**中遠海運發展股份有限公司**

# COSCO SHIPPING Development Co., Ltd.*

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

**(Stock Code: 02866)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

**FINANCIAL HIGHLIGHTS (UNDER HKFRSs)**

- Revenue amounted to RMB16,260,600,000
- Profit attributable to owners of the parent of the Company for the year amounted to RMB1,463,803,000
- Basic earnings per share amounted to RMB0.1253

The board of directors (the "Board") of COSCO SHIPPING Development Co., Ltd. (the "Company" or "COSCO SHIPPING Development") is pleased to announce the audited consolidated results prepared under Hong Kong Financial Reporting Standards ("HKFRSs") of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 (the "Period"), together with the audited comparative figures for the year ended 31 December 2016.

## CHAIRMAN'S STATEMENT

The global economy recovered steadily in 2017, with EU-US economies consistently moving upwards, while China's economy grew in a steadfast manner. With the world's economy on the path to recovery, the shipping market experienced an overall revival. International trade increased considerably, while shipping demand grew gradually, improving the market's unbalanced demand and supply situation.

In 2017, China's regulatory policy tightened while market competition grew more intense. COSCO SHIPPING Development devised and executed its plan to restructure and transform its business, closely adhering to the principle of "deepening reforms, optimizing systems, streamlining management, enhancing quality and effectiveness". The Company strived to innovate and take full advantage of the shipping financial services platform, focusing on the main business of shipping, while also developing innovative shipping financial services and consolidating the industry's advantages and resources. We endeavored to complete the corporate mission of serving the real economy through financial services. Over the past year, the Company's management standards were constantly enhanced, while its asset scale and economic benefits grew steadily.

For the year of 2017, the Company's revenue was RMB16.26 billion, representing an increase of 4.72% as compared with 2016. Net profit attributable to owners of the parent of the Company for the year of 2017 amounted to RMB1.46 billion, representing an increase of 321% as compared with 2016. Basic earnings per share amounted to RMB0.1253.

## REVIEW OF OPERATIONS

As an important entity of the shipping finance platform of China COSCO Shipping Corporation Limited ("China COSCO SHIPPING"), COSCO SHIPPING Development has devoted its efforts to connecting assets with capital, as well as synergized development since the restructuring and transformation. We adapted to the demands of a new era and trend, proactively innovating to gain a deeper presence in the industry's financial market, at the same time developing specialized financial services to serve industries better.

We followed the philosophy of "finance aiding industry, development creates value", and had the vision of "creating an integrated supply-chain financial service platform with distinct shipping logistic features". We developed a series of professional and specialized financial services related to the shipping business, such as vessel and container leasing as well as industry funds.

In 2017, we kept our finger on the market pulse, The Company made a concerted effort to implement multiple measures and made a solid progress in the implementation of various projects. We put effort into expanding the shipping supply chain financial services business, creating synergy due to integration of industry and finance.

### I) Shipping and industry-related leasing segments:

1. Vessel leasing segment: As at 31 December 2017, the Company's container fleet had 93 container vessels, with a total capacity of 662,000 TEU. There were four bulk cargo vessels with a size of 64,000 DWT each; over 70 LNG vessels and heavy crane vessels. By adapting a mindset of "integrating industry and finance, facilitating industry development with finance and creating synergy", the Company actively implemented the strategy of integrating industry and finance, which shaped its brand image. The Company established synergetic collaboration mechanisms with other professional shipping companies, gaining an understanding of the new financing demands of shipping companies in a timely manner, and explored avenues for cooperation. At the same time, the Company developed its own brand of shipping finance, creating a unique competitive advantage, allowing it to delve deeper and explore third-party markets.

2. Container leasing segment: As at 31 December 2017, the container fleet of Florens International Limited ("FIL", an affiliate of the Company), boasted a total capacity of about 3.66 million TEU, making it the world's second largest container leasing company. In 2017, FIL took advantage of the leasing market's revival and stepped up its efforts in new container investment and client development, boosting its market share. The Company also promoted innovative projects and business models, enhancing the handling capacity of expired containers, and also developed its container renovation business with high add-on value. By optimizing the asset structure and business models, the container leasing segment's profitability and risk resistance was enhanced, which improved asset management capabilities and return on capital.

3. Other leasing businesses: As the Company reinforced the advantage of its existing businesses, it developed new areas of businesses and enhanced management standards.

**II) Container manufacturing segment:**

In 2016 when markets were subdued, the Company revamped its water-based paint application technique for containers and gained technological advantage amongst fierce competition through the benchmark effect. In 2017, the Company made accurate predictions and grasped the opportunity arising from the revival of the shipping market and large influx of container orders, resuming double-shift production and fully utilizing its capacity. As a result of the Company's correct judgement, it was able to lock in costs before container raw material prices rose, which stabilized its profit margins. The Company also strengthened collaborations with container liner and leasing companies, creating a greater synergy effect.

**III) Investment and services segment:**

The Company made strides in establishing the "Yuan Hai"（遠海）series of funds, attracting external capital to aid the development of shipping and new businesses, which generated synergy and induced the integration of industry and finance. By focusing on industry-related entities, we continued to expand our insurance, asset management, small loans and factoring businesses, and created new business models. By focusing on the shipping supply chain, we optimized our business model, thereby achieving synergized development of shipping financial services.

The Company emphasizes risk control. By utilizing its position as an integrated supply-chain financial service platform with distinct shipping logistic features, it carried out detailed evaluations and planning according to the three aspects "the status of business and legal risk management", "the environment of internal and external law and risk management" and "strategic planning of legal and risk management". The foundations for legal and risk management were thereby established, which were combined with the legal development framework to build the risk control system.

## FUTURE PROSPECT

At the 19th CPC National Congress, the Party clearly stated its objectives of deepening institutional reform in the financial sector, making it better serve the real economy, increasing the proportion of direct financing, and promoting the healthy development of a multilevel capital market at multiple levels. With this as a starting point, China's economy will enter a new era with growth expected to remain steady in 2018. Supply-side reforms will continue to be implemented, while active financial policies and neutral monetary policies look set to continue for an extended period. In the mid-to-long term, reforms of state-own enterprises, consumption upgrades and the Belt and Road Initiative will drive China's economic growth.

At the beginning of 2018, eight ministries and commissions of the State Council jointly published the "Guiding Opinions on Improving and Strengthening Marine Economic Development in Financial Services", reaffirming the 19th CPC National Congress' important strategic plan of "expediting the establishment of China as a marine power", "enhancing the financial sector's impact on the real economy" and "expanding blue economy", as well as to speed up the implementation of "the Belt Road Initiative". It also focused on the goal of promoting the quality development of the marine economy, and defined the support points and development direction of various sectors including banks, securities, insurance and diversified financing.

COSCO SHIPPING Development will continue to adhere to the philosophy of "integrating industry and finance, facilitating industry development with finance and creating synergy" to actively respond to and tap the financial service needs of the shipping industry. It will focus on the goal of promoting the quality development of the "marine economy" and "expanding shipping finance". This can benefit the Company's expansion of capital operations, shipping finance service, diversified financing and shipping funds.

In 2018, risk control will be the Company's top priority for the expansion of various business. We will further define the daily risk monitoring mechanism, expand risk quota monitoring, optimize and promote COSCO SHIPPING Development's basic risk control management in various businesses, as well as risk prevention.

For shipping and industry-related leasing segments, the Company will keep its finger on the market's pulse, focus on the shipping business, achieve diversified development, increase revenue and cut costs and enhance its profitability. We will promote the collaboration between the industry and the finance sections with other shipping companies to create greater synergy. Continued efforts will be made to further define and develop the market, while service capabilities will be reinforced to boost competitiveness. The four fields of asset acquisition, capital protection, risk control and internal management will be improved, strengthening the foundation to discover cooperative mechanisms that can benefit all parties involved. We will also explore a diversified and multi-layered development path for internal and external customers and business models.

As for the container manufacturing segment, the Company will pursue key account marketing strategy to further stabilize market share. The specialized container market will also be developed, and new skills and techniques will be applied to promote the innovation and upgrade of technology, while also enhancing the automation, intellectualization and informatization standards.

In terms of the investment and services segment, the shipping background of COSCO SHIPPING Development will be leveraged, while following the philosophy of "integrating industry and finance, facilitating industry development with finance" to identity financial services demand in internal and external business sectors. The industry fund and small loans company business will also be developed, along with risk control and strategic development to allow for the integration of industry and finance. At the same time, we will focus on the two parallel goals of strategic synergy and business development to realize outstanding financial return.

As we enter a new era and embark on a new journey, we will step forward with our new dreams, at the same time remembering our roots and mission. Integrity, efficiency, proactiveness and mutual benefit will continue to serve as the Company's core values. We will leverage China COSCO SHIPPING's strength and view markets with globalized vision to discover more value and potential in the shipping finance sector. Our main business will be our focus as we promote industry development and strive to become an outstanding industry financial services provider.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **REVENUE** | | **16,260,600** | 15,527,887 |
| Cost of sales | | **(12,852,154)** | (13,849,363) |
| **Gross Profit** | | **3,408,446** | 1,678,524 |
| Selling and administrative expenses | | **(1,158,540)** | (1,576,653) |
| Other income | 5 | **219,061** | 442,267 |
| Other (losses)/gains, net | 6 | **(10,305)** | 117,228 |
| Finance costs | | **(2,562,958)** | (1,690,941) |
| Share of profits of: | | | |
| Associates | | **2,057,169** | 1,538,043 |
| Joint ventures | | **7,155** | 8,532 |
| **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS** | | **1,960,028** | 517,000 |
| Income tax expense | 7 | **(425,696)** | (201,251) |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | | **1,534,332** | 315,749 |
| **DISCONTINUED OPERATION** | | | |
| Profit for the year from a discontinued operation | | **–** | 77,326 |
| **PROFIT FOR THE YEAR** | | **1,534,332** | 393,075 |
| Attributable to: | | | |
| Owners of the parent | | **1,463,803** | 347,503 |
| Non-controlling interests | | **70,529** | 45,572 |
| | | **1,534,332** | 393,075 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| (expressed in RMB per share) | 9 | | |
| Basic and diluted | | | |
| – For profit for the year | | **0.1253** | 0.0297 |
| – For profit from continuing operations | | **0.1253** | 0.0232 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*For the year ended 31 December 2017*

| | Note | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **1,534,332** | 393,075 |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | | |
| Available-for-sale investments: | | | |
| Changes in fair value, net of tax | | **(69,332)** | 66,325 |
| Reclassification adjustments for gains included in the consolidated statement of profit or loss | | **(102,869)** | (33,019) |
| Cash flow hedges: | | | |
| Effective portion of changes in fair value of hedging instruments arising during the year | | **8,812** | 8,555 |
| Exchange differences: | | | |
| Exchange differences on translation of foreign operations | | **660,456** | (738,492) |
| Reclassification adjustments for foreign operations disposed of | | **–** | 37,937 |
| Associates and joint ventures: | | | |
| Share of other comprehensive (loss)/income of associates and joint ventures | | **(217,017)** | 47,135 |
| Reclassification adjustments for disposal | | **–** | (1,179) |
| **OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX** | | **280,050** | (612,738) |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | **1,814,382** | (219,663) |
| Attributable to: | | | |
| Owners of the parent | | **1,739,824** | (241,719) |
| Non-controlling interests | | **74,558** | 22,056 |
| | | **1,814,382** | (219,663) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **53,844,184** | 58,392,439 |
| Investment properties | | **100,012** | 8,217 |
| Prepaid land lease payments | | **114,382** | 216,817 |
| Intangible asset | | **18,641** | 21,881 |
| Investments in associates | | **20,256,221** | 18,244,380 |
| Investments in joint ventures | | **198,526** | 137,349 |
| Available-for-sale investments | | **4,013,699** | 6,114,082 |
| Finance lease receivables | | **20,087,976** | 15,010,397 |
| Loans and receivables | | **154,116** | 198,114 |
| Derivative financial instruments | | **13,360** | 6,702 |
| Deferred tax assets | | **113,147** | 89,482 |
| Other long term prepayments | | **90,000** | 144,229 |
| Total non-current assets | | **99,004,264** | 98,584,089 |
| **CURRENT ASSETS** | | | |
| Inventories | | **1,155,668** | 859,415 |
| Trade and notes receivables | *10* | **1,388,976** | 1,655,656 |
| Prepayments and other receivables | | **896,243** | 899,933 |
| Prepaid land lease payments | | **3,587** | 3,918 |
| Finance lease receivables | | **7,333,145** | 3,593,896 |
| Loans and receivables | | **3,763,801** | 3,132,913 |
| Held-for-trading investments | | **547,428** | 72,466 |
| Derivative financial instruments | | **2,736** | 1,340 |
| Restricted cash | | **1,748,512** | 1,129,425 |
| Cash and cash equivalents | | **23,193,300** | 15,527,254 |
| Total current assets | | **40,033,396** | 26,876,216 |
| Total assets | | **139,037,660** | 125,460,305 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
*31 December 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and notes payables | 11 | **2,328,672** | 1,738,742 |
| Other payables and accruals | | **2,081,501** | 2,184,723 |
| Bank and other borrowings | | **31,571,856** | 29,925,251 |
| Corporate bonds | | **1,611,981** | 2,075,822 |
| Finance lease obligations | | **68,446** | 36,104 |
| Deposits from customers | | **14,757,813** | 8,550,566 |
| Tax payable | | **237,297** | 123,266 |
| Total current liabilities | | **52,657,566** | 44,634,474 |
| **NET CURRENT LIABILITIES** | | **(12,624,170)** | (17,758,258) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **86,380,094** | 80,825,831 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank and other borrowings | | **63,849,439** | 64,102,361 |
| Corporate bonds | | **2,803,325** | 1,426,942 |
| Finance lease obligations | | **512,082** | 311,344 |
| Deposits from customers | | **14,951** | 951 |
| Deferred tax liabilities | | **321,867** | 264,041 |
| Other long term payables | | **2,004,643** | 1,157,078 |
| Total non-current liabilities | | **69,506,307** | 67,262,717 |
| Net assets | | **16,873,787** | 13,563,114 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | | **11,683,125** | 11,683,125 |
| Special reserve | | **1,912** | – |
| General reserve | | **142,932** | 79,291 |
| Other reserves | | **(5,505,506)** | (6,067,818) |
| Other equity instrument | | **1,000,000** | – |
| Retained profits | | **8,953,699** | 7,555,449 |
| | | **16,276,162** | 13,250,047 |
| Non-controlling interests | | **597,625** | 313,067 |
| Total equity | | **16,873,787** | 13,563,114 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2017*

## 1. CORPORATE AND GROUP INFORMATION

COSCO SHIPPING Development Co., Ltd. (the "Company") is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC"). The address of the Company's registered office is Room A-538, International Trade Center, China (Shanghai) Pilot Free Trade Zone, Shanghai, the PRC.

During the year, the principal activities of the Group were as follows:

(a) Operating leasing and financial leasing;

(b) Manufacture and sale of containers;

(c) Provision of financial and insurance brokerage services;

(d) Equity investment; and

(e) Cargo and liner agency services.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company are China Shipping Group Company Limited (formerly known as China Shipping (Group) Company) and China COSCO Shipping Corporation Limited, respectively, both established in the PRC.

## 2. BASIS OF PREPARATION

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

The financial statements have been prepared under the going concern basis notwithstanding that the Company and its subsidiaries (collectively referred to as the "Group") had net current liabilities of RMB12,624,170,000 as at 31 December 2017. The directors of the Company are of opinion that based on the available unutilised banking facilities as at 31 December 2017, the Group will have the necessary liquid funds to finance its working capital and to meet its capital expenditure requirements. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

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

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

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

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to HKAS 7 | *Disclosure Initiative* |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12* |

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

## 4. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2016, the Group was organised into business units based on their products and services and was seven reportable operating segments as follows:

(a) The container shipping segment, which renders container marine transportation services and related businesses;

(b) The vessel chartering and container leasing segment, which specifically leases vessels and containers;

(c) The non-shipping related leasing segment, other than leases of vessels and containers;

(d) The container manufacturing segment, which manufactures and sells containers;

(e) The financial services segment, which renders corporate banking and insurance brokerage services;

(f) The equity investment segment, which focuses on equity investments, including investments in associates, investments in joint ventures and available-for-sale equity investments; and

(g) The "others" segment comprises, principally, cargo and liner agency services.

For the year ended 31 December 2017, the container shipping segment ceased to operate during 2016. In addition, the Group combined vessel chartering and container leasing segment and non-shipping related leasing segment into one segment, the shipping and industry-related leasing segment, and combined the financial services segment and the equity investment segment into another segment, the investment and services segment, for the following reasons:

- Such combinations of segments reflect the changes in the way that management review operating results and make decisions about resource allocation and performance assessment; and

- The Group has proposed to dispose of China Shipping Finance Company limited ("CS Finance"), which is still subject to the approval of China Banking Regulatory Commission as of the date of approval of the financial statements and, therefore, is not presented as a discontinued operation. Without CS Finance, the rest of the businesses in the financial services segment would be not material to the Group.

With the changes in the composition of segments, the Group restated comparatives in this note.

The measure of profit or loss, assets and liabilities for operating segments remains unchanged as follows:

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that unallocated finance costs are excluded from such measurement.

Segment assets are measured consistently with the Group's assets.

Segment liabilities exclude certain bank and other borrowings as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

| | **2017** | | | | |
|---|---|---|---|---|---|
| | **Shipping and industry-related leasing** *RMB'000* | **Container manufacturing** *RMB'000* | **Investment and services** *RMB'000* | **Others** *RMB'000* | **Total** *RMB'000* |
| **Segment revenue:** | | | | | |
| Sales to external customers from continuing operations | **10,380,425** | **5,466,730** | **401,009** | **12,436** | **16,260,600** |
| Intersegment sales | **–** | **472,955** | **74,529** | **–** | **547,484** |
| Total revenue | **10,380,425** | **5,939,685** | **475,538** | **12,436** | **16,808,084** |
| **Segment results** | **904,924** | **280,049** | **1,474,594** | **13,381** | **2,672,948** |
| Elimination of intersegment results | | | | | **(93,740)** |
| Unallocated expenses | | | | | **(619,180)** |
| **Profit before tax from continuing operations** | | | | | **1,960,028** |

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Container shipping *RMB'000* | Shipping and industry-related shipping *RMB'000* (Restated) | Container manufacturing *RMB'000* | Investment and services *RMB'000* (Restated) | Others *RMB'000* | Total *RMB'000* |
| **Segment revenue:** | | | | | | |
| Sales to external customers from continuing operations | 3,649,468 | 10,040,568 | 1,484,413 | 328,577 | 24,861 | 15,527,887 |
| Intersegment sales | 10,979 | – | 1,580,213 | 67,903 | – | 1,659,095 |
| Total revenue | 3,660,447 | 10,040,568 | 3,064,626 | 396,480 | 24,861 | 17,186,982 |
| **Segment results** | (1,043,562) | 586,367 | 6,029 | 1,459,906 | (3,884) | 1,004,856 |
| Elimination of intersegment results | | | | | | (60,656) |
| Unallocated expenses | | | | | | (427,200) |
| **Profit before tax from continuing operations** | | | | | | 517,000 |

## 5. OTHER INCOME

| | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|
| Interest income generated from operations other than financial services | **84,752** | 80,930 |
| Government grants related to income | **39,038** | 309,822 |
| Dividends from available-for-sale investments | **33,922** | 30,972 |
| Dividends from held-for-trading investments | **3,528** | 191 |
| Management fee income | **29,995** | – |
| Others | **27,826** | 20,352 |
| | **219,061** | 442,267 |

## 6. OTHER (LOSSES)/GAINS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loss on disposal of subsidiaries | **–** | (3,589) |
| Gain on disposal of interests in associates | **–** | 50,997 |
| Gain on disposal of interests in joint ventures | **–** | 17,569 |
| Gain on disposal of items of property, plant and equipment | **37,723** | 6,876 |
| Gain on disposal of available-for-sale investments | **128,073** | 77,000 |
| Fair value gain on held-for-trading investments | **2,780** | 893 |
| Net foreign exchange loss | **(179,543)** | (31,566) |
| Others | **662** | (952) |
| | **(10,305)** | 117,228 |

## 7. INCOME TAX

According to the Corporate Income Tax ("CIT") Law of the PRC, which was effective from 1 January 2008, the CIT rate applicable to the Company and its subsidiaries established in the PRC was 25% for the years ended 31 December 2017 and 2016.

Hong Kong profits tax was provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits of the Group's companies operating in Hong Kong during the year.

Taxes or profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| – PRC | **359,285** | 193,516 |
| – Hong Kong | **14,628** | 10,923 |
| – Elsewhere | **11,494** | 2,892 |
| Deferred income tax | **40,289** | (6,080) |
| | **425,696** | 201,251 |

## 8. DIVIDENDS

The directors did not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share amount is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | | |
| From continuing operations | **1,463,803** | 270,961 |
| From a discontinued operation | **–** | 76,542 |
| Profit attributable to ordinary equity holders of the parent | **1,463,803** | 347,503 |

| | **2017** | 2016 |
|---|---|---|
| | ***'000*** | *'000* |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **11,683,125** | 11,683,125 |

There was no dilutive effect for the year (2016: Nil).

## 10. TRADE AND NOTES RECEIVABLES

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **1,250,254** | 1,215,511 |
| 4 to 6 months | **65,514** | 91,244 |
| 7 to 12 months | **42,246** | 334,252 |
| Over 1 year | **30,962** | 14,649 |
| | **1,388,976** | 1,655,656 |

## 11. TRADE AND NOTES PAYABLES

An aging analysis of the trade payables as at end of the reporting date, based on the invoice date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **1,123,185** | 1,026,115 |
| 4 to 6 months | **451,815** | 24,359 |
| 7 to 12 months | **729,290** | 684,191 |
| 1 to 2 years | **24,382** | 4,077 |
| | **2,328,672** | 1,738,742 |

## 12. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 31 December 2017.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## ANALYSIS OF OPERATING ENVIRONMENT

### 1. *Macroeconomic Conditions*

In 2017, the global economy continued to recover at a moderate pace. The advanced economies as a whole continued to recover steadily, with a rebound across the United States, Europe and Japan. In its latest World Economic Outlook Report for the year, the International Monetary Fund indicates that global economic activities will continue to consolidate and it has upgraded its forecast for global economic growth. According to the report, global economic growth would be 3.7% for 2017 and 3.9% for 2018, while the economic growth in emerging and developing economies is expected to reach 4.7% in 2017 and 4.9% in 2018.

China has maintained a continuous and stable economic growth with remarkable achievements in the structural reforms. In 2017, the GDP growth in China reached 6.9%, maintaining a medium-to-rapid growth, while the quality of growth further improved. There is a continuous growth in foreign trade in China. According to statistics released by the Customs, the total foreign trade volume of exports and imports of China for 2017 was RMB27.79 trillion, representing an increase of 14.2% as compared with the same period of 2016. Against the backdrop of continual global economic recovery and China's economy continue to stabilize and improve, it is expected that the overall situation of China's external trade will be improving this year. However, as to international trade, uncertain and unstable factors still persist.

### 2. *Shipping Market*

In 2017, the international shipping market generally recovered and the imbalance between supply and demand improved. Global trade revived as the EU-US economies rebound. The increase in commodity price such as iron and coal had resulted in an increasing demand for transportation, which all pointed to positive sign for global trade and demand. The imbalance between supply and demand improved while the market for container shipping, bulk shipping and multi-purpose vessels showed signs of recovery.

An overall revival of the shipping market as well as slow delivery of new vessels in 2017 has contributed to the rebound of the vessel leasing industry. Since the beginning of the year, the vessel leasing market has gradually picked up alone with increased leasing demand, which resulted in the rent increase in most types of ships. Owing to the recovery of the container transport market, the demand for containers has gradually increased. In addition, in April 2017, the industry-wide application of water-proof coats has made the production process more difficult and thus less supply of new containers in the early stage. The prices for new containers and rental prices were both higher than 2016.

### *3. Financial Market*

In 2017, the financial market in China generally operated in a healthy manner. As for social financing, the size of social financing increased by an aggregate of RMB19.44 trillion in 2017, of which loans to real economy increased by RMB13.84 trillion, representing an increase of 1.41 trillion as compared with that in the same period of last year. Meanwhile, however, the size of equity financing in the direct financing market decreased as a result of a substantial decrease in the size of re-financing activities as compared with last year. Regulatory bodies for financial issues have been implementing prudent regulatory measures to further regulate the financial market by curbing speculations and deleveraging the secondary market. In June 2017, A Shares were included in MSCI Emerging Markets Index, which helps the A share market to attract investors. As to RMB exchange rate, the RMB exchange rate remained stable in 2017. As RMB appreciates against US dollars, the possibility of depreciation is expected to be lower.

## FUTURE DEVELOPMENT STRATEGY OF THE COMPANY

### *1. Strategic Position*

As a shipping financing platform, COSCO SHIPPING Development will integrate premium resources and give full play to its advantages in the shipping industry. Synergic development will be pursued for various financial businesses in an attempt to become China's leading and the world's first-class player boasting an integrated supply-chain financial service platform with distinct shipping logistics features.

### *2. Development Goals*

To bring into play the advantages in shipping logistics industry and integrated shipping industry chain with shipping finance as the foundation; to develop industrial cluster with shipping and industry-related leasing, container manufacturing, investment and service business as the core; and to develop into a "one-stop" shipping financial service platform by combining industry with finance, integrating various financial functions, and synergy of various businesses, featuring market mechanism, differentiated advantages and international vision.

### 3. *Development Plans*

1) *Shipping and Industry-related Leasing Business*

The vessel leasing business focuses on the operating lease or finance lease of various vessels, such as container vessels and dry bulk cargo vessels. The Company will, on the basis of its existing business, gradually set up a high level professional investment and financing team, so as to become a first-class ship owner leasing enterprise. In a short-term view, the Company is to mobilize its current fleet resources to revive its internal business; in the long run, it is to gradually increase the proportion of external business and work out a "one-stop" business model leveraging on China COSCO SHIPPING's advantages of full industrial chain deployment, in an attempt to establish a unique competitive edge in the industry.

The container leasing business, as an integral part of the container industry chain, mainly involves container leasing and trading of various kinds. The Company will strive to become an industry-leading leasing company with unique competitive edges on the basis of the current leasing business of FIL. In a short-term view, the Company is to follow the guideline of "consolidating core businesses while seizing market opportunities" and realize synergy among sales, cost and capability, so as to consolidate its core businesses. In a long-term view, the Company is to seize market opportunities to develop its special container leasing business, optimize its contract patterns and improve capital structure, so as to increase returns.

Other leasing businesses mainly focus on areas of development potential such as medical services, education, new energy and intelligent manufacturing. The Company sets its focus on the small and medium enterprise clients and small- to mid-sized projects, and strives to become a financial leasing leader in leveraging on its existing business, experience and capital to promote integration of industry and finance. In the industrial sector, the Company will support customer-oriented development and provide financial leasing value-added services, so as to establish a leasing business platform that offers one-stop professional services with uniform standards.

2) *Container manufacturing business*

We will enhance our comprehensive competitiveness through technology upgrading, management upgrading and accelerating the promotion and upgrading of environmental technology. We will strengthen dry container manufacturing, diversify container products, increase the market share of specialized container market, and lay out refrigerated container manufacturing business in advance. We will also seek for consolidation opportunity and optimize operation, so as to build a technology-leading and world class container manufacturing enterprise with high capacity utilization as well as profitability.

3) *Investment and service business*

As to investment and service business, the Company will give equal weight to strategic value and financial returns, prioritize both strategic synergy and performance drivers, and make full use of domestic and overseas resources to pool external capital through various means such as industry fund, so as to support development of the shipping industry and emerging industry and promote the integration of industry and finance. The Company will make effort to realize good financial returns while incubating the Company's future financial investment business.

## MAJOR RISKS AND COUNTERMEASURES

### 1. *Macroeconomic Risks*

At present, although China's macro economy remains stable as a whole, there are still many uncertainties such as economic slowdown and structural imbalances. The global economy recovers at a slow pace yet with significantly divergent recovery progress among different economies and there are uncertainties due to the issues such as debt crisis, trade imbalances and exchange rate disputes. The Company will transform into an integrated financial service platform that will leverage its experience in the shipping industry to focus on developing diversified leasing business. To this end, the Company will build up a broad business network at home and abroad, which would expose it to macroeconomic environment both domestically and globally. To tackle the macroeconomic uncertainties, the Company has built and has kept improving its risk prediction and management system to guarantee operation and asset security.

### 2. *Market Risk*

This refers to the risk of unexpected losses arising from movements in interest rates, exchange rates, equity prices, etc. While building up and improving its market risk management mechanism, the Company has formulated market risk management policy, qualitative and quantitative monitoring standards, determined market risk limits, and defined the management responsibilities and functional division for departments responsible for market risk.

### 3. *Liquidity Risk*

This refers to the risk of failure to obtain sufficient funds in a timely manner or failure to do so at reasonable cost in order to repay debt upon maturity or fulfill other payment obligations. Depending on factors such as strategies, business structure, risk situation and market environment, and taking full account of the impact of other risks on liquidity and its overall risk appetite, the Company has determined its liquidity risk appetite and risk tolerance, and is building up a liquidity risk limit management system. The Company will take measures such as regular assessment, monitoring and establishment of firewalls to effectively prevent liquidity risk.

### 4. *Strategy-related Risk*

This refers to the risk caused by a mismatch between the Company's strategies and the market environment or its capabilities as a result of ineffective strategies and processes or changes in business environment. The Company has set up and continually improved its working procedures for strategy-related risk management to identify, analyze and monitor strategy-related risk. The Company makes strategic planning after taking full consideration of such factors as market environment, its risk appetite and capital position.

### *5. Company-wide Concentration Risk*

The fact that the individual risks or risk portfolios of the Company's business units are concentrated within the Company may directly or indirectly trigger the risk that the Company's capital adequacy ratio might fail to meet regulatory requirements. The Company will set its company-wide concentration risk limits based on factors such as its overall risk appetite and tolerance, size of capital, assets and liabilities, transaction types (e.g. investment asset classes), counterparty characteristics, trading risk rating (credit rating, etc.), and perform concentration risk limit management.

### *6. Risk of Industry Competition*

The leasing industry in which the Company operates after transformation is known for fierce competition in such areas as rent, leasing terms, customer services, reliability, etc.. With its market-oriented system, differentiated strengths and international vision, the Company will focus on shipping finance and give full play to its advantages in shipping logistics to establish a "one-stop" financial service platform which combines industry with finance, integrates various financial functions and seeks synergy of multiple businesses, so as to cope with market competition in an active manner.

## FINANCIAL REVIEW OF THE GROUP

The Group recorded a revenue of RMB16,260,600,000 for 2017, representing an increase of 4.72% as compared with RMB15,527,887,000 of last year; total profit before income tax from continuing operations amounted to RMB1,960,028,000, representing an increase of 279% as compared with RMB517,000,000 of last year; profit attributable to owners of the parent of the Company amounted to RMB1,463,803,000, representing an increase of 321% as compared with RMB347,503,000 of 2016. The increase was mainly attributable to: (1) The Company's leasing business scale achieved positive development and profitability continuously increased; (2) Investment business continued to grow steadily and achieved satisfactory return; (3) The sales volumes and prices of the Company's container manufacturing segment have increased substantially.

Analyses of segment results are as follows:

*Unit: RMB'000*

| | Revenue | | | Cost | | |
|---|---|---|---|---|---|---|
| **Segment** | **2017** | **2016** | **Change** *(%)* | **2017** | **2016** | **Change** *(%)* |
| Shipping and industry-related leasing business | 10,380,425 | 10,040,568 | 3% | 7,715,229 | 7,714,111 | 0% |
| Container manufacturing business | 5,939,685 | 3,064,626 | 94% | 5,436,275 | 2,981,116 | 82% |
| Investment and service business | 475,538 | 396,480 | 20% | 155,994 | 162,298 | (4%) |
| Other businesses | 12,436 | 24,861 | (50%) | 16,112 | 19,177 | (16%) |
| Liner business | – | 3,660,447 | (100%) | – | 4,735,081 | (100%) |
| Offset amount | (547,484) | (1,659,095) | (67%) | (471,456) | (1,762,420) | (73%) |
| **Total** | **16,260,600** | **15,527,887** | **5%** | **12,852,154** | **13,849,363** | **(7%)** |

## 1. ANALYSIS OF SHIPPING AND INDUSTRY-RELATED LEASING BUSINESS

### *1) Operating Revenue*

The Group recorded a revenue from its leasing business of RMB10,380,425,000 for 2017, representing an increase of 3% as compared with RMB10,040,568,000 of last year, which accounted for 64% of the total revenue of the Group. The increase was mainly due to the further expansion of other industry-related finance leasing business of the Company.

Revenue from vessel leasing business amounted to RMB5,733,995,000, representing a decrease of 5% as compared with RMB6,005,853,000 of last year. Of which, revenue from vessel operating leasing amounted to RMB5,591,430,000, revenue from vessel finance leasing amounted to approximately RMB142,565,000. The revenue from vessel leasing decreased was mainly due to the term expiry of chartered vessels during the year, the number of subchartering vessels decreased by nine as compared with last year. In 2017, the Group leased out 97 vessels (2016: 106 vessels).

Revenue from container leasing business amounted to RMB3,200,852,000, representing a decrease of 1% as compared with RMB3,219,520,000 of last year, The reason for the decrease was mainly due to a slight decrease in container operating lease and sales of containers.

Of which, revenue from other industry-related finance leasing amounted to RMB1,445,578,000, representing an increase of 77% as compared with RMB815,195,000 of last year. The increase was mainly due to further expansion of our finance leasing business.

### *2) Operating Costs*

Operating costs for leasing business mainly include the depreciation and maintenance costs for self-owned vessels, depreciation of self-owned containers, staff salaries, net carrying value of sales of containers returned upon expiry and rents of the leased-in vessels and containers. Operating costs for leasing business for 2017 was RMB7,715,229,000, representing an increase of 0.01% as compared with the costs of RMB7,714,111,000 of last year.

## 2. ANALYSIS OF CONTAINER MANUFACTURING BUSINESS

### 1) *Operating Revenue*

In 2017, the Group's container manufacturing business realized operating revenue of RMB5,939,685,000, representing an increase of 94% as compared with RMB3,064,626,000 of last year. The reason for the substantial increase was mainly due to recovery of the container manufacturing market alongside the global economic and shipping market recovery. Besides, the industry-wide application of water-proof coats in April 2017 has resulted in rising price for containers. As a result, there was a rise in both volumes and prices in the container manufacturing market. The Group's container sales amounted to 480,000 TEU during the year, representing an increase of 34% as compared with 358,000 TEU of last year.

### 2) *Operating Costs*

The operating costs of the container manufacturing business mainly consist of raw material costs, employee compensation and depreciation expenses. The operating costs of the business amounted to RMB5,436,275,000 in 2017, representing an increase of 82% as compared with RMB2,981,116,000 of last year. Such increase was mainly due to the surge in sales volume of container as the container manufacturing market improved. Besides, the industry-wide application of water-proof coats in April 2017 has resulted in the rise of raw material prices.

## 3. ANALYSIS OF INVESTMENT AND SERVICE BUSINESS

### 1) *Operating Revenue*

In 2017, the Group's financial services realized operating revenue of RMB475,538,000, representing 3% of the Group's total operating revenue and an increase of 20% as compared with RMB396,480,000 of last year. The increase was mainly due to an increase in interest income from loans in line with an increase in loans of CS Finance, a subsidiary of the Company.

### 2) *Operating Costs*

The operating costs in 2017 were RMB155,994,000, representing a decrease of 4% as compared with RMB162,298,000 of last year.

### 3) *Investment Income*

In 2017, the income from investment business was RMB2,232,270,000, representing an increase of 34% as compared with RMB1,665,667,000 of last year. Such increase was mainly attributable to an improvement in the performances of China International Marine Containers (Group) Co., Ltd., China Bohai Bank Co., Ltd. and China Everbright Bank Co., Ltd., which are associates of the Company, for the year as compared with that of last year.

## GROSS PROFIT

Due to the above reasons, the Group recorded gross profit of RMB3,408,446,000 for 2017 (2016: gross profit RMB1,678,524,000).

## SIGNIFICANT SECURITIES INVESTMENT

As at 31 December 2017, the Company's equity investments in associates and joint ventures generated profit of RMB2,064,324,000, mainly attributable to the profits from China Everbright Bank Co., China International Marine Containers (Group) Co., Ltd. and China Bohai Bank Co., Ltd. for the Period.

### 1. Shareholdings in Other Listed Companies

| Stock code | Company name | Initial investment cost *(RMB)* | Shareholding at the beginning of the period *(%)* | Shareholding at the end of the period *(%)* | Book value at the end of the period *(RMB)* | Gain during the period *(RMB)* | Changes in other reserve during the period *(RMB)* | Gain from disposal *(RMB)* | Dividends received during the period *(RMB)* | Accounting ledger | Sources of the share-holding |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 000039/ 02039 | China International Marine Containers (Group) Ltd. | 6,338,818,000 | 22.76 | 22.73 | 7,560,476,000 | 485,844,000 | (120,252,000) | – | 40,384,000 | Investment in associates | Purchase |
| 601818 | China Everbright Bank Co., Ltd. | 3,398,255,000 | 1.551 | 1.379 | 3,779,671,000 | 466,706,000 | (36,510,000) | – | 70,952,000 | Investment in associates | Purchase |
| 600643 | Shanghai AJ Group Co., Ltd. | 33,814,000 | 0.56 | 0.33 | 52,079,000 | – | (23,600,000) | 24,343,000 | – | Available-for-sale investments | Purchase |
| 000617 | CNPC Capital Company Limited | 950,000,000 | 0.97 | 0.97 | 1,015,033,000 | – | (56,024,000) | – | – | Available-for-sale investments | Purchase |
| 600390 | Minmetals Capital Co., Ltd. | 1,500,000,000 | / | 3.94 | 1,377,635,000 | – | (122,365,000) | – | – | Available-for-sale investments | Purchase |
| Total | | 12,220,887,000 | / | / | 13,784,894,000 | 952,550,000 | (358,751,000) | 24,343,000 | 111,336,000 | | |

## 2. Shareholdings in Financial Enterprises

| Name of investee | Initial investment cost *(RMB)* | Shareholding at the beginning of the period *(%)* | Shareholding at the end of the period *(%)* | Book value at the end of the period *(RMB)* | Gain during the period *(RMB)* | Changes in other reserve during the period *(RMB)* | Gain from disposal *(RMB)* | Dividends received during the period *(RMB)* | Accounting ledger | Sources of the share-holding |
|---|---|---|---|---|---|---|---|---|---|---|
| China Bohai Bank Co., Ltd. | 5,749,379,000 | 13.67 | 13.67 | 6,625,207,000 | 923,247,000 | (47,419,000) | – | – | Investment in associates | Purchase |
| Bank of Kunlun Co., Ltd. | 838,959,000 | 3.74 | 3.74 | 1,139,574,000 | 110,701,000 | (6,751,000) | – | 36,010,000 | Investment in associates | Purchase |
| Shanghai Life Insurance Co., Ltd. | 320,000,000 | 16 | 16 | 919,242,000 | 18,519,000 | (5,262,000) | – | – | Investment in associates | Purchase |
| CIB Fund Management Co., Ltd. | 50,000,000 | 10 | 10 | 182,996,000 | 53,836,000 | (344,000) | – | – | Investment in associates | Purchase |
| Shanghai Haisheng Shangshou Financial Leasing Co., Ltd. | 125,000,000 | 25 | 25 | 130,876,000 | 3,304,000 | – | – | – | Investment in joint ventures | Purchase |
| Total | 7,083,338,000 | / | / | 8,997,895,000 | 1,109,607,000 | (59,776,000) | – | 36,010,000 | | |

### *(a) Summary of principal businesses of the investees in the investment*

| Name of Investee | Exchange | Principal businesses |
|---|---|---|
| China International Marine Containers (Group) Co., Ltd. | Shenzhen Stock Exchange/ Hong Kong Stock Exchange | Manufacturing and sales of containers |
| Shanghai AJ Group Co., Ltd. | Shanghai Stock Exchange | Investment in industries and other financial businesses |
| China Everbright Bank Co., Ltd. | Shanghai Stock Exchange | Bank business |
| Minmetals Capital Co.,Ltd. | Shanghai Stock Exchange | Ore mining, processing and sales |
| CIB Fund Management Co., Ltd. | / | Fund Management |
| Bank of Kunlun Co., Ltd. | / | Bank business |
| Shanghai Life Insurance Co., Ltd. | / | Insurance |
| Shanghai Haisheng Shangshou Financial Leasing Co., Ltd. | / | Leasing |
| China Bohai Bank Co., Ltd. | / | Bank business |
| CNPC Capital Company Limited | Shenzhen Stock Exchange | Engine R&D and manufacturing |

The stock market was volatile in 2017. The Company expects the investment portfolio of the Group (including the above major investments) will be subject to the movement of interest rates, market factors and macroeconomic factors etc. Moreover, the market value of individual shares will be affected by the financial results, development plan as well as prospects of the industry of the listed companies. To mitigate relevant risks, the Group will take appropriate measures in due course and adjust its investment strategies in response to market situation.

## INFORMATION OF THE SUBSIDIARY, CS FINANCE

### 1. Shareholding Structure of CS Finance

| No. | Name of Shareholder | Shareholding *(%)* |
|---|---|---|
| 1 | China Shipping Group Company Limited | 10% |
| 2 | COSCO SHIPPING Development | 65% |
| 3 | COSCO SHIPPING Energy Transportation Co., Ltd. | 25% |
| Total | | 100% |

### 2. INFORMATION OF THE SUBSIDIARY, CS FINANCE

#### A *Total deposits and loans at the end of the Period*

*Unit: RMB*

| | As at 31 December 2017 | As at 31 December 2016 | Change *(%)* |
|---|---|---|---|
| Balance of deposits | 19,809,304,805.25 | 13,355,355,637.56 | 48% |
| Balance of loans | 5,718,376,489.55 | 5,416,437,400.00 | 6% |

#### B *Balance of deposits and loans with the top ten customers*

*(a) Balance of deposits of the top ten customers*

*Unit: RMB*

| No. | Name of Customer | As at 31 December 2017 |
|---|---|---|
| 1 | COSCO SHIPPING Development | 2,155,128,180.08 |
| 2 | COSCO SHIPPING Asset Management Co., Ltd. | 2,004,995,821.65 |
| 3 | COSCO SHIPPING Energy Transportation Co., Ltd. | 1,928,829,871.22 |
| 4 | COSCO Shipping (Guangzhou) Co., Ltd. | 1,581,812,235.85 |
| 5 | China COSCO Shipping Corporation Limited | 1,220,135,319.50 |
| 6 | COSCO SHIPPING LEASING CO., LTD. | 964,733,189.06 |
| 7 | COSCO SHIPPING Tanker (Shanghai) Co., Ltd. | 835,198,312.63 |
| 8 | Shanghai Pan Asia Shipping Company Limited | 678,000,000.00 |
| 9 | Dong Fang International Container (Lianyungang) Co., Ltd. | 575,316,954.02 |
| 10 | COSCO SHIPPING (Shanghai) Company Ltd. | 515,070,162.16 |

*(b) Balance of loans to the top ten customers*

*Unit: RMB*

| **No.** | **Name of Customer** | **As at 31 December 2017** |
|---|---|---|
| 1 | COSCO SHIPPING Development | 1,700,000,000.00 |
| 2 | China Shipping Group Company Limited | 1,000,000,000.00 |
| 3 | China Shipping Bulk Carrier Co., Ltd. | 1,000,000,000.00 |
| 4 | SDIC Shipping Development Co., Ltd. | 532,125,000.00 |
| 5 | Shanghai COSCO SHIPPING Logistics Supply Chain Management Co., Ltd. | 400,000,000.00 |
| 6 | COSCO SHIPPING Seafarer Management Co., Ltd. | 200,000,000.00 |
| 7 | Hainan HaiSheng Shipping Co., Ltd. | 200,000,000.00 |
| 8 | China Shipping Industrial Construction (Shanghai Pudong) Co., Ltd. | 150,000,000.00 |
| 9 | Shanghai Times Shipping Company Limited | 150,000,000.00 |
| 10 | China Shipping Industry Co., Ltd. | 100,000,000.00 |

## INCOME TAX

From 1 January 2017 to 31 December 2017, the corporate income tax ("CIT") rate applicable to the Company and its subsidiaries in the PRC was 25%.

Pursuant to the relevant new CIT regulations, the profits derived from the Company's offshore subsidiaries shall be subject to applicable CIT when dividends were declared by such offshore subsidiaries. The Company uses an applicable tax rate in accordance with relevant CIT regulations to pay CIT on profits of the offshore subsidiaries.

## SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

For the year ended 31 December 2017, the Group's selling, administrative and general expenses were RMB1,158,540,000, representing a decrease of 27% as compared with 2016.

## OTHER (LOSSES)/GAINS, NET

For the year ended 31 December 2017, other losses of the Group were RMB10,305,000, representing a decrease of approximately RMB127,533,000 as compared with other gains of RMB117,228,000 for 2016, mainly attributable to exchange loss.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The profit attributable to owners of the parent of the Company for 2017 was RMB1,463,803,000, representing an increase of 321% as compared with RMB347,503,000 for 2016.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Liquidity and borrowings

The Group's principal sources of liquidity are operating cash inflow and short-term bank borrowings. The Group's cash is mainly used for operating expenses, repayment of loans, construction of new vessels, procurement of containers, and the Group's financial leasing business. During the Period, the Group's net operating cash inflow was RMB11,852,141,000. As at 31 December 2017, the Group's cash at banks was RMB23,193,300,000.

As at 31 December 2017, the Group's total bank and other borrowings were RMB95,421,295,000, of which RMB31,571,856,000 is repayable within one year. The Group's long-term bank borrowings are mainly used to finance the procurement of containers, equity acquisitions and replenishment of liquidity.

As at 31 December 2017, the Group's RMB-denominated bonds payable amounted to RMB3,086,327,000, and all proceeds raised from the bonds were used for the purchase of financial lease assets.

In addition, the Group's USD-denominated bonds payable at fixed interest rates amounted to USD203,388,000 (equivalent to approximately RMB1,328,979,000), and all proceeds raised from the bonds were used for procurement of containers.

The Group's RMB borrowings at fixed interest rates amounted to RMB37,621,636,000. USD borrowings at fixed interest rates amounted to USD158,142,000 (equivalent to approximately RMB1,033,334,000), RMB borrowings at floating interest rates amounted to RMB2,680,637,000, and USD borrowings at floating interest rates amounted to USD8,277,324,000 (equivalent to approximately RMB54,085,688,000). The Group's borrowings are settled in RMB or USD while its cash and cash equivalents are also primarily denominated in RMB and USD.

It is expected that capital needs for regular cash flow and capital expenditure can be funded by the internal cash flow of the Group or external financing. The Board will review the operating cash flow of the Group from time to time. It is the intention of the Group to maintain an appropriate composition of equity and debt to constantly achieve an effective capital structure.

### Net current liabilities

As at 31 December 2017, the Group's net current liabilities amounted to RMB12,624,170,000. Current assets mainly include: the current portion of the finance lease receivables of RMB7,333,145,000 and the current portion of the loans and receivables of RMB3,763,801,000, inventories of RMB1,155,668,000, trade and notes receivables of RMB1,388,976,000, prepayments and other receivables of RMB896,243,000, cash and cash equivalents of RMB23,193,300,000, and restricted cash of RMB1,748,512,000. Current liabilities mainly include: trade and notes payable of RMB2,328,672,000, other payables and accruals of RMB2,081,501,000, tax payable of RMB237,297,000, the current portion of bank and other borrowings of RMB31,571,856,000 and current portion of finance lease obligations RMB68,446,000.

**Cash flows**

For the year of 2017, the Group's net cash inflow generated from operating activities was RMB11,852,141,000, denominated principally in RMB and USD, representing an increase of RMB4,194,825,000 from the net cash inflow generated from operating activities of RMB7,657,316,000 in 2016. Cash and cash equivalents balances at the end of 2017 increased by RMB7,666,046,000 year-on-year, the main reason of which is that the net cash generated from operating activities and the net cash generated from financing activities were more than the net cash outflow used in investing activities. The cash generated from financing activities of the Group during year 2017 was mainly derived from bank borrowings and issuance of commercial bills and such funds were used mainly for the purposes of short-term operation and purchase and construction of containers.

The following table provides the information regarding the Group's cash flow for the years ended 31 December 2017 and 31 December 2016:

*Unit: RMB*

| | **2017** | 2016 |
|---|---|---|
| Net cash generated from operating activities | **11,852,141,000** | 7,657,316,000 |
| Net cash used in investing activities | **(6,652,489,000)** | (13,731,500,000) |
| Net cash generated from financing activities | **2,886,277,000** | 5,425,101,000 |
| Exchange movement on cash | **(419,883,000)** | 244,666,000 |
| Net increase/(decrease) in cash and cash equivalents | **7,666,046,000** | (404,417,000) |

**Net cash generated from operating activities**

For the year ended 31 December 2017, the net cash inflow generated from operating activities was RMB11,852,141,000, representing an increase of RMB4,194,825,000 as compared with the net inflow of RMB7,657,316,000 for 2016. The increase was attributable to the increase year-on-year in the Group's operating profit in 2017.

**Net cash used in investing activities**

For the year ended 31 December 2017, the net cash outflow used in investing activities was RMB6,652,489,000, decreased by RMB7,079,011,000 as compared with the net outflow of RMB13,731,500,000 for 2016. The decrease in net cash outflow used in investing activities was primarily attributable to optimized financial products structure as well as an increase in cashflow received from investments.

**Net cash generated from financing activities**

For the year ended 31 December 2017, the net cash generated from financing activities was RMB2,886,277,000, representing a decrease of RMB2,538,824,000 as compared with the net cash generated from financing activities of RMB5,425,101,000 for 2016. For the year of 2017, the Group's bank and other borrowings amounted to RMB44,062,964,000, and repayment of bank and other borrowings amounted to RMB38,915,250,000.

### Average turnover days of trade and notes receivables

As at 31 December 2017, the net balance of trade and notes receivables by the Group amounted to RMB1,388,976,000, representing a decrease year-on-year of RMB266,680,000. Of which note receivables decreased by RMB5,100,000 and trade receivables decreased by RMB261,580,000, which was mainly due to receivables relating to container liner transportation operations been settled and no new receivables generated since the cease of that business during the Period.

### Gearing ratio

As at 31 December 2017, the Company's net gearing ratio (i.e. net debts over shareholders' equity) was 535%, which was lower than 662% as at 31 December 2016. The decrease was primarily due to the increase in equity interest.

### Foreign exchange risk

Revenues and costs of the Group's shipping-related leasing business and container manufacturing operations are settled or denominated in USD. As a result, the impact on the net operating revenue due to RMB exchange rate fluctuation can be offset by each other to a certain extent. During the Period, the Group recorded a net exchange loss of RMB179,543,000 which was mainly due to fluctuations of the USD and Euro exchange rates in 2017; the exchange difference which was charged to equity attributable to shareholders of the parent amounted to RMB660,456,000. The Group will continue to monitor the exchange rate fluctuation of RMB and major international currencies, minimize the loss arising from exchange rate fluctuation, and take appropriate measures to mitigate the Group's foreign exchange exposure when necessary.

### Capital expenditures

For the year ended 31 December 2017, the Group's expenditures on the acquisition of container vessels, vessels under construction and other expenditures amounted to RMB2,105,721,000, expenditures on the acquisition of finance lease assets amounted to RMB13,442,693,000.

### Capital commitments

As at 31 December 2017, the Group had RMB1,475,393,000 in capital commitments which had been contracted but not provided for in relation to fixed assets. Equity investment commitment was RMB1,910,500,000.

### Pledge

As at 31 December 2017, certain container vessels and containers with net carrying value of approximately RMB25,031,111,000 (2016: RMB24,792,246,000), finance lease receivables of RMB7,219,076,000 (2016: RMB1,379,841,000) and pledged deposits of RMB178,325,000 (2016: RMB107,848,000) were pledged to banks for the grant of credit facilities and issuance of bonds.

## SUBSEQUENT EVENTS

There is no material subsequent event undertaken by the Group after 31 December 2017.

## CONTINGENT LIABILITIES

As at 31 December 2017, there were no significant contingent liabilities for the Group.

## EMPLOYEES, TRAINING AND BENEFITS

As at 31 December 2017, the Group had 8,278 employees, and the total staff costs for the Period (including staff remuneration, welfare and social insurance, etc.) amounted to approximately RMB1,790,420,000 (including outsourced labour costs).

Remuneration management, as one of the most effective incentives and a form of enterprise value distribution, was carried out on the basis of total budget control, value creation, internal fairness, market competition and sustainable development. Based on the principle of "contractualized management, differential compensation", the management has introduced and implemented the professional manager system and strengthened the incentive and restraint mechanism based on performance management. The Company's overall remuneration system mainly consists of: (1) salaries: including remuneration, title salary, performance salary, special incentives, bonus and allowances; (2) benefits: including mandatory social insurance, provident housing fund and corporate welfares; and (3) recognized schemes and other items in support of corporate strategies and corporate culture.

To support human resources management reform, talent development and training, the Company has reconstructed its employee training system to make it base on identification of demand, with the support of clear defined responsibilities and list-based management. We have optimized the training content and implementation system, improved the effectiveness of training resource allocation, staff training participation and satisfaction. Various training programmes were designed and implemented to address different types of business and positions, covering topics such as transformation and innovation, industry development, management capability, financial business, risk management, safety and individual caliber.

## MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2017, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

## DIVIDEND

It is not recommend for the payment of any dividend for the year ended 31 December 2017.

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

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

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") consists of two independent non-executive directors, namely Mr. Lu Jianzhong and Mr. Cai Hongping, and one non-executive director, namely Mr. Huang Jian. The Audit Committee has discussed with Ernst & Young, independent auditor of the Company, and reviewed the Group's annual results for the year ended 31 December 2017.

This annual results announcement is based on the Company's audited consolidated financial statements for the year ended 31 December 2017 which have been agreed with the auditor of the Company.

## CORPORATE GOVERNANCE CODE

The Board confirms that the Company was in compliance with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") during the year ended 31 December 2017.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors, supervisors and relevant employees on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors and supervisors of the Company, the Company has confirmed that its directors and supervisors have complied with the required standard set out in the Model Code regarding securities transactions during the Period. The Company is not aware of any non-compliance with these guidelines by the relevant employees.

## DISCLOSURE OF INFORMATION

This announcement is published on the website of Hong Kong Stock Exchange at (http://www.hkexnews.hk) and the Company's website at (http://development.coscoshipping.com). The annual report of the Company for the year ended 31 December 2017 will be dispatched by the Company to its shareholders and published on the aforesaid websites of Hong Kong Stock Exchange and the Company in due course.

By order of the Board
**COSCO SHIPPING Development Co., Ltd.**
**Yu Zhen**
*Company Secretary*

Shanghai, the People's Republic of China
29 March 2018

*As at the date of this announcement, the Board comprises Ms. Sun Yueying, Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, being executive directors of the Company, Mr. Feng Boming, Mr. Huang Jian and Mr. Liang Yanfeng, being non-executive directors of the Company, and Mr. Cai Hongping, Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong, Mr. Gu Xu and Ms. Zhang Weihua, being independent non-executive directors of the Company.*

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*