign trade vessels.

The impairment loss is included in cost of shipping service in the statement of profit or loss.

## 9. INCOME TAX EXPENSE

### (a) Income tax in the consolidated statement of profit or loss and other comprehensive income

| | Note | For the year ended 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Current income tax | | | |
| PRC | (i) | | |
| – provision for the year | | **255,381** | 229,954 |
| – adjustments for current tax of prior periods | | **2,155** | (544) |
| Hong Kong | | | |
| – provision for the year | | **713** | 944 |
| – adjustments for current tax of prior periods | | **–** | 609 |
| Other districts | (ii) | | |
| – provision for the year | | **1,398** | 515 |
| | | **259,647** | 231,478 |
| Deferred tax | | **12,943** | 98,906 |
| Total income tax expense | | **272,590** | 330,384 |

Note:

(i) PRC Corporate Income Tax

Under the Law of the PRC on Corporate Income Tax Law (the "**CIT Law**") and Implementation Regulation of the CIT Law, the tax rate of the entities within the Group established in the PRC is 25% (for the year ended 31 December 2019: 25%) except for those entities with tax concession.

(ii) Taxes or profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the entities within the Group operate.

## 9. INCOME TAX EXPENSE (Continued)

(b) **The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:**

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Profit before tax | **2,904,034** | 1,001,988 |
| Calculated at a tax rate of 25% (for the year ended 31 December 2019: 25%) | **726,008** | 250,497 |
| Adjustments for current tax of prior periods | **2,155** | 65 |
| Tax effect of share of profits of associates | **(61,788)** | (70,170) |
| Tax effect of share of profits of joint ventures and dividends received | **(38,307)** | (77,059) |
| Tax effect of income not subject to tax | **(65,538)** | (1,518) |
| Tax effect of expenses not deductible for tax | **9,679** | 18,535 |
| Tax effect of unused tax losses not recognised | **4,420** | 220,273 |
| Tax effect of temporary differences not recognised | **198,228** | 68,079 |
| Tax effect of utilisation of tax losses previously not recognised | **(384,442)** | (84,383) |
| Different tax rates of subsidiaries operating in other jurisdictions | **(117,825)** | 6,065 |
| Income tax expense | **272,590** | 330,384 |

## 10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remuneration of directors, supervisors and senior management are disclosed as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Independent non-executive directors (note 10(a)) | | |
| – fees | **1,173** | 1,050 |
| Executive and non-executive directors (excluded independent non-executive directors) (note 10(b)) | | |
| – salaries, allowances and benefits in kind | **1,258** | 1,256 |
| – discretionary bonus | **5,029** | 4,525 |
| – pension scheme contributions | **8** | 117 |
| – share-based payment expenses | **353** | 353 |
| | **6,648** | 6,251 |
| Supervisors (note 10(b)) | | |
| – salaries, allowances and benefits in kind | **1,712** | 1,560 |
| – discretionary bonus | **2,335** | 1,852 |
| – pension scheme contributions | **8** | 108 |
| | **4,055** | 3,520 |
| Senior management | | |
| – salaries, allowances and benefits in kind | **3,091** | 3,429 |
| – discretionary bonus | **11,915** | 9,751 |
| – pension scheme contributions | **24** | 330 |
| – share-based payment expenses | **822** | 992 |
| | **15,852** | 14,502 |
| Total | **27,728** | 25,323 |

## 10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Certain senior management are also executive directors and supervisors. The amounts disclosed above represented emoluments paid or receivable in respect of the executive directors and supervisors' other services in connection with the management of the affairs of the Company or its subsidiary undertakings.

For the year ended 31 December 2020, no share option was exercised.

Details and movements of share options are set out in note 34 to the consolidated financial statements.

**(a) Details of the fees paid to each of the independent non-executive directors during the year were as follows:**

| | | For the year ended 31 December | |
|---|---|---|---|
| | | **2020** | 2019 |
| | Note | **RMB'000** | RMB'000 |
| Mr. Ruan Yongping | | **75** | 150 |
| Mr. Ip Sing Chi | | **150** | 300 |
| Mr. Rui Meng | | **311** | 300 |
| Mr. Teo Siong Seng | | **308** | 300 |
| Mr. Victor Huang | (i) | **161** | – |
| Mr. Li Runsheng | (i) | **84** | – |
| Mr. Zhao Jinsong | (i) | **84** | – |
| | | **1,173** | 1,050 |

Note:

(i) Appointed on 22 June 2020.

There were no other emoluments payable to the independent non-executive directors during the year (for the year ended 31 December 2019: RMBnil).

## 10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(b) Details of the remuneration paid to each of the executive, non-executive directors (excluded independent non-executive directors) and supervisors during the year were as follows:

| | Fees RMB'000 | Salaries allowance and benefits in kind RMB'000 | Discretionary bonus RMB'000 | Pension Scheme contributions RMB'000 | Share-based payments RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2020** | | | | | | |
| **Executive directors** | | | | | | |
| Mr. Liu Hanbo | - | 673 | 2,616 | 4 | 188 | 3,481 |
| Mr. Zhu Maijin | - | 585 | 2,413 | 4 | 165 | 3,167 |
| | - | 1,258 | 5,029 | 8 | 353 | 6,648 |
| **Non-executive directors** | | | | | | |
| Mr. Feng Boming | - | - | - | - | - | - |
| Mr. Zhang Wei | - | - | - | - | - | - |
| Ms. Lin Honghua | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| **Supervisors** | | | | | | |
| Mr. Yang Lei | - | - | - | - | - | - |
| Mr. Xu Yifei | - | 953 | 1,237 | 4 | - | 2,194 |
| Ms. An Zhijuan | - | 759 | 1,098 | 4 | - | 1,861 |
| Mr. Weng Yi | - | - | - | - | - | - |
| | - | 1,712 | 2,335 | 8 | - | 4,055 |

## 10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(b) **Details of the remuneration paid to each of the executive, non-executive directors (excluded independent non-executive directors) and supervisors during the year were as follows:** (Continued)

| | Note | Fees RMB'000 | Salaries allowance and benefits in kind RMB'000 | Discretionary bonus RMB'000 | Pension Scheme contributions RMB'000 | Share-based payments RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | | | | |
| **Executive directors** | | | | | | | |
| Mr. Liu Hanbo | | – | 639 | 2,252 | 56 | 188 | 3,135 |
| Mr. Zhu Maijin | (i) | – | 368 | 1,348 | 37 | 165 | 1,918 |
| Mr. Lu Junshan | (ii) | – | 249 | 925 | 24 | – | 1,198 |
| | | – | 1,256 | 4,525 | 117 | 353 | 6,251 |
| **Non-executive directors** | | | | | | | |
| Mr. Feng Boming | | – | – | – | – | – | – |
| Mr. Zhang Wei | | – | – | – | – | – | – |
| Ms. Lin Honghua | | – | – | – | – | – | – |
| | | – | – | – | – | – | – |
| **Supervisors** | | | | | | | |
| Mr. Yang Lei | | – | – | – | – | – | – |
| Mr. Xu Yifei | | – | 883 | 975 | 54 | – | 1,912 |
| Ms. An Zhijuan | | – | 677 | 877 | 54 | – | 1,608 |
| Mr. Weng Yi | | – | – | – | – | – | – |
| | | – | 1,560 | 1,852 | 108 | – | 3,520 |

Note:

(i) Appointed on 10 June 2019.

(ii) Retired on 10 June 2019.

There were no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the years ended 31 December 2020 and 2019.

## 10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

### (c) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2019: Nil).

### (d) Directors' termination payments or benefits

No payment was made or benefit provided to directors as compensation for the early termination of the appointment or in respect of termination of the services of directors during the year (2019: Nil).

### (e) Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by any third party for making available the services of a person as a director of a company, or in any other capacity while as a director (2019: Nil).

### (f) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors during the year (2019: Nil).

### (g) 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 (2019: Nil).

## 11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (for the year ended 31 December 2019: one) directors and no (for the year ended 31 December 2019: none) supervisor, details of whose emoluments are set out in note 10 to the consolidated financial statements. Details of the emoluments of the remaining three (for the year ended 31 December 2019: four) highest paid non-director and non-supervisor individuals for the year were as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **1,623** | 2,696 |
| Discretionary bonus | **6,157** | 9,268 |
| Pension scheme contributions | **12** | 276 |
| Share-based payment expenses | **503** | 864 |
| | **8,295** | 13,104 |

The emoluments of the three (for the year ended 31 December 2019: four) highest paid non-director and non-supervisor individuals fell within the following bands:

| | Number of individuals For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| RMB1,778,560 to RMB2,223,200 (2019: RMB1,759,400 to RMB2,199,250) (equivalent to HKD2,000,000 to HKD2,500,000) | **–** | – |
| RMB2,223,200 to RMB2,667,840 (2019: RMB2,199,251 to RMB2,639,100) (equivalent to HKD2,500,001 to HKD3,000,000) | **3** | 4 |
| RMB2,667,840 to RMB3,112,480 (2019: RMB2,639,101 to RMB3,078,950) (equivalent to HKD3,000,001 to HKD3,500,000) | **–** | – |

During the year, no remuneration were paid by the Group to any of the Directors, supervisors and senior management or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (for the year ended 31 December 2019: RMB nil).

## 12. DIVIDENDS

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Final dividend for 2019 – RMB0.04 (31 December 2019: Final dividend for 2018 – RMB0.02) per share | **190,508** | 80,641 |

Final dividend of RMB0.04 per share in respect of the year ended 31 December 2019 was approved by shareholders at the annual general meeting held on 22 June 2020 and a total amount of RMB190,508,000 was paid during the year.

At the Board meeting held on 30 March 2021, the Directors proposed a final dividend of RMB952,538,000 representing RMB0.2 per share, in respect of the year ended 31 December 2020. This proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting on a date to be fixed, and has not been recognised as a liability at the end of the year.

## 13. EARNINGS PER SHARE

### (a) Basic

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| Profit attributable to equity holders of the Company (RMB'000) | **2,381,415** | 413,857 |
| Weighted average number of ordinary shares in issue (thousand) | **4,580,027** | 4,032,033 |
| Basic earnings per share (RMB cents/share) | **52.00** | 10.26 |

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average numbers of ordinary shares in issue during the year.

## 13. EARNINGS PER SHARE (Continued)

### (b) Diluted

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| Profit attributable to equity holders of the Company (RMB'000) | **2,381,415** | 413,857 |
| Weighted average number of ordinary shares in issue (thousand) | **4,580,027** | 4,032,033 |
| Adjustments for share options (thousand) | **3,159** | – |
| Weighted average number of ordinary shares for diluted earnings per share (thousand) | **4,583,186** | 4,032,033 |
| Diluted earnings per share (RMB cents/share) | **51.96** | 10.26 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company's potentially dilutive ordinary shares comprised of share options.

## 14. INVESTMENT PROPERTIES

As at 31 December 2020 and 31 December 2019, the Group's properties are leased to other parties under operating leases to earn rental income and are measured using the fair value model. As a result, these properties are classified and accounted for as investment properties. Movements of the investment properties during the year are set out below:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| At the beginning of the year | **50,714** | 21,286 |
| Transfer from property, plant and equipment | **–** | 23,473 |
| Disposals | **(36,814)** | – |
| Net gain on revaluation recognised in other comprehensive income | **–** | 6,077 |
| Net loss on revaluation recognised in profit or loss | **(3,513)** | (122) |
| At the end of the year | **10,387** | 50,714 |

The Group's investment properties comprise certain commercial buildings located in the PRC, held under medium term lease. As at 31 December 2020 and 31 December 2019, the fair value of their investment properties is based on level 2 fair value hierarchy.

During the year, the Group reclassified some commercial building from property, plant and equipment to investment properties. The fair value of the investment properties as at 31 December 2020 and 31 December 2019 have been arrived at on the basis of a valuation carried out by independent valuers. The fair value of these investment properties was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of these investment properties, the highest and best use of these investment properties is their current use. There has been no change from the valuation technique used in prior years.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements RMB'000 | Vessels RMB'000 | Machinery and equipment RMB'000 | Motor vehicles RMB'000 | Buildings RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | | | |
| **Cost** | | | | | | | |
| At 1 January 2020 | 41,515 | 63,119,853 | 54,460 | 33,337 | 1,766,278 | 1,327,075 | 66,342,518 |
| Additions | 183 | – | 1,305 | 178 | – | 4,765,833 | 4,767,499 |
| Transfer in/(out) | – | 4,815,227 | 4,898 | – | – | (4,820,125) | – |
| Disposals | – | (53,944) | (10,287) | (7,841) | (261,527) | – | (333,599) |
| Disposal of subsidiaries | – | (252,905) | (174) | (1,923) | (936) | – | (255,938) |
| Currency translation differences | (180) | (2,256,762) | (264) | (41) | – | (32,318) | (2,289,565) |
| At 31 December 2020 | 41,518 | 65,371,469 | 49,938 | 23,710 | 1,503,815 | 1,240,465 | 68,230,915 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 January 2020 | 28,814 | 16,889,935 | 34,909 | 25,077 | 202,889 | – | 17,181,624 |
| Charge for the year | 3,306 | 2,386,841 | 6,283 | 1,450 | 53,055 | – | 2,450,935 |
| Disposals | – | (44,538) | (8,879) | (6,102) | (47,825) | – | (107,344) |
| Disposal of subsidiaries | – | (148,501) | (174) | (1,520) | (882) | – | (151,077) |
| Currency translation differences | (180) | (480,872) | (217) | (39) | – | – | (481,308) |
| Impairment loss | – | 840,941 | – | – | – | – | 840,941 |
| At 31 December 2020 | 31,940 | 19,443,806 | 31,922 | 18,866 | 207,237 | – | 19,733,771 |
| **Net book amount** | | | | | | | |
| At 31 December 2020 | 9,578 | 45,927,663 | 18,016 | 4,844 | 1,296,578 | 1,240,465 | 48,497,144 |
| At 31 December 2019 | 12,701 | 46,229,918 | 19,551 | 8,260 | 1,563,389 | 1,327,075 | 49,160,894 |

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Leasehold improvements RMB'000 | Vessels RMB'000 | Machinery and equipment RMB'000 | Motor vehicles RMB'000 | Buildings RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | |
| Cost | | | | | | | |
| At 1 January 2019 | 33,613 | 61,733,378 | 100,156 | 32,918 | 1,791,682 | 385,662 | 64,077,409 |
| Additions | 7,856 | 461,789 | 1,993 | 735 | 1,720 | 1,254,080 | 1,728,173 |
| Transfer in/(out) | – | 312,203 | 4,515 | – | – | (316,718) | – |
| Transfer to investment properties | – | – | – | – | (27,124) | – | (27,124) |
| Disposals | – | – | (52,274) | (326) | – | – | (52,600) |
| Currency translation differences | 46 | 612,483 | 70 | 10 | – | 4,051 | 616,660 |
| At 31 December 2019 | 41,515 | 63,119,853 | 54,460 | 33,337 | 1,766,278 | 1,327,075 | 66,342,518 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 January 2019 | 15,741 | 14,478,133 | 80,421 | 23,122 | 149,147 | – | 14,746,564 |
| Charge for the year | 13,028 | 2,267,814 | 6,657 | 2,258 | 57,393 | – | 2,347,150 |
| Transfer to investment properties | – | – | – | – | (3,651) | – | (3,651) |
| Disposals | – | – | (52,222) | (313) | – | – | (52,535) |
| Currency translation differences | 45 | 120,209 | 53 | 10 | – | – | 120,317 |
| Impairment loss | – | 23,779 | – | – | – | – | 23,779 |
| At 31 December 2019 | 28,814 | 16,889,935 | 34,909 | 25,077 | 202,889 | – | 17,181,624 |
| **Net book amount** | | | | | | | |
| At 31 December 2019 | 12,701 | 46,229,918 | 19,551 | 8,260 | 1,563,389 | 1,327,075 | 49,160,894 |
| At 31 December 2018 | 17,872 | 47,255,245 | 19,735 | 9,796 | 1,642,535 | 385,662 | 49,330,845 |

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2020, the Group's certain vessels are leased to other parties under operating leases. Further details of the vessels under operating lease arrangements are as follows:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Cost | **19,056,351** | 14,167,163 |
| Accumulated depreciation | **(2,875,707)** | (1,706,684) |
| Net carrying amount | **16,180,644** | 12,460,479 |

Further details of the Group's operating lease arrangements as lessee are disclosed in note 16 to the consolidated financial statements.

As at 31 December 2020, the Group's certain vessels and vessels under construction were pledged to secure general banking facilities granted to the Group (see note 30).

During the year, no interest expense (for the year ended 31 December 2019: RMB nil) were capitalised in vessel costs.

## 16. LEASE

This note provides information for leases where the Group is a lessee.

### (i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Right-of-use assets | | |
| Vessels | **1,639,153** | 2,329,921 |
| Prepaid land lease payments* | **43,096** | 72,463 |
| Properties | **8,475** | 12,316 |
| Motor vehicles | **–** | 53 |
| | **1,690,724** | 2,414,753 |
| Lease liabilities | | |
| Current | **325,126** | 586,728 |
| Non-current | **1,699,996** | 2,145,306 |
| | **2,025,122** | 2,732,034 |

* The Group has land lease arrangement with mainland China government.

Additions to the right-of-use assets for the year ended 31 December 2020 were RMB nil (for the year ended 31 December 2019: RMB52,868,000).

## 16. LEASE (Continued)

### (ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Depreciation charge of right-of-use assets | | |
| Vessels | **547,761** | 519,386 |
| Properties | **3,748** | 4,573 |
| Prepaid land lease payments | **1,947** | 2,379 |
| Motor vehicles | **52** | 52 |
| | **553,508** | 526,390 |
| Interest expense (included in finance cost) | **98,678** | 118,019 |
| Expense relating to short-term leases | **13,503** | 14,251 |

The total cash outflow for leases in 2020 was RMB660,575,000 (2019: RMB646,857,000).

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

The Group leases various buildings, vessels, and vehicles. Rental contracts are typically made for fixed periods of 2 years to 16 years, but may have extension options as described in (iv) below.

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 other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

### (iv) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

## 17. GOODWILL

There were two cash generating units ("**CGU**") in the year related to oil transportation and vessel chartering services. For the purpose of impairment testing, the recoverable amount of the CGU is determined based on a value in use calculation separately prepared for goodwill impairment assessment relating to Guangzhou Sanding Oil-Shipping Co., Ltd. of RMB58,168,000(31 December 2019: RMB58,168,000) and COSCO PetroChina SHIPPING Co., Ltd. ("**COSCO PetroChina SHIPPING**") of RMB15,157,000 (31 December 2019: RMB15,157,000). That calculation uses cash flow projections based on the most recent financial budgets of 5 years approved by management, cash flows beyond the 5-year-on-year are extrapolated using nil growth rate, and a discount rate of 9.5% (31 December 2019: 9.91%). The growth rate for the extrapolation year is based on management's best estimates with consideration of both internal and external factors relating to the CGU. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of these subsidiaries to exceed their recoverable amount.

## 18. INVESTMENTS IN ASSOCIATES

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Share of net assets | **1,937,197** | 1,519,950 |
| Goodwill | **835,105** | 835,105 |
| | **2,772,302** | 2,355,055 |

## 18. INVESTMENTS IN ASSOCIATES (Continued)

As at 31 December 2020, the Group had investments in the following associates which are all unlisted corporate entities whose quoted market price is not available:

| Name | Place of incorporation and operations/legal status | Issued/registered capital | Proportion of ownership interest held by the Group | | Proportion of voting power held by the Group | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | **2020** | 2019 | **2020** | 2019 | |
| Shanghai Beihai Shipping Company Limited ("**Shanghai Beihai**") | The PRC/Limited liability company | RMB763,750,000 | **40%** | 40% | **40%** | 40% | Petroleum product transportation and vessel chartering |
| COSCO Shipping Finance Co., Ltd. ("**CS Finance**") | The PRC/Limited liability company | RMB6,000,000,000 (2019: RMB2,800,000,000) | **11%** | 11% | **11%** | 11% | Banking and related financial services |
| Aquarius LNG Shipping Limited ("**Aquarius LNG**") | Hong Kong/Limited liability company | USD1,000 | **21%** | 21% | **30%** | 30% | LNG vessel chartering |
| Aries LNG Shipping Limited ("**Aries LNG**") | Hong Kong/Limited liability company | USD1,000 | **27%** | 27% | **30%** | 30% | LNG vessel chartering |
| Capricorn LNG Shipping Limited ("**Capricorn LNG**") | Hong Kong/Limited liability company | USD1,000 | **27%** | 27% | **30%** | 30% | LNG vessel chartering |
| Gemini LNG Shipping Limited ("**Gemini LNG**") | Hong Kong/Limited liability company | USD1,000 | **21%** | 21% | **30%** | 30% | LNG vessel chartering |

All of the above associates are accounted for using the equity method in the consolidated financial statements.

## 18. INVESTMENTS IN ASSOCIATES (Continued)

Summarized financial information of an associate that is material to the Group and reconciliation to the carrying amount of the Group's interest in the associate is disclosed as follows:

| | Shanghai Beihai | |
|---|---|---|
| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
| Non-current assets | **2,097,207** | 1,870,366 |
| Current assets | **849,045** | 737,924 |
| Non-current liabilities | **(363,840)** | (60,640) |
| Current liabilities | **(139,906)** | (259,310) |
| Net assets | **2,442,506** | 2,288,340 |
| Proportion of the Group's ownership interest | **40%** | 40% |
| Group's share of net assets | **977,002** | 915,336 |
| Goodwill | **835,105** | 835,105 |
| Carrying amount of the Group's interest in the associate | **1,812,107** | 1,750,441 |

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| **For the year ended 31 December** | | |
| Revenues | **1,589,050** | 1,517,250 |
| Profit for the year | **559,277** | 492,042 |
| Other comprehensive loss | **–** | (126) |
| Total comprehensive income for the year | **559,277** | 491,916 |
| Dividends received from the associate | **160,000** | 240,000 |

## 18. INVESTMENTS IN ASSOCIATES (Continued)

The aggregate information of the Group's associates that are not individually material to the Group is disclosed as follows:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | **960,195** | 604,614 |
| **For the year ended 31 December** | | |
| Aggregate amounts of the Group's share of: | | |
| Profit for the year | **25,484** | 90,990 |
| Other comprehensive income/(loss) | **17,535** | (17,478) |
| Total comprehensive income for the year | **43,019** | 73,512 |

## 19. INVESTMENTS IN JOINT VENTURES

| | **31 December** | 31 December |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Share of net assets | **2,809,277** | 2,709,852 |
| Goodwill | **477,105** | 477,105 |
| | **3,286,382** | 3,186,957 |

## 19. INVESTMENTS IN JOINT VENTURES (Continued)

As at 31 December 2020, the Group had investments in the following joint ventures which are all unlisted corporate entities whose quoted market price is not available:

| Name | Place of incorporation and operations/legal status | Issued/ registered capital | Proportion of ownership interest, voting power and profit sharing attributable to the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | **2020** | 2019 | |
| China LNG Shipping (Holdings) Limited ("**CLNG**") | Hong Kong/Limited liability company | USD513,439,182 | **50%** | 50% | Investment holding |
| Arctic Blue LNG Shipping Limited | Hong Kong/Limited liability company | USD1,000 | **50%** | 50% | Vessel holding |
| Arctic Green LNG Shipping Limited | Hong Kong/Limited liability company | USD1,000 | **50%** | 50% | Vessel holding |
| Arctic Purple LNG Shipping Limited | Hong Kong/Limited liability company | USD1,000 | **50%** | 50% | Vessel holding |
| Arctic Red LNG Shipping Limited | Hong Kong/Limited liability company | USD1,000 | **50%** | 50% | Vessel holding |
| Arctic Orange LNG Shipping Limited | Hong Kong/Limited liability company | USD1,000 | **50%** | 50% | Vessel holding |
| Arctic Yellow LNG Shipping Limited | Hong Kong/Limited liability company | USD1,000 | **50%** | 50% | Vessel holding |
| Arctic Indigo LNG Shipping Limited | Hong Kong/Limited liability company | USD1,000 | **50%** | 50% | Vessel holding |

All of the above joint ventures are accounted for using the equity method in the consolidated financial statements.

## 19. INVESTMENTS IN JOINT VENTURES (Continued)

Summarized financial information of a joint venture that is material to the Group and reconciliation to the carrying amount of the Group's interest in the joint venture is disclosed as follows:

| | CLNG | |
|---|---|---|
| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
| Non-current assets | **7,507,246** | 8,184,523 |
| Current assets | **726,638** | 904,154 |
| Cash and cash equivalents | **716,826** | 895,880 |
| Other current assets | **9,812** | 8,274 |
| Non-current liabilities | **(2,808,972)** | (3,353,406) |
| Current liabilities | **(530,404)** | (715,083) |
| Net assets | **4,894,508** | 5,020,188 |
| Non-controlling interests | **(923,704)** | (933,957) |
| | **3,970,804** | 4,086,231 |
| Proportion of the Group's ownership interest | **50%** | 50% |
| Group's share of net assets | **1,985,402** | 2,043,116 |
| Goodwill | **477,105** | 477,105 |
| Carrying amount of the Group's interest in the joint venture | **2,462,507** | 2,520,221 |

| **For the year ended 31 December** | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Revenues | **1,050,461** | 1,214,262 |
| Profit for the year | **1,121,688** | 841,838 |
| Other comprehensive loss | **(219,329)** | (253,073) |
| Total comprehensive income for the year | **902,359** | 588,765 |
| Dividends received from the joint ventures | **279,685** | 173,494 |

## 19. INVESTMENTS IN JOINT VENTURES (Continued)

The aggregate information of the Group's joint ventures that are not individually material to the Group is disclosed as follows:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements | **823,875** | 666,736 |
| **For the year ended 31 December** | | |
| Aggregate amounts of the Group's share of: | | |
| Profit for the year | **219,754** | 86,084 |
| Other comprehensive income/(loss) | **17,843** | (7,275) |
| Total comprehensive income for the year | **237,597** | 78,809 |

## 20. LOAN RECEIVABLES

| | Note | **31 December 2020** | 31 December 2019 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| Loans to associates | (i) | **383,124** | 405,757 |
| Loans to joint ventures | (ii) | **900,464** | 852,958 |
| | | **1,283,588** | 1,258,715 |
| Less: current portion | | **(38,561)** | (27,786) |
| Non-current portion | | **1,245,027** | 1,230,929 |

## 20. LOAN RECEIVABLES (Continued)

Note:

(i) As at 31 December 2020, loans to associates are unsecured, interest-bearing at approximately 4.49% to 6.54% over 3-month London Inter-bank offered Rate ("LIBOR") (31 December 2019: approximately 3.70% to 4.43% over 3-month LIBOR) per annum and repayable in 2030 and 2031.

(ii) As at 31 December 2020 and 31 December 2019, loans to joint ventures are unsecured, interest-bearing at 3-month LIBOR plus 0.80% per annum, 3-month LIBOR plus 1.30% per annum and Euro Interbank Offered Rate plus 0.50% per annum and repayable within 20 years after the joint ventures' vessels construction projects are completed.

As at 31 December 2020 and 31 December 2019, all loan receivables are denominated in USD.

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### (a) Equity investments at fair value through other comprehensive income

Equity investments at FVOCI comprise the following investments in listed and unlisted equity:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Listed equity investments in the PRC | **462,317** | 390,905 |
| Unlisted equity investments | **–** | 5,534 |
| | **462,317** | 396,439 |

### (b) Amounts recognised in profit or loss and other comprehensive income

During the year, the following profit were recognised in other comprehensive income (net of tax).

| | **For the year ended 31 December** | |
|---|---|---|
| | **2020 RMB'000** | 2019 RMB'000 |
| Gain recognised in other comprehensive income | **52,594** | 96,092 |

## 22. DEFERRED TAX ASSETS AND LIABILITIES

(a) **Components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:**

| | Adoption of HKFRS16 | Accelerated tax depreciation | Others | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2019 | 67,405 | 47,554 | 14 | 114,973 |
| Charge to profit or loss | (67,405) | (2,389) | (14) | (69,808) |
| At 31 December 2019 and 1 January 2020 | **–** | **45,165** | **–** | **45,165** |
| Charge to profit or loss | **–** | **(2,389)** | **–** | **(2,389)** |
| At 31 December 2020 | **–** | **42,776** | **–** | **42,776** |

## 22. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

(b) **Components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:**

| | **Revaluation of investment properties** RMB'000 | **Fair value change on FVOCI** RMB'000 | **Unremitted earnings** RMB'000 | **Accelerated tax depreciation** RMB'000 | **Others** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 2,168 | 58,374 | 54,186 | 246,510 | 4,584 | 365,822 |
| Charge/(credit) to profit or loss | (4,341) | – | 38,128 | (5,046) | 357 | 29,098 |
| Credit to other comprehensive income | 1,519 | 32,031 | – | – | – | 33,550 |
| Transfer in/(out) | 5,092 | – | – | (5,092) | – | – |
| Exchange realignment | – | – | – | – | 6 | 6 |
| At 31 December 2019 and at 1 January 2020 | **4,438** | **90,405** | **92,314** | **236,372** | **4,947** | **428,476** |
| Charge/(credit) to profit or loss | **(1,782)** | **–** | **25,838** | **(13,219)** | **(283)** | **10,554** |
| Charge/(credit) to other comprehensive income | **(1,519)** | **17,531** | **–** | **–** | **–** | **16,012** |
| Exchange realignment | **–** | **–** | **–** | **–** | **(25)** | **(25)** |
| At 31 December 2020 | **1,137** | **107,936** | **118,152** | **223,153** | **4,639** | **455,017** |

## 22. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

**(c) An analysis of the deferred tax balances for the consolidated statement of financial position are disclosed as follows:**

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Deferred tax assets | **42,776** | 45,165 |
| Deferred tax liabilities | **(455,017)** | (428,476) |
| | **(412,241)** | (383,311) |

As at 31 December 2020, deferred tax asset in respect of tax losses of RMB1,528,480,000(31 December 2019: RMB3,507,288,000), which will expire within five years, has not been recognised in the consolidated financial statements as it is not certain that future taxable profit will be available against which these losses can be utilised.

As at 31 December 2020, the unrecognised deferred income tax liabilities were RMB616,956,000(31 December 2019: RMB494,421,000), relating to income tax and withholding tax that would be payable for undistributed profits of certain overseas subsidiaries, as the Directors considered that the timing for the reversal of the related temporary differences can be controlled or such profits will not be distributed and such temporary differences will not be reversed in the foreseeable future. The total undistributed profits of these overseas subsidiaries as at 31 December 2020 amounted to RMB2,519,835,000(31 December 2019: RMB1,977,684,000).

## 23. INVENTORIES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| Bunker oil inventories | **620,825** | 546,171 |
| Ship stores and spare parts | **238,647** | 228,089 |
| | **859,472** | 774,260 |

## 24. TRADE AND BILLS RECEIVABLES AND CONTRACT ASSETS

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| Trade and bills receivables from third parties | **450,899** | 764,870 |
| Trade receivables from a joint venture | **35** | 132 |
| Trade receivables from fellow subsidiaries | **16,942** | 7,910 |
| Trade receivables from related companies (note) | **211,935** | 197,331 |
| | **679,811** | 970,243 |
| Less: allowance for doubtful debts (note 24(b)) | **(11,302)** | (32,561) |
| | **668,509** | 937,682 |
| Current contract assets relating to oil shipment contracts | **636,761** | 473,262 |
| Less: allowance (note 24(b)) | **(4,718)** | (3,648) |
| Total contract assets | **632,043** | 469,614 |

Note: Related companies are entities that the fellow subsidiaries of the Company either have joint control or significant influence.

## 24. TRADE AND BILLS RECEIVABLES AND CONTRACT ASSETS (Continued)

Trade receivables from fellow subsidiaries and related companies are unsecured, non-interest-bearing and under normal credit year as other trade receivables.

As at 31 December 2020, trade and bills receivables and contract assets of RMB686,523,000 (31 December 2019: RMB706,628,000) are denominated in USD.

**(a)** As of the end of the year, the ageing analysis of trade and bills receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Within 3 months | **514,041** | 619,775 |
| 4 – 6 months | **73,717** | 124,636 |
| 7 – 9 months | **31,587** | 68,726 |
| 10 – 12 months | **28,788** | 47,863 |
| 1 – 2 years | **19,984** | 63,443 |
| Over 2 years | **392** | 13,239 |
| | **668,509** | 937,682 |

## 24. TRADE AND BILLS RECEIVABLES AND CONTRACT ASSETS (Continued)

### (b) Impairment of trade receivables and contract assets

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

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled service provided and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2020 or 31 December 2019 respectively and the corresponding historical credit losses experienced within this year. 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. The Group has identified the GDP and the unemployment rate of the countries in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for both trade receivables and contract assets:

| 31 December 2020 | **Within 6 months RMB'000** | **7– 12 months RMB'000** | **Over 1 year RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| Expected loss rate | **0.71%** | **4.10%** | **18.88%** | **1.22%** |
| Gross carrying amount- trade receivables | **591,738** | **62,956** | **25,117** | **679,811** |
| Gross carrying amount- contract assets | **636,761** | **–** | **–** | **636,761** |
| Loss allowance | **8,698** | **2,581** | **4,741** | **16,020** |

## 24. TRADE AND BILLS RECEIVABLES AND CONTRACT ASSETS (Continued)

### (b) Impairment of trade receivables and contract assets (Continued)

| 31 December 2019 | Within 6 months RMB'000 | 7– 12 months RMB'000 | Over 1 year RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Expected loss rate | 1.35% | 2.23% | 18.09% | 2.51% |
| Gross carrying amount- trade receivables | 757,378 | 119,246 | 93,619 | 970,243 |
| Gross carrying amount- contract assets | 473,262 | – | – | 473,262 |
| Loss allowance | 16,615 | 2,657 | 16,937 | 36,209 |

The closing loss allowances for trade receivables and contract assets as at 31 December 2020 reconcile to the opening loss allowances as follows:

| | Trade receivables and Contract assets | |
|---|---|---|
| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
| **At the beginning of the year** | **36,209** | 34,806 |
| Impairment losses (reversed)/recognised | **(19,414)** | 1,244 |
| Disposal of subsidiaries | **(322)** | – |
| Exchange realignment | **(453)** | 159 |
| **At the end of the year** | **16,020** | 36,209 |

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| Prepayments | **74,271** | 99,201 |
| Deposits and other receivables | **517,120** | 368,924 |
| Due from fellow subsidiaries | **163,110** | 149,507 |
| Due from associates | **1,725** | 29,930 |
| Due from joint ventures | **481** | 110,505 |
| Due from related companies (note) | **92,071** | 66,964 |
| | **848,778** | 825,031 |
| Less: impairment of other receivables (note 25(a)) | **(38,617)** | (27,104) |
| | **810,161** | 797,927 |

Note: Related companies are entities that the fellow subsidiaries of the Company either have joint control or significant influence.

The amounts due from fellow subsidiaries, associates, joint ventures and related companies are unsecured, non-interest-bearing and repayable on demand.

As at 31 December 2020, prepayments, deposits and other receivables of RMB315,565,000 (31 December 2019: RMB220,288,000) are denominated in USD.

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

### (a) Impairment of other receivables

The movement of the impairment of other receivables during the year is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| At the beginning of the year | **27,104** | 24,706 |
| Impairment losses recognised | **13,906** | 1,964 |
| Disposal of subsidiaries | **–** | (26) |
| Impairment losses written off | **(64)** | – |
| Exchange realignment | **(2,329)** | 460 |
| At the end of the year | **38,617** | 27,104 |

Management makes periodic assessment on a portfolio basis on the recoverability of other receivables based on historical settlement records, past experiences and adjusts for forward looking information in determining the impairment of other receivables.

## 26. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | Note | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|---|
| Pledged bank deposits | (i) | **764** | 861 |
| Balances placed with CS Finance | (ii) | **3,205,763** | 1,784,637 |
| Unpledged bank balances and cash | | **1,664,200** | 2,134,863 |
| Cash and cash equivalents | | **4,869,963** | 3,919,500 |
| Total bank deposits and cash and cash equivalents | | **4,870,727** | 3,920,361 |

Note:

(i) Pledged bank deposits were held as security for general banking facilities granted by banks to the Group (see note 30) and other bank guarantees.

(ii) CS Finance is an associate of the Company, and balances placed bear interest of prevailing market rates.

As at 31 December 2020, cash and cash equivalents of RMB2,329,007,000 (31 December 2019: RMB2,468,743,000) are denominated in USD.

## 27. TRADE AND BILLS PAYABLES

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Trade and bills payables to third parties | **937,020** | 1,204,403 |
| Trade payables to fellow subsidiaries | **662,178** | 699,865 |
| Trade payables to an associate | **5,353** | 5,860 |
| Trade payables to related companies (note) | **5,553** | 12,185 |
| | **1,610,104** | 1,922,313 |

Note: Related companies are entities that the fellow subsidiaries of the Company either have joint control or significant influence.

Trade payables due to, fellow subsidiaries, an associate and related companies are unsecured, non-interest-bearing and under normal credit year as other trade payables.

As at 31 December 2020, trade and bills payables of RMB647,465,000 (31 December 2019: RMB728,198,000) are denominated in USD.

An ageing analysis of trade and bills payables at the end of the year, based on the invoice date, is as follows:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Within 3 months | **1,257,446** | 1,239,218 |
| 4 – 6 months | **61,626** | 276,028 |
| 7 – 9 months | **30,439** | 51,804 |
| 10 – 12 months | **13,382** | 68,396 |
| 1 – 2 years | **38,010** | 69,741 |
| Over 2 years | **209,201** | 217,126 |
| | **1,610,104** | 1,922,313 |

Trade and bills payables are non-interest-bearing and are normally settled in 1 to 3 months.

## 28. OTHER PAYABLES AND ACCRUALS

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Accruals | **425,431** | 342,918 |
| Other payables | **377,830** | 412,466 |
| Due to fellow subsidiaries | **271,463** | 224,370 |
| Due to other related companies (note) | **61,427** | 78,609 |
| Due to ultimate holding company | **–** | 1,320 |
| Due to immediate holding company | **–** | 1,100 |
| | **1,136,151** | 1,060,783 |

Note: Related companies are entities that the fellow subsidiaries of the Company either have joint control or significant influence.

The amounts due to ultimate holding company, immediate holding company, fellow subsidiaries, an associate, and other related parties are unsecured, non-interest-bearing and repayable on demand.

Other payables and accruals are non-interest-bearing and are normally settled in 1 to 3 months.

As at 31 December 2020, financial liabilities included in other payables and accruals of RMB360,551,000 (31 December 2019: RMB250,746,000) are denominated in USD.

## 29. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2020, the Group had interest rate swap agreements with total notional principal amount of approximately USD527,507,000(equivalent to RMB3,441,930,000) (31 December 2019: approximately USD546,631,000 (equivalent to RMB3,813,407,000)) which will mature in 2031, 2032 and 2033 (31 December 2019: 2031, 2032 and 2033). These interest rate swap agreements are designated as cash flow hedges in respect of the Group's certain portion of bank borrowings with floating interest rates.

For the year ended 31 December 2020, the floating interest rates of the bank borrowings were 3-month LIBOR plus 2.20% (31 December 2019: 3-month LIBOR plus 2.20%).

## 30. INTEREST-BEARING BANK AND OTHER BORROWINGS

(a) As at 31 December 2020 and 31 December 2019, details of the interest-bearing bank and other borrowings are as follows:

| | Maturity | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| **(i) Bank borrowings** | | | |
| Secured | 2021 | **1,303,003** | 1,298,978 |
| Unsecured | 2021 | **5,346,418** | 5,022,864 |
| | | **6,649,421** | 6,321,842 |
| **(ii) Other borrowings** | | | |
| Unsecured | 2021 | **33,000** | 2,233,000 |
| Interest-bearing bank and other borrowings – current portion | | **6,682,421** | 8,554,842 |
| **Non-current liabilities** | | | |
| **(i) Bank borrowings** | | | |
| Secured | 2022 to 2033 | **12,851,065** | 15,124,697 |
| Unsecured | 2022 | **848,237** | 2,057,979 |
| | | **13,699,302** | 17,182,676 |
| **(ii) Other borrowings** | | | |
| Unsecured | 2022 to 2025 | **109,850** | 142,850 |
| Interest-bearing bank and other borrowings – non-current portion | | **13,809,152** | 17,325,526 |

As at 31 December 2020, the Group's interest-bearing bank borrowings were secured by pledges of the Group's 45 (31 December 2019: 45) vessels with total net carrying amount of RMB23,326,942,000 (31 December 2019: RMB25,869,196,000).

As at 31 December 2020, secured bank borrowings of RMB14,033,368,000 (31 December 2019: RMB16,274,975,000) and unsecured bank borrowings of RMB6,194,655,000 (31 December 2019: RMB7,080,843,000) are denominated in USD.

## 30. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

(b) As at 31 December 2020 and 31 December 2019, the interest-bearing bank and other borrowings were repayable as follows:

| | Bank borrowings RMB'000 | Other borrowings RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 31 December 2020** | | | |
| **Current portion** | | | |
| Within one year | **6,649,421** | **33,000** | **6,682,421** |
| **Non-current portion** | | | |
| In the second year | **2,242,145** | **33,000** | **2,275,145** |
| In the third to fifth years, inclusive | **3,357,472** | **76,850** | **3,434,322** |
| Over five years | **8,099,685** | **–** | **8,099,685** |
| | **13,699,302** | **109,850** | **13,809,152** |
| | **20,348,723** | **142,850** | **20,491,573** |
| **At 31 December 2019** | | | |
| **Current portion** | | | |
| Within one year | 6,321,842 | 2,233,000 | 8,554,842 |
| **Non-current portion** | | | |
| In the second year | 2,539,376 | 33,000 | 2,572,376 |
| In the third to fifth years, inclusive | 5,068,460 | 99,000 | 5,167,460 |
| Over five years | 9,574,840 | 10,850 | 9,585,690 |
| | 17,182,676 | 142,850 | 17,325,526 |
| | 23,504,518 | 2,375,850 | 25,880,368 |

As at 31 December 2020, included in the current portion of other borrowings represent an amount of RMBnil (31 December 2019: RMB1,000,000,000) and RMBnil (31 December 2019: RMB1,200,000,000) which was borrowed from the Company's immediate holding company and ultimate holding company respectively.

## 31. OTHER LOANS

| | Note | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|---|
| Kantons International Investment Limited ("Kantons International") | (i) | **669,128** | 743,050 |
| Mitsui O.S.K. Lines, Ltd. ("MOL") | (ii) | **337,237** | 373,633 |
| Petrochina International Co., Limited ("Petrochina International") | (iii) | **15,390** | 16,007 |
| | | **1,021,755** | 1,132,690 |
| Less: current portion | | **(44,562)** | (43,443) |
| Non-current portion | | **977,193** | 1,089,247 |

Note:

(i) As at 31 December 2020, other loans amounted to RMB40,665,000(31 December 2019: RMB45,500,000) was borrowed by East China LNG Shipping Investment Co., Limited ("ELNG"), a non-wholly-owned subsidiary of the Company, from its non-controlling shareholder, Kantons International, to finance certain vessels construction projects being carried out by the associates held by ELNG. As at 31 December 2020, the loan is unsecured, interest-bearing at approximately 5.23% to 6.45% over 3-month LIBOR (31 December 2019: approximately 3.69% to 4.43% over 3-month LIBOR) per annum and repayable within 20 years after the aforementioned vessels construction projects are completed.

As at 31 December 2020, other loans amounted to RMB628,463,000(31 December 2019: RMB697,550,000) was borrowed by China Energy Shipping Investment Co., Limited ("China Energy"), an indirect and non-wholly-owned subsidiary of the Company, from its non-controlling shareholder, Kantons International, to finance certain vessels construction projects being carried out by the subsidiaries of China Energy. As at 31 December 2020, the loan is unsecured, interest-bearing at a weighted average of 3-month LIBOR plus 2.20% and fixed rate of 4.80% (31 December 2019: 3-month LIBOR plus 2.20% and fixed rate of 4.80%) per annum and repayable within 20 years after the aforementioned vessels construction projects are completed.

## 31. OTHER LOANS (Continued)

Note: (Continued)

(ii) As at 31 December 2020, other loans was borrowed by the subsidiaries of China Energy from their non-controlling shareholder, MOL, to finance certain vessels construction projects being carried out by them. As at 31 December 2020, the loans are unsecured, interest-bearing at a weighted average of 3-month LIBOR plus 2.20% and fixed rate of 4.80% (31 December 2019: 3-month LIBOR plus 2.20% and fixed rate of 4.80%) per annum and repayable within 15 years after the aforementioned vessels construction projects are completed.

(iii) As at 31 December 2020, other loans was borrowed by North China LNG Shipping Investment Co., Limited ("NLNG"), a non-wholly-owned subsidiary of the Company, from its non-controlling shareholder, Petrochina International, to finance certain vessels construction projects being carried out by the associates held by NLNG. As at 31 December 2020, the loan is unsecured, interest-bearing at approximately 4.53% to 5.81% over 3-month LIBOR (31 December 2019: approximately 3.69% to 3.73% over 3-month LIBOR) per annum and repayable within 20 years after the aforementioned vessels construction projects are completed.

As at 31 December 2020 and 31 December 2019, all other loans are denominated in USD.

## 32. BONDS PAYABLE

The movement of the corporate bonds for the year is set out below:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| At the beginning of the year | **2,493,477** | 3,989,691 |
| Interest charge | **2,347** | 3,786 |
| Less: principal repayment | **–** | (1,500,000) |
| | **2,495,824** | 2,493,477 |
| Non-current portion | **2,495,824** | 2,493,477 |

## 32. BONDS PAYABLE (Continued)

Details of the balances of corporate bonds are as follows:

| Issue date | Term of the bond | Total principal value RMB'000 | Book value of bond at initial recognition RMB'000 | At 31 December 2019 RMB'000 | Repaid principal RMB'000 | Unpaid interest RMB'000 | **At 31 December 2020 RMB'000** |
|---|---|---|---|---|---|---|---|
| 3 August 2012 | 10 years | 1,500,000 | 1,487,100 | 1,496,029 | – | 1,481 | **1,497,510** |
| 29 October 2012 | 10 years | 1,000,000 | 992,400 | 997,448 | – | 866 | **998,314** |
| | | 2,500,000 | 2,479,500 | 2,493,477 | – | 2,347 | **2,495,824** |

The Company issued two batches of corporate bonds on 3 August 2012. The first batch is a three-year corporate bonds with a principal value of RMB1 billion, carrying an annual fixed interest rate of 4.20% and was repaid on 3 August 2015. The second batch is a ten-year corporate bonds with a principal value of RMB1.5 billion, carrying an annual fixed interest rate of 5% and matures on 3 August 2022. The issuing price was 100 per cent of principal value, resulting in no discount on the issue. Interest on the bonds is paid annually.

The Company issued further two batches of corporate bonds on 29 October 2012. The first batch is a seven-year corporate bonds with a principal value of RMB1.5 billion, carrying an annual fixed interest rate of 5.05% and matures on 29 October 2019. The issuing price was 100 per cent of principal value, resulting in no discount on the issue. Interest on the bonds is paid annually. The second batch is a ten-year corporate bonds with a principal value of RMB1 billion, carrying an annual fixed interest rate of 5.18% and matures on 29 October 2022. The issuing price was 100 per cent of principal value, resulting in no discount on the issue. Interest on the bonds is paid annually.

## 33. EMPLOYEE BENEFITS PAYABLE

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| Defined benefit plan payable | **187,312** | 203,474 |
| | **187,312** | 203,474 |
| Less: current portion | **(23,094)** | (15,975) |
| Non-current portion | **164,218** | 187,499 |

### (a) Details of defined benefit plan payable are as follows:

Defined benefit plan payable represents post-employment benefit plan for current civil retirees and current retirees which are measured by using actuarial valuation method. Independent actuarial valuation has been carried by an independent firm with chartered actuarial certification.

The plan exposes the Group to actuarial risks, such as interest rate risk and longevity risk. Information about the plan is disclosed as follows:

*(i) The amounts recognised in the consolidated statement of financial position are as follows:*

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| Present value of unfunded obligations | **187,312** | 203,474 |
| Less: current portion | **(23,094)** | (15,975) |
| Non-current portion | **164,218** | 187,499 |

Current portion of defined benefit plan payable represents the amount expected to be paid by the Group in the next 12 months.

## 33. EMPLOYEE BENEFITS PAYABLE (Continued)

### (a) Details of defined benefit plan payable are as follows: (Continued)

*(ii) Movements in the present value of the defined benefit plan payable are as follows:*

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| At the beginning of the year | **203,474** | 152,070 |
| Remeasurement for the year | **(4,026)** | (2,980) |
| Benefits paid | **(14,836)** | (10,350) |
| Past service cost | **(4,262)** | 59,974 |
| Interest cost | **6,962** | 4,760 |
| At the end of the year | **187,312** | 203,474 |

The weighted average duration of the defined benefit plan is 11.6(31 December 2019: 10.1) years.

*(iii) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:*

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| Past service cost | **(4,262)** | 59,974 |
| Net interest on net defined benefit liability | **6,962** | 4,760 |
| Total amounts recognised in profit or loss | **2,700** | 64,734 |
| Actuarial gain recognised in other comprehensive income | **(4,026)** | (2,980) |
| Total defined benefit costs | **(1,326)** | 61,754 |

The past service cost and the net interest on net defined benefit liability totalling RMB2,700,000 (31 December 2019: RMB64,734,000) were recognised in the other expenses and administrative expenses for the year.

## 33. EMPLOYEE BENEFITS PAYABLE (Continued)

### (a) Details of defined benefit plan payable are as follows: (Continued)

*(iv) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:*

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Discount rate | **3.25% – 3.42%** | 3.25% – 3.42% |
| Average annual increase rate of supplemental medical benefits | **5.00%** | 5.00% |

Mortality rate adopted for the defined benefit plan payable as at 31 December 2020 was based on the China Life Insurance Mortality Table 2010-2013-CL5/CL6 up 2 years issued by the China Life Insurance Regulatory Commission of the PRC.

The below analysis shows how the defined benefit plan payable would have increased/(decreased) as a result of 0.5% change of discount rate in the significant actuarial assumptions:

| | **Effect of payable** | |
|---|---|---|
| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
| Increase in 0.5% | **(6,299)** | (9,153) |
| Decrease in 0.5% | **6,697** | 9,911 |

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

## 34. SHARE CAPITAL

### (a) Share capital

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Number of shares (thousand)** | **Nominal value RMB'000** | Number of shares (thousand) | Nominal value RMB'000 |
| Registered, issued and fully paid: | | | | |
| Listed H-Shares of RMB1 each | **1,296,000** | **1,296,000** | 1,296,000 | 1,296,000 |
| Listed A-Shares of RMB1 each | **3,466,692** | **3,466,692** | 2,736,033 | 2,736,033 |
| At the beginning and end of the year | **4,762,692** | **4,762,692** | 4,032,033 | 4,032,033 |

On 17 March 2020, the Company has completed the Proposed Non-public Issuance of A Shares and registered such new shares with China Securities Depository and Clearing Company Limited (Shanghai Branch). Upon completion of the Proposed Non-public Issuance of A Shares, the total number of shares increased from 4,032,032,861 shares to 4,762,691,885 shares, and the total number of A Shares increased from 2,736,032,861 A Shares to 3,466,691,885 A Shares.

### (b) Share options

The Company operates share option schemes whereby options are granted to eligible employees and directors or any participants (as defined in the relevant share option schemes) of the Group, to subscribe for its shares. No outstanding options were vested and exercisable as at 31 December 2020. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

At a special general meeting of the Company held on 17 December 2018, the shareholders of the Company approved the adoption of a share option scheme (the "**2018 Share Option Scheme**"). The purposes of the 2018 share option scheme are to enable the Company to establish and cultivate a performance-oriented culture, under which value is created for the shareholders, and to establish an interests-sharing and restraining mechanism between the shareholders and the Company's management. No consideration was paid by the grantees for the acceptance of share options.

## 34. SHARE CAPITAL (Continued)

### (b) Share options (Continued)

Under the 2018 Share Option Scheme, the exercise of the options is subject to a two-year vesting period during which a participant is not allowed to exercise any option granted. After the expiration of the two-year period, the participant may exercise the options in three equal batches in the 3rd, 4th and 5th year after the grant date respectively. Within the exercise period of the share options, and subject to the fulfillment of the vesting conditions and the exercise arrangement of the share options, grant of each share option entitles the grantee to subscribe for one share at relevant exercise price.

The fair value of the share options granted under the 2018 Share Option Scheme as at 27 December 2018, the grant date, was RMB39,006,000 using Black-Scholes valuation model.

Movements of the share options granted by the Company for the year ended 31 December 2020 is set out below:

| | | | For the year ended 31 December 2020 Number of share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Category | Note | Exercise price RMB | Outstanding at 1 January 2020 | Granted during the year | Exercised during the year | Transfer (to)/ from other categories during the year | Lapsed during the year | Cancelled during the year | Outstanding as at 31 December 2020 | Exercisable period |
| Directors | (i) (ii) | 5.94* | 891,000 | - | - | - | - | - | 891,000 | 28.12.2020-27.12.2025 |
| Continuous contract employees | (i) (ii) | 5.94* | 30,829,000 | - | - | - | - | (2,359,000) | 28,470,000 | 28.12.2020-27.12.2025 |
| | | | 31,720,000 | - | - | - | - | (2,359,000) | 29,361,000 | |

Note:

(i) 9,689,130 outstanding options were vested and exercisable as at 31 December 2020. The Company has legal or constructive obligation to repurchase or settle the options in cash.

(ii) The share options were granted on 27 December 2018 under the 2018 Share Option Scheme at an exercise price of RMB6.00. According to the provisions of the 2018 Share Option Scheme, share options under each grant have a validity period of seven years commencing from the date of grant and cannot be exercised during the two-year period commencing from the date of grant (the "Restriction Period"). Besides, subject to the fulfillment of the relevant vesting conditions, share options will be vested in three batches evenly over a period of three years after the expiry of the Restriction Period, i.e. 33%, 33% and 34%.

* The exercise price was adjusted from RMB5.98 to RMB5.94 on the Board meeting on 29 October 2020.

## 35. RESERVES

### (a) The Group

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

### (b) The Company

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out as follows:

| | Share premium RMB'000 | Revaluation reserve RMB'000 | Capital reserve RMB'000 | Other reserve RMB'000 | Statutory reserve RMB'000 | Safety fund reserve RMB'000 | General surplus reserve RMB'000 | FVOCI revaluation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 7,750,215 | 270,254 | - | (1,796) | 2,877,435 | - | 93,158 | 1,019 | 8,755,955 | 19,746,240 |
| Loss for the year | - | - | - | - | - | - | - | - | (164,435) | (164,435) |
| Dividends approved in respect of previous year | - | - | - | - | - | - | - | - | (80,641) | (80,641) |
| Accrual of safety fund reserve | - | - | - | - | - | 1,024 | - | - | (1,024) | - |
| Utilisation of safety fund reserve | - | - | - | - | - | (321) | - | - | 321 | - |
| Fair value of share options granted | - | - | 12,561 | - | - | - | - | - | - | 12,561 |
| At 31 December 2019 | 7,750,215 | 270,254 | 12,561 | (1,796) | 2,877,435 | 703 | 93,158 | 1,019 | 8,510,176 | 19,513,725 |
| At 1 January 2020 | **7,750,215** | **270,254** | **12,561** | **(1,796)** | **2,877,435** | **703** | **93,158** | **1,019** | **8,510,176** | **19,513,725** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,591,112** | **1,591,112** |
| Issue of ordinary shares | **4,346,214** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **4,346,214** |
| Merge of companies under the same control (note) | **-** | **-** | **-** | **2,581,873** | **-** | **-** | **-** | **-** | **-** | **2,581,873** |
| Dividends approved in respect of previous year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(190,508)** | **(190,508)** |
| Accrual of safety fund reserve | **-** | **-** | **-** | **-** | **-** | **64,992** | **-** | **-** | **(64,992)** | **-** |
| Utilisation of safety fund reserve | **-** | **-** | **-** | **-** | **-** | **(63,819)** | **-** | **-** | **63,819** | **-** |
| Fair value of share options granted | **-** | **-** | **10,693** | **-** | **-** | **-** | **-** | **-** | **-** | **10,693** |
| At 31 December 2020 | **12,096,429** | **270,254** | **23,254** | **2,580,077** | **2,877,435** | **1,876** | **93,158** | **1,019** | **9,909,607** | **27,853,109** |

Note: During the year, the Company merged its wholly-owned subsidiary COSCO SHIPPING Tanker(Shanghai) Co., and led to the increase of RMB2,581,873,000 of other reserve.

## 35. RESERVES (Continued)

### (b) The Company (Continued)

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to allocate 10% of its profit after tax, as determined in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and relevant regulations ("PRC GAAP") and regulations applicable to the Company, to the Statutory Surplus Reserve (the "SSR") until the SSR reaches 50% of the registered capital of the Company.

According to the relevant regulations in the PRC, the reserves available for distribution is the lower of the amount determined under PRC GAAP and the amount determined under HKFRS. On this basis, as at 31 December 2020, before the proposed final dividend, the Company had reserve of RMB9,909,607,000(31 December 2019: RMB8,510,176,000).

In addition, in accordance with the Company Law of the PRC, an amount of RMB12,096,429,000(31 December 2019: RMB7,750,215,000) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

### (c) Nature and purposes of reserves

*(i) Share premium*

Share premium arised from the issuance of shares at prices in excess of their par value.

*(ii) Revaluation reserve*

The revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the assets at fair value.

*(iii) Capital reserve*

The reserve arised from the acquisition of additional interests in a subsidiary and revaluation of assets arising from capital restructuring of a subsidiary.

*(iv) Merger reserve*

The reserve arised from business combination involving entities under common control.

## 35. RESERVES (Continued)

### (c) Nature and purposes of reserves (Continued)

*(v) Statutory reserve*

The Company is required to transfer 10% of its net profit as determined in accordance with PRC Accounting Rules and Regulations to its statutory surplus reserve. The transfer to this reserve must be before distribution of a dividend to shareholders.

*(vi) Safety fund reserve*

According to CaiQi [2012] No.16 "Measures for the Extraction and Management of the Production Safety Fund for the enterprises" issued by the Ministry of Finance and the Safety Production General Bureau, the Group is required to accrue production safety fund to improve the production safety.

The accrued expenses will be transferred to production safety fund surplus reserve under equity attributable to owners of the Company for the year. When its cost being measured, within the special use conditions, full amount of relevant incurred fund recorded as production safety fund surplus reserve will be recognised in the cost of sales simultaneously. Pursuant to HKFRS, these expenditures should be recognised when incurred according to the respective accounting policy.

*(vii) General surplus reserve*

When the public welfare fund is utilised, an amount equal to the lower of either the cost of the assets and the balance of the public welfare fund is transferred from public welfare fund to the general surplus reserve.

*(viii) Hedging reserve*

Changes in the fair values of derivative financial instruments are to be charged directly and transferred to hedging reserve.

*(ix) FVOCI reserve*

The FVOCI revaluation reserve comprises the cumulative net change in the fair value of FVOCI held at the end of the year.

## 35. RESERVES (Continued)

### (c) Nature and purposes of reserves (Continued)

#### *(x) Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and exchange differences on monetary items which form part of the Group's net investment in foreign operations, provided certain conditions are met.

#### *(xi) Other reserve*

The reserve arised from the acquisition of subsidiary under common control.

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investment properties | **170,421** | 170,421 |
| Property, plant and equipment | **13,230,802** | 2,587,951 |
| Right-of-use assets | **–** | 931 |
| Investments in subsidiaries | **15,430,663** | 17,418,777 |
| Investments in associates | **2,608,070** | 300,000 |
| Investments in a joint venture | **2,351,401** | 1,884,027 |
| Loan receivables | **1,141,858** | 5,000,000 |
| | **34,933,215** | 27,362,107 |
| **CURRENT ASSETS** | | |
| Current portion of loan receivables | **799,887** | 1,069,762 |
| Inventories | **325,137** | 33,780 |
| Contract assets | **180,459** | 14,608 |
| Trade and bills receivables | **225,484** | 7,061 |
| Prepayments, deposits and other receivables | **1,696,756** | 2,742,710 |
| Cash and cash equivalents | **1,671,382** | 551,354 |
| | **4,899,105** | 4,419,275 |
| **TOTAL ASSETS** | **39,832,320** | 31,781,382 |

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing bank and other borrowings | **90,000** | 300,000 |
| Bonds payable | **2,495,824** | 2,493,477 |
| Employee benefits payable | **48,721** | 8,073 |
| Deferred tax liabilities | **189,066** | 189,123 |
| | **2,823,611** | 2,990,673 |
| **CURRENT LIABILITIES** | | |
| Trade and bills payables | **526,845** | 337,390 |
| Other payables and accruals | **3,545,932** | 2,456,895 |
| Current portion of interest-bearing bank and other borrowings borrowing | **318,000** | 2,450,000 |
| Contract liabilities | **1,992** | – |
| Current portion of lease liabilities | **–** | 527 |
| Taxes payable | **139** | 139 |
| | **4,392,908** | 5,244,951 |
| **TOTAL LIABILITIES** | **7,216,519** | 8,235,624 |
| **EQUITY** | | |
| Share capital | **4,762,692** | 4,032,033 |
| Reserves | **27,853,109** | 19,513,725 |
| **TOTAL EQUITY** | **32,615,801** | 23,545,758 |

## 37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

**(a) Reconciliation from profit before tax to net cash generated from operating activities is as follows:**

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Profit before tax | **2,904,034** | 1,001,988 |
| Adjustments for: | | |
| Finance costs | **1,039,721** | 1,419,627 |
| Interest income | **(101,644)** | (103,782) |
| Loss on revaluation of investment properties, net | **–** | 122 |
| (Gain)/loss on disposal of property, plant and equipment, net | **(1,067)** | 902 |
| Loss on disposal of investment properties, | **3,513** | – |
| Loss on impairment of property, plant and equipment | **840,941** | 23,779 |
| Dividends received from financial assets at FVOCI | **(12,675)** | (10,850) |
| (Reversal of)/provision for impairment losses on trade receivables and contract assets | **(19,414)** | 1,244 |
| Provision for impairment losses on other receivables | **13,906** | 1,964 |
| Depreciation of property, plant and equipment | **2,450,935** | 2,347,150 |
| Depreciation of right-of-use assets | **553,508** | 526,390 |
| Share of profits of associates | **(247,150)** | (287,807) |
| Share of profits of joint ventures | **(690,558)** | (427,085) |
| Operating profit before working capital changes | **6,734,050** | 4,493,642 |
| (Increase)/decrease in inventories | **(85,212)** | 152,587 |
| Decrease in trade and bills receivables and contract assets | **126,933** | 401,039 |
| Decrease/(increase) in prepayments | **24,930** | (3,597) |
| Increase in deposits and other receivables | **(143,397)** | (199,302) |
| Decrease/(increase) in amounts due from associates | **28,205** | (15,297) |
| Decrease/(increase) in amounts due from joint ventures | **81,151** | (28,214) |
| (Increase)/decrease in amounts due from fellow subsidiaries | **(13,603)** | 110,694 |

## 37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (a) Reconciliation from profit before tax to net cash generated from operating activities is as follows: (Continued)

| | For the year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Increase in amounts due from related companies | **(25,107)** | (34,019) |
| Increase in trade and bills payables and contract liabilities | **264,957** | 467,877 |
| Increase/(Decrease) in other payables | **82,732** | (228,190) |
| Increase in accruals | **130,170** | 62,793 |
| (Decrease)/increase in amount due to ultimate holding company | **(1,320)** | 947 |
| Decrease in amount due to immediate holding company | **(1,100)** | – |
| Decrease in amount due to an associate | **–** | (6) |
| Increase in amount due to other related parties | **202** | 40 |
| Increase in amounts due to fellow subsidiaries | **47,093** | 101,862 |
| (Decrease)/increase in provision and other liabilities | **(10,011)** | 9,977 |
| (Decrease)/increase in employee benefits payable | **(16,162)** | 52,814 |
| Cash generated from operations | **7,224,511** | 5,345,647 |
| Income tax paid | **(251,400)** | (115,285) |
| Net cash generated from operating activities | **6,973,111** | 5,230,362 |

## 37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Reconciliation of liabilities arising from financing activities

| | Derivative financial instruments (note 29) RMB'000 | Lease liabilities (note 16) RMB'000 | Interest-bearing bank and other borrowings (note 30) RMB'000 | Other loans (note 31) RMB'000 | Bonds payable (note 32) RMB'000 | Total liabilities from financing activities RMB'000 |
|---|---|---|---|---|---|---|
| At 31 December 2019 | 631,235 | 2,732,034 | 25,880,368 | 1,132,690 | 2,493,477 | 32,869,804 |
| At 1 January 2020 | 631,235 | 2,732,034 | 25,880,368 | 1,132,690 | 2,493,477 | 32,869,804 |
| Changes from financing cash flows: | | | | | | |
| Interest paid | (111,471) | (98,678) | (802,425) | (62,947) | (126,800) | (1,202,321) |
| Increase in interest-bearing bank and other borrowings | – | – | 4,515,532 | – | – | 4,515,532 |
| Repayment of interest-bearing bank and other borrowings | – | – | (8,486,423) | – | – | (8,486,423) |
| Repayment of other loans | – | – | – | (39,828) | – | (39,828) |
| Lease payment | – | (561,897) | – | – | – | (561,897) |
| | (111,471) | (660,575) | (4,773,316) | (102,775) | (126,800) | (5,774,937) |
| Other changes: | | | | | | |
| Interest expenses | 111,471 | 98,678 | 681,312 | 62,947 | 129,147 | 1,083,555 |
| Accrued interest expenses recorded in other payables and accruals | – | – | 114,990 | – | – | 114,990 |
| Net change in fair value | 383,875 | – | – | – | – | 383,875 |
| Currency translation differences | (167,127) | (145,015) | (1,411,781) | (71,107) | – | (1,795,030) |
| | 328,219 | (46,337) | (615,479) | (8,160) | 129,147 | (212,610) |
| At 31 December 2020 | 847,983 | 2,025,122 | 20,491,573 | 1,021,755 | 2,495,824 | 26,882,257 |

## 37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Reconciliation of liabilities arising from financing activities (Continued)

| | Derivative financial instruments (note 29) RMB'000 | Lease liabilities (note 16) RMB'000 | Interest-bearing bank and other borrowings (note 30) RMB'000 | Other loans (note 31) RMB'000 | Bonds payable (note 32) RMB'000 | Total liabilities from financing activities RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 352,382 | 3,161,967 | 25,822,939 | 1,177,085 | 3,989,691 | 34,504,064 |
| Changes from financing cash flows: | | | | | | |
| Interest paid | (50,517) | – | (1,057,813) | (58,676) | (189,683) | (1,356,689) |
| Increase in interest-bearing bank and other borrowings | – | – | 6,986,513 | – | – | 6,986,513 |
| Repayment of interest-bearing bank and other borrowings | – | – | (7,310,074) | – | – | (7,310,074) |
| Repayment of other loans | – | – | – | (69,700) | – | (69,700) |
| Repayment of bonds payable | – | – | – | – | (1,500,000) | (1,500,000) |
| Lease payment | – | (646,857) | – | – | – | (646,857) |
| | (50,517) | (646,857) | (1,381,374) | (128,376) | (1,689,683) | (3,896,807) |
| Other changes: | | | | | | |
| Interest expenses | – | 118,019 | 1,050,460 | 58,676 | 193,469 | 1,420,624 |
| Increase in lease liabilities | – | 52,868 | – | – | – | 52,868 |
| Accrued interest expenses recorded in other payables and accruals | – | – | 14,130 | – | – | 14,130 |
| Net change in fair value | 320,272 | – | – | – | – | 320,272 |
| Currency translation differences | 9,098 | 46,037 | 374,213 | 25,305 | – | 454,653 |
| | 329,370 | 216,924 | 1,438,803 | 83,981 | 193,469 | 2,262,547 |
| At 31 December 2019 | 631,235 | 2,732,034 | 25,880,368 | 1,132,690 | 2,493,477 | 32,869,804 |

## 38. PENSION AND ENTERPRISE ANNUITY SCHEMES

### (a) The PRC (other than Hong Kong)

*(i) Pension scheme*

The Group is required to contribute to a pension scheme (the "Scheme") for its eligible employees. Under the Scheme, the Group´s retirement benefit obligations to its existing retired and future retiring employees except for the medical expenses to retired employees, are limited to its annual contributions equivalent approximately to 16% (2019: 19% to 20%) of the basic salaries of the Group's employees. The Group also received a reduction in social security contributions related to COVID-19 during the Reporting Period, which was recognised as reduction to the related expenses. Contributions made by the Group to the Scheme for the Reporting Period amounted to RMB3,965,000 (2019: RMB33,024,000).

*(ii) Enterprise annuity scheme*

In 2008, the representatives of the Group's Labor Union and the Board resolved to approve and adopt an enterprise annuity scheme. From 1 February 2018, pursuant to the annuity scheme the employer's contributions will be 8% of the total staff costs of the previous year. The employees' contributions will be 2% of their income from the previous year and the employer's contributions for the management staff should not be five times more than the staff average.

The enterprise annuity scheme became effective on 1 January 2008. Under the scheme, actual amount incurred as labor cost in 2020 amounted to RMB28,095,000 (2019: RMB31,576,000).

The Group has no further obligations beyond the annual contributions. In the opinion of the Directors, the Group did not have any significant liabilities beyond the above contributions in respect of the retirement benefits of its employees.

### (b) Hong Kong

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD30,000 effective as on 1 June 2014. Contributions to the MPF Scheme vest immediately. Contributions made by the Group to the MPF Scheme for the year amounted to RMB211,000 (2019: RMB220,000).

## 39. CONTINGENT LIABILITIES AND GUARANTEE

(a) Aquarius LNG Shipping Limited ("Aquarius LNG") and Gemini LNG Shipping Limited ("Gemini LNG"), and Capricorn LNG Shipping Limited ("Capricorn LNG") and Aries LNG Shipping Limited ("Aries LNG") are associates of East China LNG Shipping Investment Co., Limited and North China LNG Shipping Investment Co., Limited, (the "Four Associates") respectively. Each associate entered into a ship building contract for one LNG vessel. After the completion of each LNG vessel, the Four Associates would, in accordance with time charters agreements to be signed, lease their LNG vessels to the following charterers respectively:

| **Company name** | **Charterer** |
|---|---|
| Aquarius LNG | Papua New Guinea Liquefied Natural Gas Global Company LDC |
| Gemini LNG | Papua New Guinea Liquefied Natural Gas Global Company LDC |
| Capricorn LNG | Mobil Australia Resources Company Pty Ltd. |
| Aries LNG | Mobil Australia Resources Company Pty Ltd. |

On 15 July 2011, the Company entered into four guaranteed leases (the "Lease Guarantees"). According to the Lease Guarantees, the Company irrevocably and unconditionally provided the charterers, successors and transferees of the Four Associates with guarantee (1) for the Four Associates to fulfill their respective obligations under the lease term, and (2) to secure 30% of amounts payable to charterers under lease term.

According to the term of the Lease Guarantees and taking into account the possible increase in the value of the lease commitments and the percentage of shareholdings by the Company in the Four Associates, the amount of lease guaranteed by the Company is limited to USD8,200,000 (equivalent to RMB53,504,000). The guarantee period is limited to the lease period of each LNG vessel leased by the Four Associates.

## 39. CONTINGENT LIABILITIES AND GUARANTEE (Continued)

(b) At the 2014 seventh Board meeting, the Board approved the ship building contracts, time charter agreements and supplemental construction contract signed by three joint ventures of the Group for the Yamal LNG project (the "Three Joint Ventures"). To secure the obligation of the ship building contracts, time charter agreements and supplemental construction contracts, the Company provides corporate guarantees to the shipbuilders, Daewoo Shipbuilding & Marine Engineering Co., Ltd. and DY Maritime Limited for the Three Joint Ventures, and provides owner's guarantees to the charterer YAMAL Trade Pte. Ltd. for the Three Joint Ventures. Three vessels were delivered in March 2018, October 2018 and August 2019 respectively.

As at 31 December 2019, the Company's guarantee responsibility of the ship building contracts was completely released. The balance of the corporate guarantees of the ship building contracts was nil. As at 31 December 2020, the balance of the owner's guarantees provided to YAMAL Trade Pte. Ltd. was USD6,400,000(equivalent to approximately RMB41,759,000).

(c) Subsequent to the approval by shareholder at the annual general meeting held on 8 June 2017, the Company entered into 3 financing guarantees with 2 banks (the "Banks"), to the extent of amount of USD377.5 million (equivalent to RMB2,463,150,000), in respect of 50% of the bank borrowings provided by the Banks to each of the Three Joint Ventures and was determined on a pro rata basis of the Company's indirect ownership interest in each of the Three Joint Ventures. The guarantee period provided by the Company for each of the Three Joint Ventures is limited to 12 years after the vessel construction project of each of the Three Joint Ventures is completed.

(d) COSCO SHIPPING LNG Investment (Shanghai) Co., Limited, a wholly-owned subsidiary of the Company, holds 50% equity interest in each of Arctic Red LNG Shipping Limited, Arctic Orange LNG Shipping Limited, Arctic Yellow LNG Shipping Limited and Arctic Indigo LNG Shipping Limited ("Four Single-vessel Companies"). Subsequent to the approval by shareholders at the annual general meeting held on 28 June 2018, the Company provides owner's guarantee for the Four Single vessel Companies with the amount of Euro4.5 million (equivalent to approximately RMB36,113,000). The guarantee period is limited to the lease period.

## 40. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its vessels and buildings under operating lease arrangements, with leases negotiated for an initial year of 1 to 20(31 December 2019: 1 to 20) years.

As at 31 December 2020, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Within one year | **1,970,447** | 1,698,413 |
| In the second to fifth years, inclusive | **5,447,363** | 5,451,682 |
| Over five years | **14,817,751** | 16,064,974 |
| | **22,235,561** | 23,215,069 |

## 41. CAPITAL COMMITMENTS

| | Note | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|---|
| Authorized and contracted but not provided for: | | | |
| Construction and purchases of vessels | (i) | **5,382,212** | 6,156,464 |

Note:

(i) According to the construction and purchase agreements entered into by the Group, these capital commitments will fall due in 2021 to 2023.

In addition to the above, the Group's share of the capital commitments of its associates which are contracted but not provided for amounted to RMB43,168,000 (31 December 2019: RMB246,703,000). The Group's share of the capital commitments of its joint ventures, which are contracted but not provided for amounted to RMBnil (31 December 2019: RMB1,516,348,000).

## 42. SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The company is controlled by China Shipping and COSCO Shipping, the immediate parent company and the parent company, both of which are government-related enterprise established in the PRC. The PRC government indirectly controls COSCO Shipping and its subsidiaries. In accordance with HKAS (Revised), "Related Party Disclosure", issued by the HKICPA, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significant influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include COSCO Shipping and it its subsidiaries (other than the Group), other government related entities and their subsidiaries, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include sales or purchases of assets, goods and services, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, pledged bank deposits, cash and cash equivalents.

For the purpose of the related party transaction disclosures, the Directors believe that it is meaningful to disclose the related party transactions with COSCO Shipping Group companies for the interests of the consolidated financial statements users, although certain of those transactions which are individually or collectively not significant, are exempted from disclosure. The Directors believe that the information of related party transactions has been adequately disclosed in the consolidated financial statements.

## 42. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

In addition to the related party information and transactions disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties during the year.

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| **Transactions with COSCO Shipping** | | |
| Revenues | | |
| Grant income | **755** | – |
| Expense | | |
| Interest expense | **12,360** | 18,415 |
| **Transactions with China Shipping** | | |
| Expense | | |
| Interest expense | **11,900** | 36,500 |

## 42. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|---|
| **Transactions with fellow subsidiaries and the related entities of COSCO Shipping** | | |
| Revenues | | |
| Shipping services and ship charter services | **91,197** | 54,304 |
| Supply of fuel, shipping material, painting, spare part and ship equipment etc. | **9,824** | 30,950 |
| Electrical, telecommunication, ship repair and technical improvements services etc. | **–** | 1,101 |
| Rental income, including surcharge | **690** | 5,270 |
| Miscellaneous services income | **–** | 557 |
| Expenses | | |
| Supply of marine lubricant, fuel, material, painting, spare part and ship equipment etc. | **3,320,693** | 3,597,481 |
| Electrical, telecommunication, ship repair and technical improvements services etc. | **1,208,718** | 414,594 |
| Ship and related business insurance and insurance brokerage services | **83,872** | 83,439 |
| Ship and shipping agency services | **82,524** | 75,871 |
| Management service of sea crew | **1,469,089** | 1,388,719 |
| Rental expense | **4,846** | 4,513 |
| Miscellaneous services | **20,896** | 17,045 |
| Others | | |
| Construction of vessels | **57,584** | 184,112 |
| Loss on disposal of shares in subsidiaries | **40,504** | 7,926 |
| **Transactions with joint ventures of the Group** | | |
| Revenues | | |
| Interest income from joint ventures | **19,422** | 42,916 |
| **Transactions with associates of the Group** | | |
| Revenues | | |
| Interest income from associates | **36,411** | 44,379 |
| Vessel chartering income | **105,927** | 108,355 |

## 42. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

Note: These transactions were conducted either based on terms as governed by the master agreements and subsisting agreements entered into the Group and COSCO Shipping Group or based on terms as set out in the underlying agreements, statutory rates or market prices or actual cost incurred, or as mutually agreed between the Group and the parties in concern.

As at 31 December 2020 and 31 December 2019, majority of the Group's bank balances and bank borrowings are with state-owned banks.

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2020, particulars of the Group's principal subsidiaries are as follows:

| Name | Place of incorporation and operations/legal status | Issued/registered capital | Class of shares In issue | Proportion of ownership interest held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | Direct | | Indirect | | |
| | | | | 2020 | 2019 | 2020 | 2019 | |
| COSCO SHIPPING Tanker (Shanghai) Co., Ltd. | The PRC/Limited liability company | RMB nil (2019: RMB1,666,666,600) | Ordinary | - | 100% | - | - | Oil transportation and vessel chartering |
| COSCO SHIPPING Tanker (Dalian) Co., Ltd. ("Dalian Tanker") | The PRC/Limited liability company | RMB6,378,152,557 | Ordinary | 100% | 100% | - | - | Oil transportation and vessel chartering |
| Guangzhou Sanding Oil Shipping Co., Ltd. | The PRC/Limited liability company | RMB299,020,000 | Ordinary | 51% | 51% | - | - | Oil transportation and vessel chartering |
| COSCO SHIPPING LNG Investment (Shanghai) Co., Ltd. | The PRC/Limited liability company | RMB700,000,000 | Ordinary | 100% | 100% | - | - | Investment holding |
| Offshore Oil (Yangpu) Shipping Co., Ltd. | The PRC/Limited liability company | RMB20,000,000 | Ordinary | 43% | - | - | 43% | Oil transportation and vessel chartering |
| Huahai Petrol Transportation & Trading Co., Limited | The PRC/Limited liability company | RMB56,879,168 | Ordinary | - | - | 51% | 51% | Oil transportation and vessel chartering |
| COSCO PetroChina SHIPPING | The PRC/Limited liability company | RMB496,067,600 | Ordinary | 51% | 51% | - | - | Oil transportation and vessel chartering |

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name | Place of incorporation and operations/legal status | Issued/registered capital | Class of shares In issue | Proportion of ownership interest held by the Company Direct 2020 | Direct 2019 | Indirect 2020 | Indirect 2019 | Principal activities |
|---|---|---|---|---|---|---|---|---|
| China Shipping Development (Hong Kong) Marine Co., Limited | Hong Kong/Limited liability company | USD100,000,000 | Ordinary | **100%** | 100% | **-** | - | Investment holding |
| ELNG | Hong Kong/Limited liability company | USD5,000,000 | Ordinary | **70%** | 70% | **-** | - | Investment holding |
| NLNG | Hong Kong/Limited liability company | USD5,000,000 | Ordinary | **90%** | 90% | **-** | - | Investment holding |
| COSCO SHIPPING Tanker (Singapore) Pte. Ltd. | Singapore/Limited liability company | USD2,000,000 | Ordinary | **100%** | 100% | **-** | - | Oil transportation and vessel chartering |
| China Energy | Hong Kong/Limited liability company | USD5,000,000 | Ordinary | **-** | - | **51%** | 51% | Investment holding |
| COSCO SHIPPING Tanker (USA) Company Limited | The United States of America/Limited liability company | USD4,000,000 | Ordinary | **80%** | 80% | **-** | - | Provision of agency services |
| COSCO SHIPPING Energy Transportation (Hainan) Co., Ltd. | The PRC/Limited liability company | RMB9,272,152,557 (2019:nil) | Ordinary | **100%** | - | **-** | - | Oil transportation and vessel chartering |
| United Liquefied Gas Shipping (Hong Kong) Co., Limited | Hong Kong/Limited liability company | USD66,000,000 (2019:nil) | Ordinary | **-** | - | **71%** | - | Investment holding |

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

The Directors considered the Group did not have any subsidiary with material non-controlling interests. The accumulated non-controlling interests and relevant movements relating to these subsidiaries were reflected in the consolidated statement of changes in equity.

# CORPORATE INFORMATION

| | |
|---|---|
| Legal name: | 中遠海運能源運輸股份有限公司 |
| English name: | COSCO SHIPPING Energy Transportation Co., Ltd.* |
| Registered address: | Room A-1015, No. 188 Ye Sheng Road,<br>China (Shanghai) Pilot Free Trade Zone,<br>The People's Republic of China |
| Business address: | 670 Dongdaming Road,<br>Hongkou District, Shanghai,<br>The People's Republic of China |
| Postal Code: | 200080 |
| Tel: | (8621) 65967678 |
| Fax: | (8621) 65966160 |
| Place of business in Hong Kong: | RMS 3601-3602, 36/F West Tower,<br>Shun Tak CTR 168-200 Connaught RD Central, Hong Kong |
| Legal representative: | Mr. Liu Hanbo |
| Secretary of the Board: | Ms. Li Zhuoqiong |
| Company Secretary: | Ms. Yao Qiaohong |
| Unified Social Credit Code: | 91310000132212734C |
| Principal bankers: | Bank of Communications<br>China Merchants Bank<br>Bank of China<br>Agriculture Bank of China<br>The Industrial and Commercial Bank of China<br>China Construction Bank |
| Hong Kong auditor: | PricewaterhouseCoopers<br>Certified Public Accountants and Registered PIE Auditor*<br>22/F, Prince's Building,<br>Central, Hong Kong |

| | |
|---|---|
| PRC auditor: | ShineWing Certified Public Accountants LLP<br>Fuhua Mansion, North AVE #8<br>Chaoyangmen, Dongcheng District,<br>Beijing, the PRC |
| Legal advisors: | Grandall Law Firm (Shanghai Office)<br>23-25th floor, Garden Square<br>968 West Beijing Road, Shanghai,<br>The People's Republic of China<br><br>Paul Hastings<br>21-22/F Bank of China Tower, 1 Garden Road, Central, Hong Kong |
| H share registrar and transfer office: | Hong Kong Registrars Limited<br>Shops 1712-1716, 17th Floor, Hopewell Centre,<br>183 Queen's Road East, Hong Kong |
| Place of listing: | H shares<br>The Stock Exchange of Hong Kong Limited<br>Share code: 01138<br><br>A shares<br>Shanghai Stock Exchange<br>Share code: 600026 |
| Corporate information is available at | Office of the Board of Directors<br>COSCO SHIPPING Energy Transportation Co., Ltd.<br>7th Floor, 670 Dongdaming Road, Hongkou District, Shanghai,<br>The People's Republic of China |
| Company's website: | http://energy.coscoshipping.com |

* For identification purposes only

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

### Liu Hanbo

Mr. Liu Hanbo, born in November 1959, holds a master's degree in engineering and is a senior economist. He is currently an executive director, the chairman, the chairman of the Strategy Committee and a member of the Risk Control Committee of the Company, and a director of COSCO Shipping Captive Insurance Co., Ltd.. Mr. Liu served as the deputy general manager of COSCO Dalian Industries Company, the deputy director of the Development Department and the head of Operation and Management Department of Dalian Ocean Shipping Company, the manager of COSCO Dalian Industries Development Company, the deputy general manager and the general manager of the Development Department and the director of Assets Operation Center of China Ocean Shipping (Group) Company, the vice president of COSCO (Hong Kong) Group Limited, the general manager of COSCO (H.K.) Industries and Trade Holdings Ltd., the general manager of COSCO International Holdings Ltd., the deputy general manager of Dalian Ocean Shipping Company, the president of China Ocean Shipping Company Americas, Inc., the general manager of China COSCO Bulk Shipping (Group) Co., Ltd., and the general manager of COSCO SHIPPING Bulk Co., Ltd. Mr. Liu joined the Company in August 2016.

### Zhu Maijin

Mr. Zhu Maijin, born in October 1970, graduated from Dalian Maritime University. He holds a master's degree in management and is a senior captain. Mr. Zhu is currently an executive director, a member of the Strategy Committee and the President of the Company. Mr. Zhu joined the company in July 1996, he served as the deputy general manager (acting general manager), the general manager of the maritime management department and the assistant to general manager of China Shipping Development Co., Ltd. Tanker Company, the vice general manager of China Shipping Tanker Company Limited and the general manager of COSCO SHIPPING Tanker (Shanghai) Co., Ltd.

## NON-EXECUTIVE DIRECTORS

### Zhang Qinghai

Mr. Zhang Qinghai, born in December 1961, holds a master's degree in business management and is an engineer. He is currently a non-executive director and a member of the Strategy Committee of the Company, a director of COSCO SHIPPING Bulk Co., Ltd, COSCO SHIPPING (North America) Inc and COSCO SHIPPING Specialized Carriers Co., Ltd. and a supervisor of COSCO SHIPPING Logistics Co., Ltd. Mr. Zhang had been a deputy section chief of the human resources division of China Ocean Shipping (Group) Company, the manager of the human resources division and the development department of Shenzhen Ocean Shipping Company, the manager of the operation department of COSCO Talent Development Service Company, the director of the re- employment service center of China Ocean Shipping (Group) Company, a deputy secretary (temporary) of Luolong County Party Committee of the Changdu District of Tibet, a party committee member, the secretary of the discipline inspection commission and the chairman of the labor union of COSCO Shipyard Group Co., Ltd., a party committee member and the secretary of the discipline inspection commission of Dalian Ocean Shipping Company and Dalian Ocean Shipping Company Limited, a party committee member and the secretary of the discipline inspection commission of COSCO SHIPPING Tanker (Dalian) Co., Ltd., and a party committee member and the secretary of the discipline inspection commission of COSCO SHIPPING Investment Dalian Co., Ltd., etc.

### Liu Zhusheng

Mr. Liu Zhusheng, born in September 1961, holds a master's degree in engineering and is a senior engineer. He is currently a non-executive director and a member of the Strategy Committee of the Company, a professional external director of COSCO SHIPPING Technology Co., Ltd. (stock code: 002401.SZ) and Shanghai Ship and Shipping Research Institute. Mr. Liu had been the department manager of Tianjin Northern Marine Co., Ltd., the general manager of Tianjin Zhizhou Information Technology Co., Ltd., the general manager of Tianjin Huicheng Software Development Co., Ltd., the project manager, deputy manager and general manager of the information technology department and the general manager of the information center of COSCO Shipyard Group Co., Ltd., a deputy general manager of the information management department of China Ocean Shipping (Group) Company and a deputy general manager of the technology and information management department of China COSCO SHIPPING Corporation Limited. Mr. Liu joined the Company as a non-executive Director in June 2020.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Rui Meng

Mr. Rui Meng, born in November 1967, is a Ph.D. of Finance, an independent non-executive Director of the Company, the chairman of the Nomination Committee, a member of the Strategy Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Risk Control Committee of the Company, a Professor of Finance and Accounting and Zhongkun Group Chair in Finance at China Europe International Business School ("CEIBS"). He is the Director of Ph.D. Programme and the Director of CEIBS Center for Wealth Management. He is an independent director of SGSB Group Co., Ltd. (stock code: 600843.SH), and Landsea Group Co., Ltd. (stock code: 00106.HK), an independent non-executive director of China Education Group Holdings Limited (stock code: 00839.HK) and an independent non-executive director of Country Garden Service Holdings Limited (stock code: 06098.HK). Dr. Rui holds a B.S. degree in International Economics (1990) from the Institute of International Relations in Beijing, a Msc. degree in Economics (1993) from Oklahoma State University as well as an MBA in Statistics (1995) and a Ph.D. in Finance (1997), both from the University of Houston. Dr. Rui's teaching and research areas are mainly concentrated in terms of finance. Dr. Rui has published more than 90 articles in the international famous journals and is a member of think-tankers for many prominent media. He is also professionally designated as a Certified Financial Analyst (CFA) and a Financial Risk Manager (FRM). Prior joining CEIBS, Dr Rui worked in finance and accounting departments at the Chinese University of Hong Kong and the Hong Kong Polytechnic University and was a tenured professor of the Chinese University of Hong Kong. He served as the deputy director of the China Accounting and Finance Center of the Hong Kong Polytechnic University, a senior researcher of Economic and Financial Research Center of the Chinese University of Hong Kong, the deputy director of Corporate Governance Research Center of the Chinese University of Hong Kong, the director of the master of accounting (MACC) program at the Chinese University of Hong Kong and director of the program of Executive Master of Accounting (EMPACC) of the Chinese University of Hong Kong. Dr. Rui is also an award winning teacher and researcher. He received the Faculty Teaching Award at the Chinese University of Hong Kong, six years in a row, from 2004 to 2009. He received the 2013 Research Excellence Award at CEIBS and was awarded the first CEIBS Medal for Research Excellence in 2015 and the Teaching Excellence Award at CEIBS in 2017. He was one of the 2013 annual Young Economists of China. Dr. Rui is a member of Risk Management Committee of Shanghai Clearing House, a member of American Finance Association, International Financial Management Association, the American Accounting Association, and The Hong Kong Securities and Investment Institute. He was a former member of the Panel of Examiners of the Securities Industry Examination of the Hong Kong Stock Exchange. He was a visiting financial economist at Shanghai Stock Exchange, a research fellow at Hong Kong Institute for Monetary Research and research fellow at Asian Development Bank Institute, and was also an independent director of Midea Group Co., Ltd. (stock code: 000333.SZ) from September 2015 to September 2018 and of Winner Information Technology Co., Inc. (stock code: 300609.SZ) from November 2014 to July 2020. Mr. Rui joined the Company as an independent non-executive Director in June 2015.

### Teo Siong Seng

Mr. Teo Siong Seng, born in Singapore in December 1954, is an independent non-executive Director of the Company, a member of each of the Strategy Committee, the Remuneration and Appraisal Committee, the Audit Committee of the Company. Mr. Teo graduated from Glasgow University in the United Kingdom in 1979 with a First Class Honours Degree in Naval Architecture & Ocean Engineering. He is the executive chairman of Pacific International Lines (Pte) Ltd., the chairman and chief executive officer of Singamas Container Holdings Limited (stock code: 00716.HK), an independent non-executive director of Keppel Corporation Limited (stock code: BN4. SGX), an independent non-executive Director of Wilmar International Limited (stock code: F34. SGX), and an independent non-executive director of COSCO SHIPPING Holding Co., Ltd. (stock code: 601919.SH, 01919.HK). He is an honorary president of the Singapore Chinese Chamber of Commerce & Industry, the former chairman of the Singapore Business Federation and was a nominated member of parliament of the Singapore Government. He was the founding chairman of Singapore Maritime Foundation and the president of Singapore Shipping Association. Mr. Teo is currently the honorary consul of the United Republic of Tanzania in Singapore, the director of Business China, the industrial consultant of Joint Implementation Committee of the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity, the chairman of the China-Singapore Connectivity (Chongqing) Logistics Development Co., Ltd. and the chairman of the China-Singapore Nanning International Logistics Park. Mr. Teo joined the Company as an independent non-executive Director in December 2015.

### Victor Huang

Mr. Victor Huang, born in May 1971, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee of the Company. He is also a member of the Hong Kong Institute of Certified Public Accountants. He services as an independent non-executive director to Evergrande Property Services Group Limited(stock code: 06666.HK), ManpowerGroup Greater China Limited (stock code: 02180.HK), Scholar Education Group (stock code: 01769.HK), Topsports International Holdings Limited (stock code: 06110.HK), LBX Pharmacy Chain Co., Ltd. (stock code: 603883.SS), Qingdao Haier Biomedical Co., Ltd. (stock code: 688139.SS) and Newtimes Energy (stock code:00166.HK). Mr. Huang obtained a degree of Bachelor of Arts in Business Economics from The University of California, Los Angeles in the United States in 1992. He had been a former partner of PricewaterhouseCoopers and KPMG. He has around 30-year experience in the fields of accounting, audit and merger and acquisitions. He serviced as an independent non-executive director to Trinity Limited (stock code: 00891.HK) from December 2018 to December 2020 and to China Bright Culture Group (stock code: 01859.HK) from February 2020 to November 2020. Mr. Huang joined the Company as an independent non-executive Director in June 2020.

### Li Runsheng

Mr. Li Runsheng, born in June 1952, holds a master's degree and is a professor-level senior economist, is an independent non-executive Director, the chairman of the Remuneration and Appraisal Committee, a member of the Strategy Committee and the Nomination Committee of the Company. He serves as an independent non-executive director of China Aviation Oil (Singapore) Corporation Limited (stock code: G92.SI) and Shandong Lihuayi Weiyuan Chemical Co., Ltd. Mr. Li had been the director of the policy and regulation department of the former State Bureau of Petroleum and Chemical Industry, the party secretary and the deputy general manager of China Petroleum Refining and Sales Company, the director of the general office, assistant to the general manager and deputy director of the consulting center of China National Petroleum Corporation, and a vice chairman, deputy party secretary and the director to the Expert Committee of China Petroleum and Chemical Industry Federation. He has been engaged in the strategic research, market research and industry management for a long time with over 30 years of extensive experience in the oil and gas field. Mr. Li joined the Company as an independent non-executive Director in June 2020.

### Zhao Jinsong

Mr. Zhao Jinsong, born in November 1963, holds a doctorate degree and is a lawyer and a maritime arbitrator, is an independent non-executive Director, the chairman of the Risk Control Committee and a member of the Strategy Committee of the Company. He serves as a professor to the Research Institute at School of Ocean Engineering of Harbin Institute of Technology, Shenzhen, the director and a professor to Smart Ocean Research Center of Shenzhen Research Institute of Shanghai Jiao Tong University, the director to Shenzhen branch center of National Engineering Research Center for Ship Navigation System of Dalian Maritime University, a part-time lawyer to Allbright Law Offices and the president of Sanya Cruise Yacht Research Institute. Mr. Zhao has obtained a bachelor's and master's degree from Dalian Maritime University and a doctorate degree from the University of Southampton in the United Kingdom. He had been an ocean freighter pilot, and worked in maritime law firms Hill Taylor Dickson and Holman Fenwick Willan in the United Kingdom and Lawrence K. Y. Lo & Co. in Hong Kong for many years. He was a professor of maritime law of the Law School of Shanghai Jiao Tong University, the dean and a professor of the International Shipping Law School of East China University of Political Science and Law, and the president of Qianhai Shengang Institute of International Finance (Shenzhen) Co., Ltd. Mr. Zhao had been a visiting professor to many universities at home and abroad, a director of the law center of China Shipowners' Association, a director of China Shipbuilding Industry Fund Management Agency and a legal advisor of China Classification Society. Mr. Zhao has extensive teaching, scientific research and practical experience in navigation technology, ship financing, maritime law and marine insurance. Mr. Zhao joined the Company as an independent non-executive Director in June 2020.

## SUPERVISORS

### Weng Yi

Mr. Weng Yi, born in July 1967, holds a master's degree in management, and is a senior captain and senior engineer. He is currently the chairman of Supervisor Committee of the Company, the safety director and general manager of the safety management department of China COSCO Shipping Corporation Limited, the chairman of the Supervisor Committee of COSCO SHIPPING Bulk Co., Ltd., and the director of COSCO SHIPPING Ferry Co., Ltd. Mr. Weng served as a captain in Guangzhou Maritime Transport (Group) Co., Ltd., the deputy chief of the sailing department and the deputy chief of the shipping department of China Shipping Development Co., Ltd. Tramp Co., the deputy director of the shipping department of China Shipping Group Company Limited, the general manager of Zhuhai New Century Shipping Company Limited, the deputy general manager of China Shipping Development Co., Ltd. Tramp Co., the general manager of the shipping department and the general manager of the operation department of China Shipping Group Company Limited and a chief captain of China Shipping Group Company Limited.

### Yang Lei

Mr. Yang Lei, born in December 1971, is a Bachelor of Laws and a senior economist. He is now a supervisor of the Company and the deputy general manager of Legal and Risk Management Department of China COSCO Shipping Corporation Limited. Mr. Yang began his career in 1994 and served as the deputy general manager of Strategic Development Department of COSCO Container Lines Co., Ltd. and the deputy general manager of Legal and Risk Management Department of China Ocean Shipping (Group) Company. Mr. Yang graduated from East China University of Political Science and Law and majored in International Economic Law. Mr. Yang joined the Company in June 2018.

### Xu Yifei

Mr. Xu Yifei, born in November 1965, is a marine captain, a senior engineer and has a bachelor degree in engineering. He is currently the chairman of the labor union of the Company and a supervisor of the Company as a representative of employees. Mr. Xu Yifei served as a ship's chief officer of Shanghai Hai Xing Shipping Company Limited, a ship's marine captain of China Shipping International Ship Management Co., Ltd., the deputy chief of the maritime management department, the section chief and the deputy general manager of vessel administration department, the department head of human resources department and the chairman of labor union of China Shipping Tanker Company Limited. He serves as the chairman of labor union of the Company since June 2016 and is Supervisor of the Company since July 2016.

### An Zhijuan

Ms. An Zhijuan, born in April 1978, a political engineer, has a master degree in law. She is currently the department head of Human Resources Department and Organization Department of the Company and a supervisor of the Company as a representative of employees. Ms. An graduated from Dalian Maritime University in April 2003 majoring in international law. She served as the chief of the supervision and audit department of China Shipping Air Cargo Co., Ltd., the vice section chief of the supervision and audit department of China Shipping Group Company Limited. Ms. An serves as the head of the supervision and audit department of China Shipping Tanker Company Limited since she joined the Company in September 2015, she serves as the department head of the supervision and audit department of the Company from June 2016 to June 2018 and is a supervisor of the Company since July 2016.

## SENIOR MANAGEMENT

### Zhu Maijin

Mr. Zhu Maijin, born in October 1970, graduated from Dalian Maritime University. He holds a master's degree in management and is a senior captain. Mr. Zhu is currently an executive director, a member of the Strategy Committee and the President of the Company. Mr. Zhu joined the company in July 1996, he served as the deputy general manager (acting general manager), the general manager of the maritime management department and the assistant to general manager of China Shipping Development Co., Ltd. Tanker Company, the vice general manager of China Shipping Tanker Company Limited and the general manager of COSCO SHIPPING Tanker (Shanghai) Co., Ltd.

### Qin Jiong

Mr. Qin Jiong, born in September 1968, has a college degree and is a marine captain. He is now a deputy general manager of the Company. Mr. Qin was formerly a marine captain of Shanghai Maritime Bureau, the deputy general manager of Container Transport Division I and the director of the Dock Planner Center of China Shipping Container Line Company Limited, the director of the Dock Planner Center of China Shipping (Europe) Holding GmbH, the deputy general manager and the general manager of Container Transportation Division II, the general manager of European Division of China Shipping Container Line Company Limited, the general manager of China Shipping (Netherlands) Agency Co., LTD., the general manager of China Shipping South American Holding Co., LTD., the general manager of the Operation Management Department of China Shipping Group Company Limited. Mr. Qin joined the Company as deputy general manager in March 2016.

### Luo Yuming

Mr. Luo Yuming, born in December 1967, holds a Bachelor's Degree and is a senior engineer. He is currently a deputy general manager of the Company. Mr. Luo graduated from the Dalian Maritime University majoring in Navigation. He joined the Company in August 1989 and served as a captain of oil tankers, the head of maritime section, the assistant to general manager and the deputy general manager of China Shipping Development Company Limited Tanker Company — (Guangzhou Branch). He was appointed as the director of the vessel administration department of China Shipping Development Co., Ltd. Tanker Company in September 2005 and the general manager of the shipping department in January 2007. He was the vice general manager of China Shipping Tanker Company Limited in May 2012. Mr. Luo was appointed as the deputy general manager of the Company in June 2016.

### Zhao Jinwen

Mr. Zhao Jinwen, born in May 1962, graduated from Dalian Maritime University majoring in Marine Engineering. He holds a Master's Degree and is also an senior chief engineer. He is now a deputy general manager of the Company. Mr. Zhao was formerly a ship's chief engineer, the manager of Ship Technology Section of Security Technology Department, the deputy general manager and the general manager of Security Technology Department of Dalian Ocean Shipping Company Limited. He was also the former general manager assistant, the vice general manager and a member of the Party Committee of Dalian Ocean Shipping Company Limited. Mr. Zhao joined the Company as deputy general manager in June 2016.

### Yu Bozheng

Mr. Yu Bozheng, born in August 1964, holds a Bachelor's Degree and is an senior chief engineer. He is now a deputy general manager of the Company. Mr. Yu joined the Company in July 1987, and he served as the deputy general manager, the general manager of the maritime management department of China Shipping Development Co., Ltd. Tanker Company, the assistant to general manager, the vice general manager of China Shipping Tanker Company Limited and the vice general manager of COSCO SHIPPING Tanker (Shanghai) Co., Ltd.

### Li Zhuoqiong

Ms. Li Zhuoqiong, born in October 1973, graduated from Dalian Maritime University with a Master's Degree in International Law and is also a senior economic engineer. She is now a deputy general manager, the Chief Law Officer and the Secretary of the Board of the Company. Ms. Li began her career in August 1995, and was the general manager of Strategic Development Department of Dalian Ocean Shipping Company, and was the general manager of Strategy and Enterprise Management Department of the Company from June 2016 to March 2017.

中遠海運能源運輸股份有限公司
COSCO SHIPPING Energy Transportation Co., Ltd.

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