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)**

# 2019 ANNUAL RESULTS

**RESULTS AND OPERATION HIGHLIGHTS**

- Profit attributable to equity holders increased by 16% to HK$330,607,000 as compared to 2018, mainly due to the significant increase in the share of profits of Jotun COSCO and Double Rich and the increase in finance income.
- Revenue decreased by 66% to HK$3,265,745,000 as compared to 2018, mainly attributable to the decrease in segment revenues of marine fuel and other products.
- Gross profit decreased by 2% to HK$555,210,000 as compared to 2018. Gross profit margin increased to 17.0% which was mainly attributable to the decrease in revenue from the low-gross-profit-margin marine fuel and other products segment.
- Profit before income tax from core business of shipping services increased by 26% to HK$273,087,000.
- Basic earnings per share was 21.57 HK cents. The Board has recommended the payment of a final dividend of 9.5 HK cents per share. Together with the interim dividend of 7 HK cents per share, total dividends per share are 16.5 HK cents. The dividend payout ratio is 76%.
- The Group had net cash (represented total deposits and cash and cash equivalents less short-term borrowings) of HK$6,258,342,000 as at 31st December 2019.

The board of directors (the "Board" or the "Director(s)") of COSCO SHIPPING International (Hong Kong) Co., Ltd. (the "Company" or "COSCO SHIPPING International") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2019.

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31st December 2019*

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Revenue | 4 | **3,265,745** | 9,521,575 |
| Cost of sales | 6 | **(2,710,535)** | (8,955,448) |
| **Gross profit** | | **555,210** | 566,127 |
| Management fee income | | **107,726** | 74,665 |
| Other income and (losses)/gains — net | 5 | **(23,587)** | 90,145 |
| Selling, administrative and general expenses | 6 | **(554,687)** | (549,344) |
| **Operating profit** | | **84,662** | 181,593 |
| Finance income | 7 | **207,849** | 161,997 |
| Finance costs | 7 | **(3,992)** | (3,293) |
| Finance income — net | 7 | **203,857** | 158,704 |
| Share of profits of joint ventures | | **48,798** | 9,925 |
| Share of profits/(losses) of associates | | **48,431** | (13,561) |
| **Profit before income tax** | | **385,748** | 336,661 |
| Income tax expenses | 8 | **(52,440)** | (45,916) |
| **Profit for the year** | | **333,308** | 290,745 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **330,607** | 286,140 |
| Non-controlling interests | | **2,701** | 4,605 |
| | | **333,308** | 290,745 |
| **Earnings per share attributable to equity holders of the Company during the year** | | | |
| — basic and diluted, HK cents | 9 | **21.57** | 18.67 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31st December 2019*

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31st December 2019*

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | | **105,617** | 103,448 |
| Property, plant and equipment | | **281,550** | 303,523 |
| Right-of-use assets | | **39,577** | — |
| Prepaid premium for land leases | | **—** | 29,429 |
| Investment properties | | **121,261** | 107,014 |
| Investments in joint ventures | | **437,419** | 396,709 |
| Investments in associates | | **147,693** | 96,651 |
| Financial assets at fair value through other comprehensive income | | **76,551** | 78,003 |
| Deferred income tax assets | | **43,004** | 52,936 |
| | | **1,252,672** | 1,167,713 |
| **Current assets** | | | |
| Inventories | | **305,997** | 337,187 |
| Trade and other receivables | *11* | **1,494,814** | 1,368,805 |
| Current income tax recoverable | | **3,722** | 7,358 |
| Restricted bank deposits | | **5,582** | 5,706 |
| Current deposits and cash and cash equivalents | | **6,314,159** | 6,369,956 |
| | | **8,124,274** | 8,089,012 |
| **Total assets** | | **9,376,946** | 9,256,725 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | | **153,296** | 153,296 |
| Reserves | | **7,773,109** | 7,700,639 |
| | | **7,926,405** | 7,853,935 |
| **Non-controlling interests** | | **291,814** | 300,765 |
| **Total equity** | | **8,218,219** | 8,154,700 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | | **1,934** | — |
| Deferred income tax liabilities | | **67,743** | 64,269 |
| | | **69,677** | 64,269 |
| **Current liabilities** | | | |
| Trade and other payables | *12* | **645,594** | 635,588 |
| Contract liabilities | | **361,896** | 337,128 |
| Current income tax liabilities | | **13,778** | 19,388 |
| Short-term borrowings | | **61,399** | 45,652 |
| Lease liabilities | | **6,383** | — |
| | | **1,089,050** | 1,037,756 |
| **Total liabilities** | | **1,158,727** | 1,102,025 |
| **Total equity and liabilities** | | **9,376,946** | 9,256,725 |

# 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") and investment properties, which are carried at fair value.

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

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

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

Except for HKFRS 16 which the relevant impact on adoption are described in note 3, the adoption of these amendments to existing standards and new interpretation had no significant impact on the results and the financial position of the Group.

**(b) Amendments to existing standards that are not yet effective**

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

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

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

## 3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1st January 2019 in note 3(b) below.

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

**(a) Impacts on the financial statements**

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

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

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

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

The recognised right-of-use assets relate to the following types of assets:

| | **31st December 2019** | 1st January 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Leasehold land and buildings | **11,447** | 16,250 |
| Machinery, equipment and motor vehicles | **—** | 5,820 |
| Prepaid premium for land leases | **28,130** | 29,429 |
| **Total right-of-use assets** | **39,577** | 51,499 |

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

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

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

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

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

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

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

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

(ii) *Practical expedients applied*

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

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

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

**(b) Accounting policies applied from 1st January 2019**

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

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

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

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

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

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

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

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

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

## 4 REVENUE AND SEGMENT INFORMATION

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

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

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

| **Reportable segments** | **Business activities** |
|---|---|
| Coatings | production and sale of coatings, and holding of investments in joint ventures, Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO") and 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 holding of Group's financial assets at FVOCI.

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

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

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

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

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

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

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

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

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

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

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

## 5 OTHER INCOME AND (LOSSES)/GAINS — NET

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other income/(expenses) — net | | |
| — Rental income | **3,112** | 2,920 |
| — Direct operating expenses for generating rental income | **(17)** | (93) |
| — Dividend income from listed and unlisted investments | **3,219** | 2,763 |
| | **6,314** | 5,590 |
| Other (losses)/gains — net | | |
| — Net gains on disposal of property, plant and equipment | **234** | 346 |
| — Fair value gains on investment properties | **6,947** | 11,808 |
| — Reversal of provision for impairment of trade receivables, net | **837** | 6,372 |
| — Reversal of provision for impairment of inventories, net | **1,115** | 8,826 |
| — Reversal of provision for impairment of other receivables | **—** | 17,228 |
| — Net exchange (losses)/gains | **(41,966)** | 21,994 |
| — Government subsidy income# | **1,898** | 15,938 |
| — Others | **1,034** | 2,043 |
| | **(29,901)** | 84,555 |
| | **(23,587)** | 90,145 |

# Government subsidy income of HK$11,826,000 was recognised during the year ended 31st December 2018 in respect of a special subsidy granted by the Shanghai Baoshan District Government. Such subsidy was to compensate for the relevant costs and expenses incurred by 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*) ("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

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| **Cost of sales** | | |
| Cost of inventories sold | **2,710,535** | 8,955,448 |
| **Selling, administrative and general expenses** | | |
| Selling expenses | **138,119** | 158,141 |
| Depreciation of property, plant and equipment | **691** | 737 |
| Amortisation of intangible assets | **1,440** | 1,241 |
| Amortisation of prepaid premium for land leases | **—** | 694 |
| Depreciation of right-of-use assets | **7,464** | — |
| Expenses related to short-term leases under HKFRS 16 | **22,399** | — |
| Operating lease rental expenses related to land and buildings | **—** | 35,647 |
| Administrative staff costs | **285,668** | 267,328 |
| Auditors' remuneration | **5,402** | 5,110 |
| Others | **93,504** | 80,446 |
| | **554,687** | 549,344 |

## 7 FINANCE INCOME — NET

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Interest income from: | | |
| — a fellow subsidiary | **3,804** | 3,978 |
| — a joint venture | **47** | 858 |
| — bank deposits | **203,998** | 157,161 |
| Total finance income | **207,849** | 161,997 |
| Interest expenses on: | | |
| — a loan from a fellow subsidiary | **(1,411)** | (750) |
| — a bank loan | **(691)** | (1,219) |
| Other finance charges | **(1,890)** | (1,324) |
| Total finance costs | **(3,992)** | (3,293) |
| Finance income — net | **203,857** | 158,704 |

## 8 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year.

The PRC income tax has been calculated on the estimated assessable profit derived from the Group's operations in the PRC for the year at 25% (2018: 25%) except for a subsidiary, which was taxed at a reduced rate of 15% (2018: 15%) based on different local preferential policies on income tax and approval by relevant tax authorities.

Other overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. These rates range from 17% to 35% (2018: 17% to 43%) during the year.

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current income tax | | |
| — current year | | |
| — Hong Kong profits tax | **14,228** | 24,286 |
| — PRC enterprise income tax | **21,702** | 18,274 |
| — other overseas taxation | **2,862** | 2,258 |
| — (over-provision)/under-provision in prior years | | |
| — Hong Kong profits tax | **(299)** | (474) |
| — PRC enterprise income tax | **(405)** | (652) |
| — other overseas taxation | **14** | 125 |
| Deferred income tax charge — net | **14,338** | 2,099 |
| Income tax expenses | **52,440** | 45,916 |

## 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$330,607,000 (2018: HK$286,140,000) and the number of shares in issue during the year of 1,532,955,429 shares (2018: 1,532,955,429 shares).

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

## 10 DIVIDENDS

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividend paid of HK$0.07 (2018: HK$0.05) per ordinary share | **107,307** | 76,648 |
| Final dividend proposed of HK$0.095 (2018: HK$0.09) per ordinary share | **145,631** | 137,966 |
| | **252,938** | 214,614 |

At the board meeting held on 23rd March 2020, the directors of the Company proposed a final dividend of HK$0.095 per ordinary share for the year ended 31st December 2019. These proposed dividends have not been recognised as a liability in the financial statements for the year ended 31st December 2019, but will be reflected as an appropriation of retained profit for the year ending 31st December 2020.

## 11 TRADE AND OTHER RECEIVABLES

As at 31st December 2019, trade and other receivables include trade receivables net of provision for impairment amounting to HK$689,626,000 (2018: HK$618,560,000).

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:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current – 90 days | **397,894** | 357,476 |
| 91 – 180 days | **148,786** | 179,739 |
| Over 180 days | **142,946** | 81,345 |
| | **689,626** | 618,560 |

For sale of coatings, marine equipment and spare parts, marine fuel, asphalt and other products, the majority of sales are on credit terms from 30 days to 120 days. Other than those with credit terms, all invoices are payable upon presentation.

## 12 TRADE AND OTHER PAYABLES

As at 31st December 2019, trade and other payables include trade payables amounting to HK$336,949,000 (2018: HK$277,859,000).

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current – 90 days | **310,649** | 220,065 |
| 91 – 180 days | **25,493** | 44,567 |
| Over 180 days | **807** | 13,227 |
| | **336,949** | 277,859 |

## 13 EVENTS AFTER THE BALANCE SHEET DATE

(a) As disclosed in the Company's announcement dated 21st January 2020, the directors of the Company have proposed a share option incentive scheme (the "Scheme") under Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for approval by the shareholders of the Company. The purpose of the Scheme is to, *inter alia*, attract, retain and incentivise senior management and core backbone personnel of the Company, promote the realization of the strategic targets of the Company, and serve as the driving force for the long-term development of the Company.

As at the date of this report, the Scheme is subject to approval by the shareholders of the Company. Management is of the view that this event would not have a material impact to the Group's financial statements for the year ended 31st December 2019.

(b) The wide spread of the Coronavirus Disease 2019 ("COVID-19") since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

## OVERALL ANALYSIS OF RESULTS

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

## FINANCIAL REVIEW

### Revenue

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

### Gross Profit and Gross Profit Margin

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

### Management Fee Income

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

### Other Income and (Losses)/Gains — Net

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

### Selling, Administrative and General Expenses

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

### Operating Profit

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

### Finance Income

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

### Finance Costs

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

### Share of Profits of Joint Ventures

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

### Share of Profits/(Losses) of Associates

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

### Income Tax Expenses

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

### Profit Attributable to Equity Holders

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

## CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

### Debt Analysis

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

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

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

## TREASURY POLICY

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

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

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

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

## MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

## EMPLOYEES

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

## FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 9.5 HK cents (2018: 9 HK cents) per share for the year ended 31st December 2019. The proposed final dividend will be payable on 29th June 2020 to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 10th June 2020 subject to the shareholders' approval in annual general meeting of the Company to be held on 29th May 2020 (the "AGM"). The proposed final dividend together with the interim dividend of 7 HK cents per share (2018: 5 HK cents), total dividends per share for the year 2019 are 16.5 HK cents (2018: 14 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 26th May 2020 to 29th May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 25th May 2020.

For the purpose of ascertaining shareholders' entitlement to the proposed final dividend, the register of Members will be closed from 8th June 2020 to 10th June 2020, 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 2019, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Branch Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 5th June 2020.

## REVIEW OF BUSINESS OPERATIONS

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

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

### 1. Core Business — Shipping Services

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

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

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

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

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

### 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 new build vessels, as well as equipment of radio communications systems, satellite communications and navigation systems for ships, offshore facilities, coastal stations and land users; marine materials supply and voyage repair. Its existing business network covers cities such as Hong Kong, Shanghai and Beijing and countries such as Japan, Singapore, Germany and the United States, etc..

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

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

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

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

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

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

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

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

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

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

**2. General Trading**

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

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

## EVENTS AFTER THE BALANCE SHEET DATE

1. As disclosed in the Company's announcement dated 21st January 2020, the directors of the Company have proposed a share option incentive scheme (the "Scheme") under Chapter 17 of the Listing Rules for approval by the shareholders of the Company. The purpose of the Scheme is to, *inter alia*, attract, retain and incentivise senior management and core backbone personnel of the Company, promote the realization of the strategic targets of the Company, and serve as the driving force for the long-term development of the Company.

   As at the date of this announcement, the Scheme is subject to approval by the shareholders of the Company. Management is of the view that this event would not have a material impact to the Group's financial statements for the year ended 31st December 2019.

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

## PROSPECTS

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

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

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

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

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

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

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

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

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

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

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

## 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 2019 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 2019.

## CORPORATE GOVERNANCE

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

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

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

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

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 2019, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Securities Code during the year.

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

Hong Kong, 23rd March 2020

*As at the date of this announcement, the Board comprises eight directors with Mr. Zhu Jianhui[1] (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*