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

(Incorporated in Bermuda with limited liability)

(Stock Code: 00517)

2018 ANNUAL RESULTS

RESULTS AND OPERATION HIGHLIGHTS

- Profit attributable to equity holders decreased by 20% to HK$286,140,000 as compared to 2017, mainly due to the significant decrease in the share of profit of Jotun COSCO.
- Basic earnings per share was 18.67 HK cents. The Board has recommended the payment of a final dividend of 9 HK cents per share. Together with the interim dividend of 5 HK cents per share, total dividends per share are 14 HK cents. The dividend payout ratio is 75%.
- Profit before income tax from core business of shipping services decreased by 30% to HK$216,179,000.
- In 2018, the Company subscribed 33% equity interest in Nasurfar Changshu, as an effective extension of the Company's existing industrial chain of coatings. During the year, the Group's share of profit from Nasurfar Changshu was HK$2,022,000.
- Revenue increased by 8% to HK$9,521,575,000 as compared to 2017 mainly attributable to increase in segment revenues of coatings and marine fuel and other products.
- Gross profit decreased by 10% to HK$566,127,000 as compared to 2017. Gross profit margin decreased to 5.9%.
- As at 31st December 2018, the Group had net cash (represented total deposits and cash and cash equivalents less short-term borrowings) of HK$6,330,010,000 for the expansion of existing businesses and the support of future strategic development. The Company has been pursuing and will continue to pursue a prudent and proper manner to use its funds for the permanent creation and enhancement of long-term shareholders' value.

The board of directors (the "Board" or the "Director(s)") of COSCO SHIPPING International (Hong Kong) Co., Ltd. (the "Company" or "COSCO SHIPPING International (Hong Kong)") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2018.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	4	**9,521,575**	8,786,094
Cost of sales	6	**(8,955,448)**	(8,159,011)
Gross profit		**566,127**	627,083
Management fee income		**74,665**	—
Other income and gains — net	5	**90,145**	94,134
Selling, administrative and general expenses	6	**(549,344)**	(502,425)
Operating profit		**181,593**	218,792
Finance income	7	**161,997**	124,948
Finance costs	7	**(3,293)**	(5,244)
Finance income — net	7	**158,704**	119,704
Share of profits of joint ventures		**9,925**	64,730
Share of (losses)/profits of associates		**(13,561)**	12,336
Profit before income tax		**336,661**	415,562
Income tax expenses	8	**(45,916)**	(54,948)
Profit for the year		**290,745**	360,614
Profit attributable to:			
Equity holders of the Company		**286,140**	356,627
Non-controlling interests		**4,605**	3,987
		290,745	360,614
Earnings per share attributable to equity holders of the Company during the year			
— basic and diluted, HK cents	9	**18.67**	23.26

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2018

	2018 *HK$'000*	2017 *HK$'000*
Profit for the year	**290,745**	360,614
Other comprehensive (losses)/income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(62,656)**	106,901
Share of currency translation differences of joint ventures	**(10,272)**	18,438
Share of currency translation differences of associates	**(249)**	(194)
Share of cash flow hedges of an associate, net of tax	**(3,897)**	(749)
Reserves realised in consolidated income statement upon disposal of an associate	**—**	(48)
Fair value gains on available-for-sale financial assets, net	**—**	2,984
Items that will not be reclassified to profit or loss:		
Fair value losses on financial assets at fair value through other comprehensive income, net	**(22,320)**	—
Gain on revaluation upon reclassification of property, plant and equipment to investment properties	**—**	3,302
Deferred tax relating to the gain on revaluation upon reclassification of property, plant and equipment to investment properties	**—**	(561)
Other comprehensive (losses)/income for the year	**(99,394)**	130,073
Total comprehensive income for the year	**191,351**	490,687
Total comprehensive income/(losses) attributable to:		
Equity holders of the Company	**200,409**	464,906
Non-controlling interests	**(9,058)**	25,781
	191,351	490,687

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Intangible assets		**103,448**	104,287
Property, plant and equipment		**303,523**	331,038
Prepaid premium for land leases		**29,429**	31,549
Investment properties		**107,014**	97,468
Investments in joint ventures		**396,709**	298,190
Investments in associates		**96,651**	122,644
Financial assets at fair value through other comprehensive income		**78,003**	—
Available-for-sale financial assets		**—**	60,613
Deferred income tax assets		**52,936**	54,156
Non-current deposits		**—**	1,563
		1,167,713	1,101,508
Current assets			
Inventories		**337,187**	450,923
Trade and other receivables	*11*	**1,368,805**	1,528,869
Available-for-sale financial assets		**—**	38,848
Financial assets at fair value through profit or loss		**—**	862
Current income tax recoverable		**7,358**	4,283
Restricted bank deposits		**5,706**	1,794
Current deposits and cash and cash equivalents		**6,369,956**	6,483,613
		8,089,012	8,509,192
Total assets		**9,256,725**	9,610,700
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**153,296**	153,296
Reserves		**7,700,639**	7,760,833
		7,853,935	7,914,129
Non-controlling interests		**300,765**	299,471
Total equity		**8,154,700**	8,213,600
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		**64,269**	64,829
Current liabilities			
Trade and other payables	*12*	**635,588**	1,311,362
Contract liabilities		**337,128**	—
Current income tax liabilities		**19,388**	20,909
Short-term borrowings		**45,652**	—
		1,037,756	1,332,271
Total liabilities		**1,102,025**	1,397,100
Total equity and liabilities		**9,256,725**	9,610,700

NOTES

1 GENERAL INFORMATION

The Group is principally engaged in the provision of shipping services and general trading.

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

The ultimate holding company of the Company is 中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*) ("COSCO SHIPPING"), a state-owned enterprise in the People's Republic of China (the "PRC").

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income ("FVOCI") (2017: available-for-sale financial assets and financial assets at fair value through profit or loss ("FVPL")) and investment properties, which are carried at fair value.

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

In 2018, the Group has adopted the following new standards, amendments to published standards and new interpretation issued by the HKICPA, which are relevant to its operations:

		Effective for accounting periods beginning on or after
Amendments to HKAS 40	Transfers of investment property	1st January 2018
HKFRS 9 (2014)	Financial instruments	1st January 2018
HKFRS 15	Revenue from contracts with customers	1st January 2018
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration	1st January 2018
Annual improvements 2014–2016 cycle	Improvements to HKFRS 1 and HKAS 28	1st January 2018

The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in note 3. The adoption of other amendments to published standards and new interpretation did not result in any substantial changes to the Group's accounting policies and had no material financial impact on the consolidated financial statements.

(ii) New standards, amendments to published standards and new interpretation that are not yet effective

The following new standards, amendments to published standards and new interpretation have been published by the HKICPA and are relevant to the Group's operations. They are not yet effective for accounting periods beginning on 1st January 2018 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
HKFRS 16	Leases	1st January 2019
Amendments to HKAS 28	Long term interests in associates and joint ventures	1st January 2019
HK(IFRIC)-Int 23	Uncertainty over income tax treatment	1st January 2019
Amendments to HKFRS 9	Prepayment features with negative compensation	1st January 2019
Annual improvements to HKFRS Standards 2015–2017 cycle	HKFRS 3 and HKFRS 11 and HKAS 12 and HKAS 23	1st January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

HKFRS 16 Leases (effective on 1st January 2019)

Nature of change

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

Impact

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

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

3 CHANGES IN ACCOUNTING POLICIES

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

Impacts on the financial statements

HKFRS 9 Financial Instruments

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

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

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

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

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

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

(i) *Classification and measurement*

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

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

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

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

(a) Equity investment previously classified as financial assets at FVPL

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

(b) Equity investments previously classified as available-for-sale financial assets

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

(ii) *Impairment of financial assets*

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

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

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

HKFRS 15 Revenue from Contracts with Customers

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

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

4 REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

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

	Year ended and as at 31st December 2017									
	Shipping services						General trading	Others	Inter-segment elimination	Total
	Coatings	Marine equipment and spare parts	Ship trading agency	Insurance brokerage	Marine fuel and other products	Total				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit and loss items:										
Segment revenue	888,766	1,208,430	136,827	96,112	5,890,936	8,221,071	660,076	—	(95,053)	8,786,094
Inter-segment revenue	—	(9,123)	(286)	(309)	(75,473)	(85,191)	(9,862)	—	95,053	—
Revenue from external customers	888,766	1,199,307	136,541	95,803	5,815,463	8,135,880	650,214	—	—	8,786,094
Segment operating profit	7,167	58,250	89,660	67,519	6,379	228,975	7,361	4,400	—	240,736
Finance income	3,955	715	5,155	1,198	738	11,761	1,887	—	(3,536)	10,112
Finance costs	(61)	(2,826)	(84)	(181)	(1,823)	(4,975)	(7,872)	—	3,536	(9,311)
Share of profits of joint ventures	63,864	431	435	—	—	64,730	—	—	—	64,730
Share of profits of associates	—	—	78	—	10,457	10,535	1,801	—	—	12,336
Segment profit before income tax	74,925	56,570	95,244	68,536	15,751	311,026	3,177	4,400	—	318,603
Income tax expenses	(14,948)	(8,713)	(17,078)	(12,284)	(698)	(53,721)	(489)	—	—	(54,210)
Segment profit after income tax	59,977	47,857	78,166	56,252	15,053	257,305	2,688	4,400	—	264,393
Balance sheet items:										
Total segment assets	1,488,249	1,016,624	374,499	202,392	302,707	3,384,471	735,554	98,563	(197,506)	4,021,082
Total segment assets include:										
— Joint ventures	283,298	12,174	2,718	—	—	298,190	—	—	—	298,190
— Associates	—	—	2,193	—	113,274	115,467	7,177	—	—	122,644
Total segment liabilities	438,630	436,421	86,772	84,102	130,104	1,176,029	501,189	—	(197,506)	1,479,712
Other items:										
Depreciation and amortisation, net of amount capitalised	18,113	3,435	272	328	—	22,148	2,102	—	—	24,250
Provision for impairment of inventories, net	6,618	—	—	—	—	6,618	—	—	—	6,618
Provision/(reversal of provision) for impairment of trade receivables, net	3,562	(2,967)	—	—	—	595	—	—	—	595
Government subsidy income	(11,531)	—	—	—	—	(11,531)	—	—	—	(11,531)
Additions to non-current assets (other than available-for-sale financial assets and deferred income tax assets)	4,785	223	311	355	—	5,674	10,332	—	—	16,006

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

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

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

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

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

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

The Company is domiciled in Hong Kong. The Group's revenue from external customers derived from Hong Kong and places other than Hong Kong are HK$822,725,000 (2017: HK$1,086,530,000) and HK$8,698,850,000 (2017: HK$7,699,564,000) respectively.

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

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

5 OTHER INCOME AND GAINS — NET

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

* During the year ended 31st December 2017, 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*) ("COSCO Kansai (Shanghai)") disposed its old plant at a consideration of HK$15,247,000. The amount was fully recognised as gain on disposal of property, plant and equipment.

Government subsidy income included HK$11,826,000 (2017: HK$11,531,000) recognised during the year in respect of a special subsidy granted by the Shanghai Baoshan District Government. Such subsidy was to compensate for the relevant costs and expenses incurred by COSCO Kansai (Shanghai) in relocating the production plant and settling the impacted staff. The remaining amount represented other government subsidy income.

6 EXPENSES BY NATURE

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

7 FINANCE INCOME — NET

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

8 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year.

The PRC income tax has been calculated on the estimated assessable profit derived from the Group's operations in the PRC for the year at 25% (2017: 25%) except for a subsidiary, which was taxed at a reduced rate of 15% (2017: 15%) based on different local preferential policies on income tax and approval by relevant tax authorities.

Other overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. These rates range from 17% to 43% (2017: 17% to 43%) during the year.

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

9 EARNINGS PER SHARE

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

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

10 DIVIDENDS

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

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

11 TRADE AND OTHER RECEIVABLES

As at 31st December 2018, trade and other receivables include trade receivables amounting to HK$618,560,000 (2017: HK$667,031,000).

The ageing analysis of trade receivables (including amounts due from related parties which are trading in nature) based on invoice date and after provision is as follows:

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

For sale of coatings, marine equipment, spare parts, marine fuel, asphalt and other products, the majority of sales are on credit terms from 30 days to 90 days. Other than those with credit terms, all invoices are payable upon presentation.

12 TRADE AND OTHER PAYABLES

As at 31st December 2018, trade and other payables include trade payables amounting to HK$277,859,000 (2017: HK$406,941,000).

The ageing analysis of trade payables (including amounts due to related parties which are trading in nature) based on invoice date is as follows:

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

13 EVENT AFTER THE BALANCE SHEET DATE

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

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

OVERALL ANALYSIS OF RESULTS

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

FINANCIAL REVIEW

Revenue

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

Gross Profit and Gross Profit Margin

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

Management Fee Income

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

Other Income and Gains — Net

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

Selling, Administrative and General Expenses

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

Operating Profit

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

Finance Income

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

Finance Costs

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

Share of Profits of Joint Ventures

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

Share of (Losses)/Profits of Associates

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

Income Tax Expenses

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

Profit Attributable to Equity Holders

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

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

The Group's main sources of liquidity comprised cash, bank balances and non-committed unutilised banking facilities. The liquidity is primarily for financing of general working capital requirements, dividend payments and future capital expenditure. As at 31st December 2018, deposits and cash and cash equivalents held by the Group accounted for 79% (2017: 76%) of the Group's total current assets.

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

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

As at 31st December 2018, the Group's total short-term borrowings were HK$45,652,000 (2017: Nil), which were mainly for the purpose of working capital requirement for general trading business. For the maturity profile, please refer to the table below. The Group's total cash on hand decreased by 2% to HK$6,375,662,000 (2017: HK$6,486,970,000) and non-committed unutilised standby banking facilities increased by 43% to HK$713,381,000 (2017: HK$499,279,000) respectively. The gearing ratio, which represented total borrowings over total assets, was 0.5% (2017: 0%).

Debt Analysis

	31st December 2018		31st December 2017	
	HK$'000	***%***	*HK$'000*	*%*
Classified by maturity:				
— repayable within one year	45,652	100	—	—
Classified by type of loan:				
— unsecured	45,652	100	—	—
Classified by currency:				
— Renminbi	45,652	100	—	—

As a result of the corporate headquarters providing funds to the operating units, the use of more costly bank borrowings to support working capital requirement was relatively low. Furthermore, the Group continued its efforts in securing higher yields through exploring channels of deposits with major financial institutions.

The Group had restricted bank deposits of HK$5,706,000 (2017: HK$1,794,000) as security for bank credit facilities and other purposes.

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

TREASURY POLICY

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

The Group continued to monitor and adjust its debt portfolio from time to time in light of market conditions, the objective of which is to reduce potential interest rate risk exposure, improve debt structure and lower interest expenses. The Group also maintained the policy of financial supports to major business units to reduce the level of external borrowings.

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

The Group maintained a healthy cash position. As at 31st December 2018, the Group had net cash, which represented total cash and deposits net of short-term borrowings, of HK$6,330,010,000 (2017: HK$6,486,970,000). To enhance the Group's profitability and to maintain availability of cash at appropriate times to meet the Group's commitments and needs, the Group, on the basis of balancing risk, return and liquidity, invested in suitable and low-risk deposit products, including overnight deposits, term deposits and offshore fixed deposits. Cash and deposits of the Group were placed with highly reputable financial institutions in Hong Kong, China Mainland, Singapore, Japan, Germany and the United States. During the year, the Group strengthened its funds management and had actively negotiated with banks to strive for higher deposit yields for the huge sum of liquid funds on hand. The Group achieved a 2.5% rate of return on the Group's cash for the year, representing an increase of 60 basis points as compared to 2017. The Group had no financial instruments for interest rate hedging purposes.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2018, sales to the largest customer and aggregate sales to the five largest customers accounted for 63% and 70% respectively (2017: 43% and 67% respectively) of the total revenue of the Group, while purchases from the largest supplier and aggregate purchases from the five largest suppliers accounted for 67% and 74% respectively (2017: 68% and 72% respectively) of the total cost of sales of the Group.

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

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

EMPLOYEES

As at 31st December 2018, excluding joint ventures and associates, the Group had 876 (2017: 846) employees, of which 196 (2017: 110) were Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, were HK$383,198,000 (2017: HK$318,005,000). Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to market conditions and individual performance. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme or recognised occupational retirement scheme. No share option scheme is in operation and no share options of the Company are outstanding.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 9 HK cents (2017: 12 HK cents) per share for the year ended 31st December 2018. The proposed final dividend will be payable on 28th June 2019 to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 12th June 2019 subject to the shareholders' approval in annual general meeting of the Company to be held on 31st May 2019 (the "AGM"). The proposed final dividend together with the interim dividend of 5 HK cents (2017: 6 HK cents) per share, total dividends per share for the year 2018 are 14 HK cents (2017: 18 HK cents).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders' right to attend and vote at the AGM, the Register of Members will be closed from 28th May 2019 to 31st May 2019, both days inclusive, during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited (the "Branch Share Registrar") at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 27th May 2019.

For the purpose of ascertaining shareholders' entitlement to the proposed final dividend, the register of Members will be closed from 10th June 2019 to 12th June 2019, both days inclusive, during which no transfer of shares of the Company will be registered. In order to qualify the proposed final dividend for the year ended 31st December 2018, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 6th June 2019.

REVIEW OF BUSINESS OPERATIONS

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

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

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

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

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

1. Core Business — Shipping Services

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

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

1.1 *Ship Trading Agency Services*

COSCO SHIPPING (Hong Kong) Ship Trading Company Limited and 北京中遠海運船舶貿易有限公司 (Beijing COSCO SHIPPING Ship Trading Company Limited*), wholly-owned subsidiaries of the Company (collectively "COSCO SHIPPING Ship Trading") are principally engaged in the provision of agency services relating to ship building, ship trading and chartering for the fleet of COSCO SHIPPING and its subsidiaries (collectively "COSCO SHIPPING Group"). COSCO SHIPPING Ship Trading also provides similar services for ship-owners and shipping enterprises outside COSCO SHIPPING Group. COSCO SHIPPING Ship Trading mainly derives its revenue from agency services. For new build vessels, commissions are paid by shipbuilders according to the work progress specified in the relevant contracts. For the trading of second-hand vessels, commissions are paid to COSCO SHIPPING Ship Trading according to the contracts after the vendors have delivered the vessels to the buyers.

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

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

1.2 *Marine Insurance Brokerage Services*

COSCO SHIPPING (Hong Kong) Insurance Brokers Limited, a wholly-owned subsidiary of the Company and 深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited*), a non-wholly owned subsidiary of the Company (collectively "COSCO SHIPPING Insurance Brokers"), are primarily engaged in the insurance and reinsurance intermediary services of marine and non-marine insurance, including the provision of professional insurance brokerage services such as risk assessment and analysis, designing insurance and reinsurance programmes, discussing insurance coverage, reviewing insurance policies, claims adjustment and claims handling for domestic and international customers and receive service commissions.

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

1.3 *Supply of Marine Equipment and Spare Parts*

COSCO Yuantong Operation Headquarters, which is comprised of Yuantong Marine Service Co. Limited, a wholly-owned subsidiary of the Company and other subsidiaries of the Company (including 新中鈴株式會社 (Shin Chung Lin Corporation*), Xing Yuan (Singapore) Pte. Ltd., Hanyuan Technical Service Center GmbH, 遠通海務貿易(上海)有限公司 (Yuantong Marine Trade (Shanghai) Co., Ltd.*), 中遠(北京)海上電子設備有限公司 (COSCO (Beijing)

Marine Electronic Equipment Limited*), Yuan Hua Technical & Supply Corporation and CSHT Marine Machinery Suppliers Limited), is principally engaged in the sale and installation of equipment and spare parts for existing and newly build vessels, as well as equipment of radio communications systems, satellite communications and navigation systems for ships, offshore facilities, coastal stations and land users; marine materials supply and voyage repair. Its existing business network covers cities such as Hong Kong, Shanghai and Beijing and countries such as Japan, Singapore, Germany and the United States, etc..

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

1.4 *Production and Sale of Coatings*

The coating business of the Company primarily includes the production and sale of container coatings, industrial heavy-duty anti-corrosion coatings and marine coatings. COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. ("COSCO Kansai (Tianjin)"), COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd. ("COSCO Kansai (Zhuhai)"), 中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*) ("COSCO Kansai Paint (Shanghai)") and COSCO Kansai (Shanghai) are non-wholly owned subsidiaries of the Company (collectively "COSCO Kansai Companies"). COSCO Kansai (Tianjin), COSCO Kansai (Zhuhai) and COSCO Kansai Paint (Shanghai), which have their own plants, are principally engaged in the production and sale of coatings, while COSCO Kansai (Shanghai) is primarily engaged in the sale of coatings. Jotun COSCO, a 50/50 joint venture formed by the Company and Jotun A/S, Norway, an international coating supplier, is principally engaged in the production and sale of marine coatings.

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

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

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

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

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

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

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

Double Rich, in which the Group owns 18% equity interest, is principally engaged in the trading of fuel and oil products and marine fuel supply services in Hong Kong and also in sourcing products such as light diesels and fuel oil, etc. Its major customers are ship-owners and ship operators. During the year, the Group's share of loss from Double Rich was HK$14,442,000 (2017: share of profit of HK$10,457,000) primarily due to the inventory impairment provision made as a result of the slump in oil prices in the fourth quarter of 2018.

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

2. General Trading

中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*), a wholly-owned subsidiary of the Company ("COSCO SHIPPING International Trading") is principally engaged in the trading, storage, processing, supply of asphalt and other comprehensive trading.

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

PROSPECTS

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

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

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

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

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

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

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

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

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

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

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

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31st December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong

Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December 2018.

CORPORATE GOVERNANCE

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

The Board believed that the Company has complied with the code provisions of Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31st December 2018 except Mr. Chen Dong, the non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 30th May 2018 due to other business engagement, a deviation from the code provision A.6.7 of the CG Code which provides that independent non-executive directors and other non-executive directors should attend general meetings of the Company.

The audit committee of the Company (the "Audit Committee") consists of three Independent Non-executive Directors and the chairman of which is a certified public accountant. The main duties of the Audit Committee include reviewing the accounting policies and the Company's financial reporting; monitoring the performance of both the internal and external auditors; reviewing and examining the effectiveness of the financial reporting, the risk management and internal control systems; ensuring compliance with applicable statutory accounting and reporting requirements. The Audit Committee has discussed the internal controls and financial reporting matters with management of the Company and reviewed the results announcement and the audited consolidated financial statements of the Group for the year ended 31st December 2018.

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

The Company has adopted a code of conduct regarding securities transactions of Directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. In order to ensure the Directors' dealings in the securities of the Company are conducted in accordance with the Model Code and the Securities Code, a committee currently comprising the Chairman, the Managing Director and a Director was set up to deal with such transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Securities Code during the year ended 31st December 2018, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Securities Code during the year.

By Order of the Board
COSCO SHIPPING International (Hong Kong) Co., Ltd.
Zhu Jianhui
Vice Chairman and Managing Director

Hong Kong, 26th March 2019

As at the date of this announcement, the Board comprises nine Directors with Mr. Wang Yuhang[1] (Chairman), Mr. Zhu Jianhui[1] (Vice Chairman and Managing Director), Mr. Ma Jianhua[2], Mr. Feng Boming[2], Mr. Chen Dong[2], Mr. Liu Gang[1], Mr. Tsui Yiu Wa, Alec[3], Mr. Jiang, Simon X[3], and Mr. Alexander Reid Hamilton[3].

1 Executive Director
2 Non-executive Director
3 Independent Non-executive Director

* *for identification purposes only*