

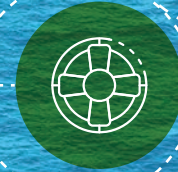


中遠海運國際(香港)有限公司

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

(Incorporated in Bermuda with limited liability)

Stock Code : 00517



Annual Report 2021

**WE COMPLEMENT
THE MARITIME
TRANSPORT FOR
BRIGHTER FUTURE**

Corporate Profile

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

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

Mission

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



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Definitions and Glossary

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

“associates”	the meaning ascribed to it in the Listing Rules;
“Board”	the board of Directors;
“connected person(s)”	the meaning ascribed to it in the Listing Rules;
“COSCO Kansai Companies”	COSCO Kansai (Tianjin), COSCO Kansai (Shanghai), COSCO Kansai (Zhuhai) and COSCO Kansai Paint (Shanghai) collectively;
“COSCO Kansai Paint (Shanghai)”	中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*), a non-wholly owned subsidiary of the Company;
“COSCO Kansai (Shanghai)”	中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*), a non-wholly owned subsidiary of the Company;
“COSCO Kansai (Tianjin)”	COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd., a non-wholly owned subsidiary of the Company;
“COSCO Kansai (Zhuhai)”	COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd., a non-wholly owned subsidiary of the Company;
“COSCO SHIPPING”	中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*), a company established in the PRC and the holding company of COSCO SHIPPING (Hong Kong) and the ultimate holding company of the Company;
“COSCO SHIPPING Group”	COSCO SHIPPING, COSCO SHIPPING (Hong Kong) and their respective subsidiaries;
“COSCO SHIPPING (Hong Kong)”	COSCO SHIPPING (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability and the immediate holding company of the Company and a wholly-owned subsidiary of COSCO SHIPPING;
“COSCO SHIPPING International” or “Company”	COSCO SHIPPING International (Hong Kong) Co., Ltd., the shares of which are listed on the Stock Exchange;
“COSCO SHIPPING International Trading”	中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*), a wholly-owned subsidiary of the Company;
“dead weight tonnage” or “DWT”	the unit of measurement of weight capacity of vessels, which is the total weight (usually in metric tonnes) the ship can carry, including cargo, bunkers, water, stores, spares, crew, etc. at a specified draft;
“Director(s)”	the director(s) of the Company;
“Double Rich”	Double Rich Limited, an associate of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

* for identification purposes only

Definitions and Glossary

“Jotun COSCO”	Jotun COSCO Marine Coatings (HK) Limited, a joint venture of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Nasurfar Changshu”	常熟耐素生物材料科技有限公司 (Nasurfar Biomaterial Technology (Changshu) Co., Ltd.*), a joint venture of the Company;
“PRC”	the People’s Republic of China;
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council of the PRC;
“Share(s)”	the share(s) of HK\$0.10 each in the capital of the Company;
“Shareholders”	the holders of the Share(s) of the Company;
“Sinfeng”	Sinfeng Marine Services Pte. Ltd., a wholly-owned subsidiary of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	the meaning ascribed to it in the Listing Rules;
“United States”	the United States of America;
“Yuantong”	Yuantong Marine Service Co. Limited, a wholly-owned subsidiary of the Company; and
“Zhejiang Four Brothers Rope”	浙江四兄繩業有限公司 (Zhejiang Four Brothers Rope Co., Ltd.*), an associate of the Company.

* for identification purposes only

Company Information

DIRECTORS

Executive Directors

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

Mr. Ma Jianhua

Non-executive Directors

Mr. Feng Boming

Mr. Chen Dong

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec

Mr. Jiang, Simon X.

Mr. Kwong Che Keung, Gordon

COMPANY SECRETARY

Ms. Chiu Shui Suet

INDEPENDENT AUDITOR

PricewaterhouseCoopers

(*Certified Public Accountants and*

Registered Public Interest Entity Auditor)

LEGAL ADVISERS

Linklaters

Sit, Fung, Kwong & Shum

Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Industrial and Commercial Bank of China (Asia) Limited

Shanghai Pudong Development Bank Company Limited

Agricultural Bank of China Limited

Industrial Bank Co., Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited

Ordinary share (Stock code: 00517)

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

47th Floor, COSCO Tower

183 Queen's Road Central

Hong Kong

Company Information

INVESTOR RELATIONS

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

FINANCIAL CALENDAR

2021 Annual General Meeting : 28 May 2021
Announcement of 2021 Interim Results : 18 August 2021
Announcement of 2021 Annual Results : 25 March 2022
2022 Annual General Meeting : 31 May 2022

DIVIDENDS

2021 Interim Dividend : 10 HK cents per share
Proposed 2021 Final Dividend : 9 HK cents per share
Dividends for the year 2021 : 19 HK cents per share



Corporate Structure

SHIPPING SERVICES

Ship Trading Agency Services	北京中遠海運船舶貿易有限公司 (Beijing COSCO SHIPPING Ship Trading Co., Ltd.*) 100%
Insurance Brokerage Services	COSCO SHIPPING (Hong Kong) Insurance Brokers Limited 100% 深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited*) 55%
Supply of Marine Equipment and Spare Parts	Yuantong Marine Service Co. Limited 100%
Production and Sale of Coatings	中遠關西塗料化工(珠海)有限公司 COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd. 64.71% 中遠關西塗料化工(天津)有限公司 COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. 63.07% 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*) 63.07% 中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*) 63.07% Jotun COSCO Marine Coatings (HK) Limited 50% 常熟耐素生物材料科技有限公司 (Nasurfar Biomaterial Technology (Changshu) Co., Ltd.*) 33%
Trading and Supply of Marine Fuel and Related Products	Sinfeng Marine Services Pte. Ltd. 100% Double Rich Limited 18%

* for identification purposes only



Corporate Structure

GENERAL TRADING

General Trading	中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*) 100% 浙江四兄繩業有限公司 (Zhejiang Four Brothers Rope Co., Ltd.*) 48%
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Note 1
COSCO SHIPPING is the ultimate holding company of COSCO SHIPPING International.

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

Note 3
To the best of the knowledge and belief of the Directors, COSCO SHIPPING (Hong Kong) held 68.57% issued share capital of the Company as at 31 December 2021.

* for identification purposes only







Pursue Technologies for Great Value

We will adhere to technology-driven development, and lay out digital, green, low-carbon, intelligent and global development, achieving efficient operation, and continuously creating value for customers.

Financial Highlights

	2021 HK\$'000	2020 HK\$'000	Change
ANNUAL RESULTS HIGHLIGHTS			
For the year ended 31 December			
Revenue	4,533,549	3,442,894	32%
Gross profit	769,373	628,531	22%
Operating profit	277,545	132,500	109%
Profit before income tax	341,174	405,025	(16%)
Profit attributable to equity holders	288,341	338,523	(15%)
Basic earnings per share (HK cents)	18.81	22.08	(15%)
Dividends per share (HK cents)	19.00	22.00	(14%)
Dividend payout ratio (%)	101.0	99.6	1.4pts

	2021 HK\$'000	2020 HK\$'000	Change
BALANCE SHEET HIGHLIGHTS			
As at 31 December			
Total assets	9,742,224	9,938,694	(2%)
Total liabilities	1,347,628	1,510,980	(11%)
Net assets attributable to shareholders	8,061,017	8,113,043	(1%)
Net cash	6,176,934	6,429,536	(4%)
Net assets per share (HK\$)	5.26	5.29	(1%)
Net cash per share (HK\$)	4.03	4.19	(4%)
Return on total assets (%)	2.93	3.51	(0.58pts)
Return on shareholders' equity (%)	3.57	4.22	(0.65pts)

	2021	2020
KEY FINANCIAL RATIOS		
For the year ended 31 December		
Gross profit margin	17.0%	18.3%
Interest coverage	48.6 times	83.0 times
Current ratio	6.5 times	6.0 times
Liquidity ratio	6.2 times	5.7 times
Total liabilities/total assets	13.8%	15.2%
Total borrowings/total assets	0.4%	0.9%

Financial Highlights

	2021 HK\$'000	2020 HK\$'000	Change
SEGMENT REVENUE*			
For the year ended 31 December			
Shipping Services			
Coatings	1,685,183	1,085,028	55%
Marine equipment and spare parts	1,578,889	1,315,925	20%
Ship trading agency	103,772	90,934	14%
Insurance brokerage	102,152	92,207	11%
Marine fuel and other products	—	70,404	(100%)
	3,469,996	2,654,498	31%
General trading	1,063,553	788,396	35%
Total	4,533,549	3,442,894	32%

* external customers only

	2021 HK\$'000	2020 HK\$'000	Change
SEGMENT PROFIT/(LOSS) BEFORE INCOME TAX			
For the year ended 31 December			
Shipping Services			
Coatings	95,160	123,166	(23%)
Marine equipment and spare parts	106,219	74,126	43%
Ship trading agency	69,694	73,706	(5%)
Insurance brokerage	69,427	64,856	7%
Marine fuel and other products	(46,764)	27,451	(270%)
	293,736	363,305	(19%)
General trading	18,483	10,292	80%
Corporate and others	28,955	31,428	(8%)
Total	341,174	405,025	(16%)

Chairman's Statement

“ In the face of the unprecedented changes in the recent century, we will further intensify our strategic focus to re-examine our strategic position and development direction with a broader vision. ”

Zhu Jianhui
Chairman



Chairman's Statement

To all shareholders,

On behalf of the Board of the Company, I am pleased to report to you the 2021 annual results and future directions of COSCO SHIPPING International. In 2021, global shipping performed strongly and drove the demand for shipping services, as a result, revenue of COSCO SHIPPING International recorded a 32% year-on-year increase, while operating profit surged 109% year-on-year to HK\$277,545,000 (2020: HK\$132,500,000). However, with the impact from the year-on-year decline of share of profit from joint ventures and associates and finance income, the profit attributable to equity holders of the Company for 2021 was HK\$288,341,000 (2020: HK\$338,523,000), representing a year-on-year decrease of 15%. The basic and diluted earnings per share were 18.81 HK cents (2020: 22.08 HK cents). The Board recommended the payment of a final dividend of 9 HK cents per share. The dividend per share for the year 2021 will amount to 19 HK cents (2020: 22 HK cents) in total, representing a dividend payout ratio of 101% (2020: 99.6%).



Chairman's Statement

COSCO SHIPPING International has revised its dividend policy in 2015, pursuant to which the Company's annual dividend payout ratio shall not be less than 50% of net profit prior to obtaining practical progress in significant investment projects. Since 2020, the dividend payout ratio of the Company has been further improved to approximately 100%, striving for long-term stable and solid shareholders' returns. This year, the Company pursued its prudent investment attitudes to make good use of our capital, with consideration of the macroeconomic environment and the needs for future development, the Company decides to make a full distribution with a dividend payout ratio of 101% as a mean to putting our business philosophy of maximising shareholders' returns into practice.

BUSINESS DEVELOPMENT AND PERFORMANCE

In 2021, the global economy encountered multiple challenges, as the COVID-19 pandemic situation remained volatile, the further exacerbation of global supply chain bottlenecks, the surge in commodity prices and intensified inflationary pressures have caused global economic disturbance. Nevertheless, the global economy recovered on vaccine popularisation and robust stimulus measures that implemented by governments, which successfully boosted consumer and investor confidences.

2021 was the beginning of the China's "14th Five-Year Plan" while significant achievements were made in pandemic prevention and economic development. China's supply chain demonstrated strong stability, which led to a breakthrough in China's total import and export value, exceeding US\$6 trillion for the first time, and laid a solid foundation for stable economic development of China and the world.

Against this macroeconomic background, the shipping market demonstrated strong resilience. The average value of the ClarkSea Index grew sharply by 93% year-on-year to US\$28,700 per day as a result of resurgence of global trade demand, persistent port congestion and moderate growth in fleet capacity. Container shipping companies achieved robust freight revenue. The transaction volume of second-hand vessels reached new highs, while the new build vessel orders recorded substantial growth.

COSCO SHIPPING International adhered to a prudent pandemic prevention policy to ensure its employees to work relievedly in a safe workplace with adequate supply of anti-pandemic items. Since 2020, COSCO SHIPPING International has been performing stable and smooth business operations after the prompt resumption of production from the pandemic. We adhered to the concept of customer first and put further efforts on market expansion, technological innovation and product optimisation, as well as focused on value creation and effectiveness, resulting in successful acquisition of new customers. In addition, we completed the capital injection in Zhejiang Four Brother Rope Co., Ltd. to further extend our footprint in the value-chain of the shipping industry and achieved further customer diversification. In the face of rising raw material costs and the volatile commodity market, our shipping services businesses, the core business of the Group, achieved steady operation, highlighting the excellent operational resilience of COSCO SHIPPING International.

Chairman's Statement

For ship trading agency services, we made every effort to seize opportunities in the market, and gathered more market information to provide customers with value-added services. For insurance brokerage and marine spare parts businesses, we actively expanded major customer networks beyond COSCO SHIPPING Group by continuously diversifying product offerings and extending sales channels, and resulting in larger market share and further diversification in revenue. For coating business, COSCO Kansai Companies successfully overcame the dual pressure of fierce market competition and rising raw material prices. Their production efficiency significantly improved through technology empowerment, and their product quality and services were highly recognised by customers, which led to higher selling prices and increased sales volume, as well as strengthened overall profitability. Jotun COSCO set a record for its greatest market share in the recent decade through continuously leveraging its leading position and technical standards, however, the significant increase in raw material prices put pressure on its gross profit margin.

CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

COSCO SHIPPING International pays attention to its role as an exemplar and has established a sound corporate governance structure as well as a comprehensive management mechanism to promote corporate social responsibility.

The Company always strives to maintain high standard of corporate governance. In 2021, the Company strengthened its financial and information risk control in various business operation such as asset management, fund management, procurement management and customer information in accordance with the “Strengthening Internal Control, Preventing Risks and Promoting Compliance” requirements of SASAC. The Company continuously optimised its internal control and risk management system, strengthened its information system and promote cybersecurity corrections, and enhanced the risk control process, thereby further promoting management awareness of compliance operations.

The Company has always been being attentive to the environmental, social and governance (“ESG”) issues. Since 2018, the Company has engaged consultants to provide professional advice on its ESG-related regulatory framework, data calculation and reporting, and actively improved its ESG standards and its ESG reporting disclosure standards, thus further improving its works on sustainable development. COSCO SHIPPING International continuously enhances the Group’s control and governance over ESG issues by actively following up the regulatory requirements and trends. Having formulating the 10-year emission reduction targets plan, the Group will further promote the establishment of information system tools to manage and control major operation and emissions data, to improve ESG data disclosure and transparency.

Chairman's Statement

In response to the severe pandemic situation, we have established a leading workgroup at the early stage to oversee the implementation of a series of regular pandemic prevention measures and promptly resume our production in the second quarter, ensured the safety and health of all personnel, and minimised the impact from pandemic effectively.

In fulfilling corporate social responsibility, the Company attaches great importance to the issues regarding production safety and employee welfare, as well as civil responsibilities such as environmental protection and charity. Dedicated divisions are responsible for facilitating works in relation to employees and social welfare. The Company actively participates in numerous community building and voluntary activities, committing to making contribution to the society. In 2021, the Company coped with the impacts from the pandemic and initiated various charitable activities while ensuring the safety and health of the participants. The Company was awarded the “10 Years Plus Caring Company Logo” granted by the Hong Kong Council of Social Service and the Gold Award for outstanding corporate participation from Sowers Action again, highlighting the high level of public recognition of the Company's performance of social responsibility.

Looking ahead to 2022, we expect a moderate growth rate of global economy as compared to 2021, given that unbalanced global economic recovery, escalation in geopolitical conflicts, ineffective climate change and that the world is entering into a new era that contains turbulence and uncertainties. The World Economic Outlook published by the International Monetary Fund in January 2022 expects that the global economy will grow by 4.4% in 2022, a 1.5 percentage points slower than that in 2021. China will maintain its continuity, stability and sustainability of its macro policies, open up a new path for inclusive growth and sustainable development, and inject strong impetus into the revitalisation of global development while maintaining its economic stability and growth.

2022 is the second year of the China's “14th Five-Year Plan”. Amid the current unprecedented changes in the recent century and the COVID-19 pandemic, we are confident that China will demonstrate strong economic resilience and great development potential through the implementation of its development strategies that align with the “14th Five-Year Plan”, thereby providing the Group with vast development opportunities.

Chairman's Statement

Having COSCO SHIPPING Group as our hinterland with its reputation and business supports, we will continue to leverage on our edges in providing professional shipping services to enhance the synergy within the shipping industry, further strengthen our leading position in shipping services through collaborative marketing, enhance our core competitive advantages and make contribution to the operation strategy of COSCO SHIPPING.

In the face of such unprecedented changes in the recent century, we will further intensify our strategic focus to re-examine our strategic position and development direction with a broader vision. We will adhere to technology-driven development, and lay out digital, green, low-carbon, intelligent and global development, achieving efficient operation, and continuously creating value for customers. Also, we will seize the development opportunities arising from the new economy, the Guangdong-Hong Kong-Macao Greater Bay Area, the Hainan Free Trade Port construction, and the globalisation of the Belt and Road Initiative. COSCO SHIPPING International has been maintaining stable cash flow and strong financial foundation, which allows us to examine, promote and implement substantial investment projects. COSCO SHIPPING International will proactively initiate upgrade and transformation to further sharpen our core competitiveness.

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

Zhu Jianhui

Chairman

Hong Kong, 25 March 2022

Management Discussion and Analysis

OVERALL ANALYSIS OF RESULTS

In 2021, operating profit of the Group improved as compared to last year because of the continuous market expansion and the effective control of the COVID-19 pandemic in the PRC. On the other hand, profit attributable to equity holders of the Company decreased year on year attributable to a significant decrease in interest income from bank deposits, and a turnaround from profit to loss in the share of results of associates. During the year, profit attributable to equity holders of the Company was HK\$288,341,000 (2020: HK\$338,523,000), representing a decrease of 15% year on year. The basic and diluted earnings per share were 18.81 HK cents (2020: 22.08 HK cents), representing a decrease of 15% year on year.

FINANCIAL REVIEW

Revenue

During the year, the Group's revenue increased by 32% year on year to HK\$4,533,549,000 (2020: HK\$3,442,894,000). Revenue from the core business of shipping services increased by 31% year on year to HK\$3,469,996,000 (2020: HK\$2,654,498,000) and accounted for 77% (2020: 77%) of the Group's revenue. Against the backdrop of an increase in business volume of the shipping services business driven by the improvement of the shipping market, the Company focused on the value creation and effectiveness, resulting in a positive result in the expansion of customer base with an increase in revenue. Revenue from general trading segment increased by 35% year on year to HK\$1,063,553,000 (2020: HK\$788,396,000) and accounted for 23% (2020: 23%) of the Group's revenue.

Gross Profit and Gross Profit Margin

During the year, the Group's gross profit increased by 22% year on year to HK\$769,373,000 (2020: HK\$628,531,000), mainly attributable to the increase in revenue from marine equipment and spare parts and coatings segments. Gross profit margin decreased by 1 percentage point year on year to 17% (2020: 18%). The overall decrease was mainly attributable to the decrease in gross profit margin of coatings segment.

Management Fee Income

During the year, management fee income arising from the provision of management services by the Company in relation to the day-to-day business operations and management of COSCO SHIPPING (Hong Kong) and its subsidiaries (other than those relating to the Group and Piraeus Port Authority S.A.) decreased by 34% year on year to HK\$77,942,000 (2020: HK\$117,328,000) mainly due to the decrease in administrative and general expenses related to COSCO SHIPPING (Hong Kong) and its subsidiaries mentioned above.

Other Income and Gains – Net

During the year, other income and gains – net gains increased by 195% year on year to HK\$35,163,000 (2020: HK\$11,933,000) mainly due to a turnaround in net exchange gains of HK\$24,969,000 for the year, whereas net exchange losses of HK\$13,245,000 was recorded for last year.

Selling, Administrative and General Expenses

During the year, selling, administrative and general expenses decreased by 3% year on year to HK\$604,933,000 (2020: HK\$625,292,000) mainly due to the decrease in employee benefit expenses.



**SHIPPING
SERVICES
INDUSTRIAL
CLUSTER**

Insurance
Brokerage
Services

Production
and Sale
of Coatings

Supply of
Marine
Equipment
and
Spare Parts

Trading and
Supply of
Marine Fuel
and Related
Products

Ship
Trading
Agency
Services



Core Business Coverage



Management Discussion and Analysis

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



Management Discussion and Analysis

Operating Profit

The Group's operating profit increased by 109% year on year to HK\$277,545,000 (2020: HK\$132,500,000) due to an increase in overall gross profit and a turnaround in net exchange gains.

Finance Income

Finance income, which primarily represented interest income on the Group's bank deposits, decreased by 65% year on year to HK\$47,979,000 (2020: HK\$137,635,000) as a result of the decrease in interest rates of deposits.

Finance Costs

Finance costs, which mainly represented interest expenses on short-term borrowings and other financial charges, increased by 45% year on year to HK\$7,172,000 (2020: HK\$4,939,000).

Share of Profits of Joint Ventures

The Group's share of profits of joint ventures was HK\$63,711,000 (2020: HK\$108,807,000). This item primarily represented the share of profits of Jotun COSCO of HK\$47,482,000 (2020: HK\$99,518,000) and of Nasurfar Changshu of HK\$13,920,000 (2020: HK\$6,683,000), which were included in the coatings segment.

Share of (Losses)/Profits of Associates

The Group's share of losses of associates was HK\$40,889,000 (2020: share of profits of HK\$31,022,000). This item primarily represented the share of loss of Double Rich of HK\$45,984,000 (2020: share of profit of HK\$29,329,000) and the share of profit of Zhejiang Four Brothers Rope of HK\$1,616,000 (2020: nil), representing the share of profit since the subscription of 48% equity interest of Zhejiang Four Brothers Rope by the Group at the end of March 2021, which were included in the marine fuel and other products segment and general trading segment respectively.

Income Tax Expenses

During the year, the Group's income tax expenses decreased by 35% year on year to HK\$37,568,000 (2020: HK\$57,489,000). The ratio of income tax expenses to profit before income tax, excluding the share of profits/(losses) of joint ventures and associates, decreased to 12% from 22% in 2020, mainly attributable to the deferred income tax credit — net for the year.

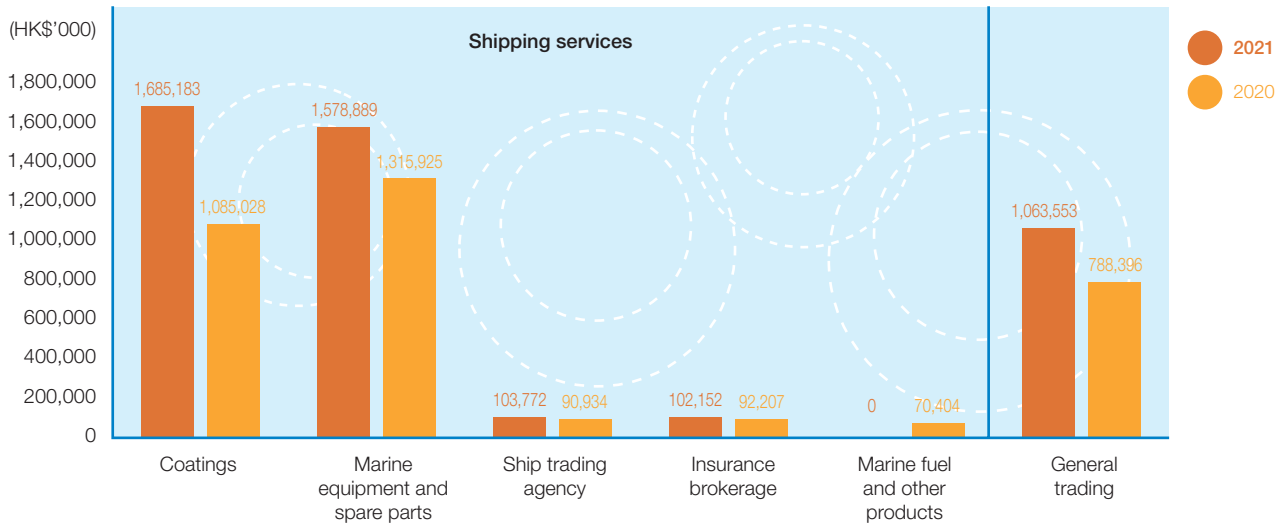
Profit Attributable to Equity Holders

Profit attributable to equity holders of the Company decreased by 15% year on year to HK\$288,341,000 (2020: HK\$338,523,000), mainly due to a significant decrease in interest income from bank deposits and a turnaround from profit to loss in the share of results of associates.

Management Discussion and Analysis

FINANCIAL RESULTS

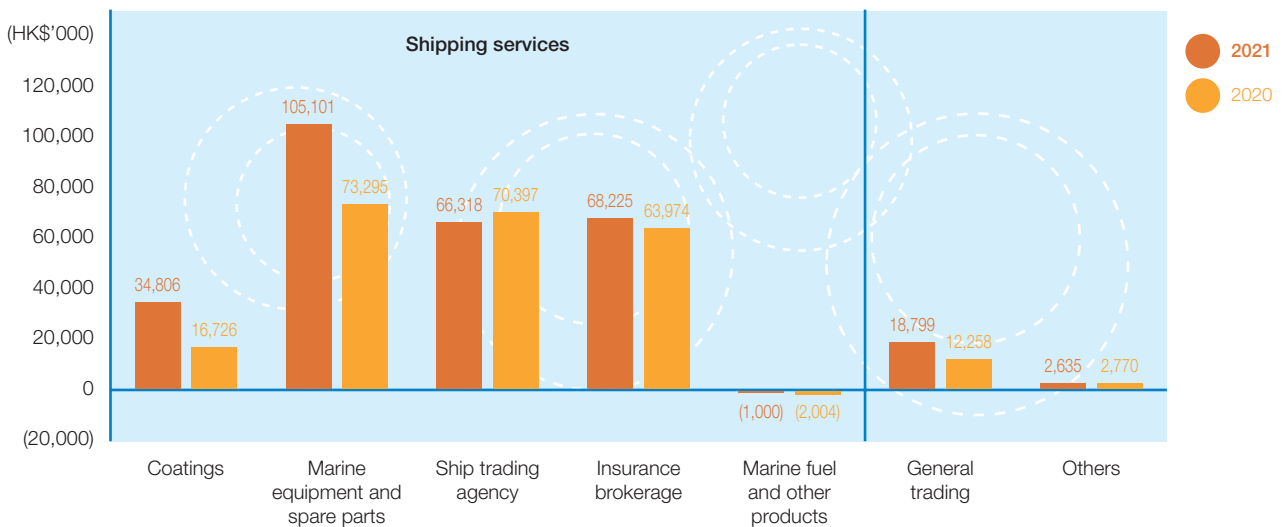
SEGMENT REVENUE*



* external customers only

Revenue from the core shipping services businesses increased by 31% to HK\$3,469,996,000 (2020: HK\$2,654,498,000) and accounted for 77% (2020: 77%) of the Group's revenue. The increase in revenue was mainly due to increase of revenues from most of the core business segments.

SEGMENT OPERATING PROFIT/(LOSS)



Segment operating profit from shipping services was HK\$273,450,000 (2020: HK\$222,388,000), representing an increase of 23% as compared to 2020. It was mainly due to increase in segment operating profits from marine equipment and spare parts and coatings as compared to 2020.

Management Discussion and Analysis

FINANCIAL RESULTS (Continued)

For the year ended 31 December	2021 HK\$'000	2020 HK\$'000	Change HK\$'000	%	Remark
Shipping services	273,450	222,388	51,062	23	It was mainly attributable to the increase in segment operating profits from marine equipment and spare parts and coatings as compared to 2020.
General trading	18,799	12,258	6,541	53	It was mainly attributable to the increase in sales volume of asphalt as compared to 2020.
Others	2,635	2,770	(135)	(5)	
Corporate net exchange gains/ (losses)	31,046	(25,884)	56,930	(220)	
Corporate expenses, net of income	(47,725)	(78,498)	30,773	(39)	
Elimination of segment income from corporate headquarters	(660)	(534)	(126)	24	
Operating profit	277,545	132,500	145,045	109	
Finance income-net	40,807	132,696	(91,889)	(69)	It was mainly attributable to decrease in interest rates of bank deposits as compared to 2020.
Share of profits of joint ventures	63,711	108,807	(45,096)	(41)	As a result of the decrease in sale volume and gross profit margin of Jotun COSCO as compared to 2020.
Share of (losses)/profits of associates	(40,889)	31,022	(71,911)	(232)	It was mainly attributable to a turnaround from profit to loss of Double Rich, which was primarily due to the decrease in gross profit for low sulphur fuel.
Profit before income tax	341,174	405,025	(63,851)	(16)	
Income tax expenses	(37,568)	(57,489)	19,921	(35)	The ratio of income tax expenses to profit before income tax, excluding the share of profits/(losses) of joint ventures and associates, decreased to 12% from 22% in 2020, mainly attributable to the deferred income tax credit — net for the year.
Profit for the year	303,606	347,536	(43,930)	(13)	

Management Discussion and Analysis

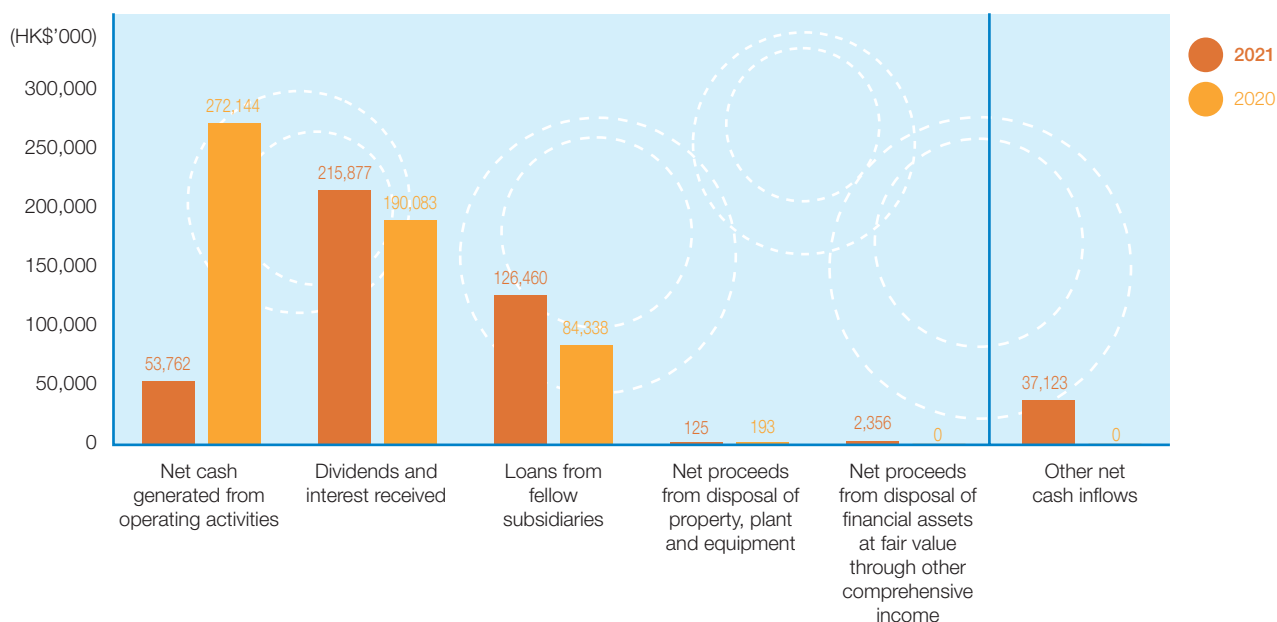
FINANCIAL RESULTS (Continued)

As at 31 December	2021 HK\$'000	2020 HK\$'000	Change HK\$'000	%	Remark
Intangible assets	107,664	109,044	(1,380)	(1)	
Property, plant and equipment, right-of-use assets and investment properties	455,774	469,910	(14,136)	(3)	
Investments in joint ventures	499,999	562,668	(62,669)	(11)	
Investments in associates	237,786	167,403	70,383	42	
Other non-current assets	105,431	95,521	9,910	10	
Inventories	443,548	366,348	77,200	21	
Trade receivables—net	793,340	723,564	69,776	10	
Other receivables	878,326	922,259	(43,933)	(5)	
Cash (including restricted bank deposits and current deposits and cash and cash equivalents)	6,219,741	6,518,647	(298,906)	(5)	(a), (b)
Other current assets	615	3,330	(2,715)	(82)	
Total assets	9,742,224	9,938,694	(196,470)	(2)	
Deferred income tax liabilities	63,308	83,233	(19,925)	(24)	
Trade payables, other payables and contract liabilities	1,201,099	1,309,582	(108,483)	(8)	
Current income tax liabilities	30,933	18,038	12,895	71	
Short-term borrowings	42,807	89,111	(46,304)	(52)	
Lease liabilities	9,481	11,016	(1,535)	(14)	
Non-controlling interests	333,579	314,671	18,908	6	
Total liabilities and non-controlling interests	1,681,207	1,825,651	(144,444)	(8)	
Net assets attributable to equity holders	8,061,017	8,113,043	(52,026)	(1)	

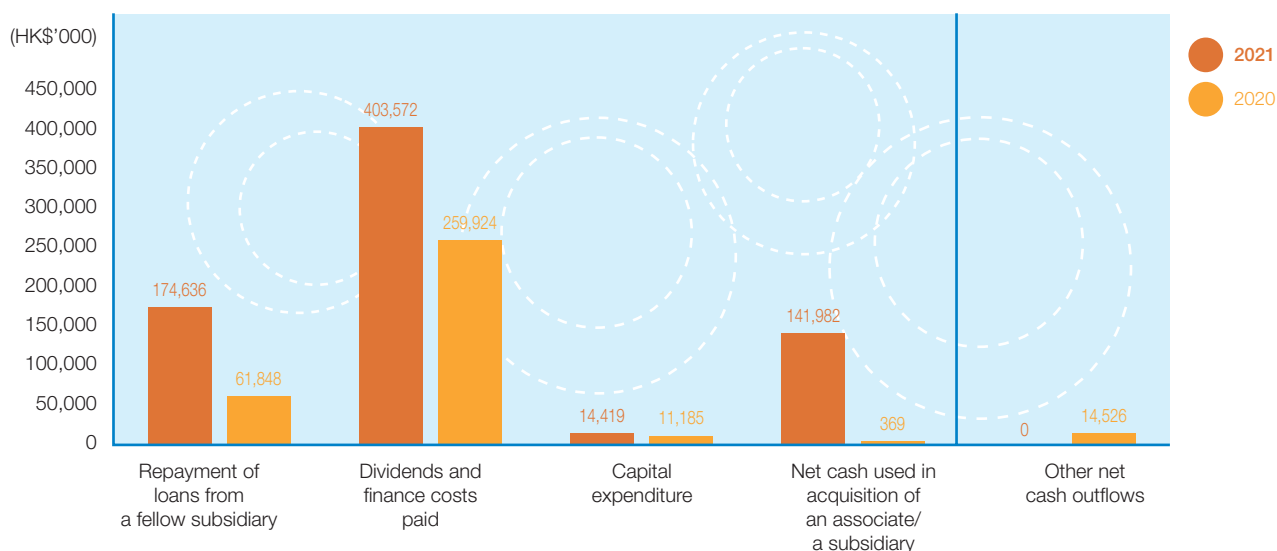
Management Discussion and Analysis

(a) MAJOR SOURCES AND USE OF CASH

CASH INFLOWS



CASH OUTFLOWS

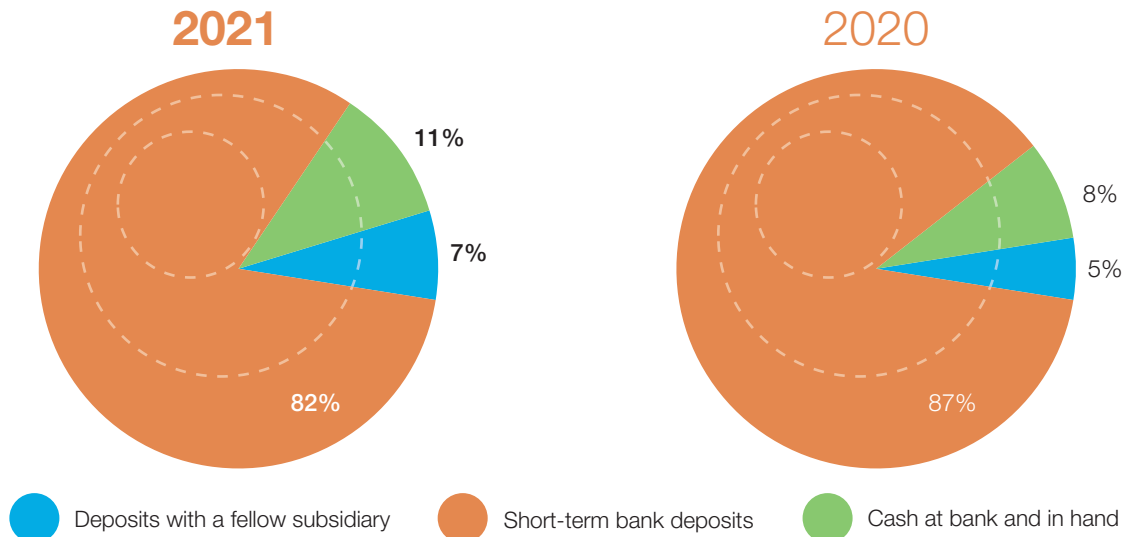


Cash (including restricted bank deposits and current deposits and cash and cash equivalents) decreased by HK\$298,906,000 in aggregate during the year. Sources of cash principally included net cash generated from operating activities of HK\$53,762,000, dividends and interest received of HK\$215,877,000, loans from fellow subsidiaries of HK\$126,460,000, net proceeds from disposal of property, plant and equipment of HK\$125,000, net proceeds from disposal of financial assets at fair value through other comprehensive income of HK\$2,356,000 and other net cash inflows of HK\$37,123,000. Use of cash principally included repayment of loans from a fellow subsidiary of HK\$174,636,000, dividends and finance costs paid of HK\$403,572,000, capital expenditure of HK\$14,419,000 and net cash used in acquisition of an associate of HK\$141,982,000.

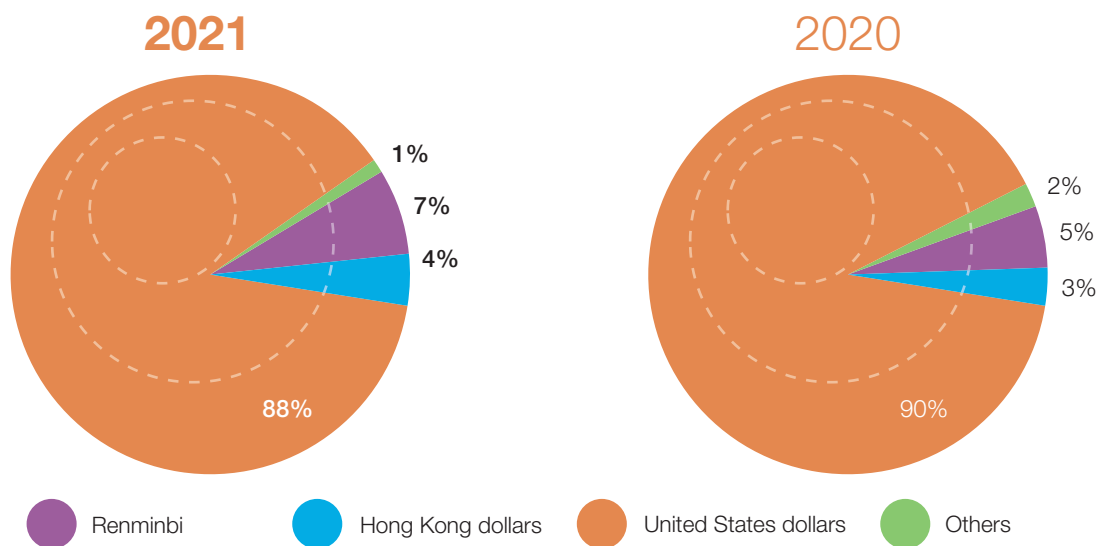
Management Discussion and Analysis

(b) ANALYSIS OF CASH

CLASSIFIED BY NATURE



CLASSIFIED BY CURRENCY



Management Discussion and Analysis

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 comprises 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 31 December 2021, deposits and cash and cash equivalents held by the Group accounted for 75% (2020: 76%) of the Group's total current assets.

As at 31 December 2021, the Group's total assets decreased by 2% to HK\$9,742,224,000 (2020: HK\$9,938,694,000). Total liabilities decreased by 11% to HK\$1,347,628,000 (2020: HK\$1,510,980,000). 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\$8,061,017,000 (2020: HK\$8,113,043,000). Net asset value per share, calculated based on the 1,532,955,429 shares in issue during the year (2020: 1,532,955,429 shares), was HK\$5.26 (2020: HK\$5.29), which decreased by 1% as compared to the end of 2020.

As at 31 December 2021, the Group's total short-term borrowings were HK\$42,807,000 (2020: HK\$89,111,000), 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 (representing total restricted bank deposits and current deposits and cash and cash equivalents) decreased by 5% to HK\$6,219,741,000 (2020: HK\$6,518,647,000) and non-committed unutilised standby banking facilities increased by 1% to HK\$688,846,000 (2020: HK\$682,594,000) respectively. The gearing ratio, which represented total borrowings over total assets, was 0.4% (2020: 0.9%).

Management Discussion and Analysis

Debt Analysis

	31 December 2021		31 December 2020	
	HK\$'000	%	HK\$'000	%
Classified by maturity:				
— repayable within one year	42,807	100	89,111	100
Classified by type of loan:				
— unsecured	42,807	100	89,111	100
Classified by currency:				
— Renminbi	42,807	100	89,111	100

The Group had restricted bank deposits of HK\$6,115,000 (2020: HK\$13,600,000) representing deposits placed to meet the statutory requirement of its insurance brokerage business in China.

In considering the Group's current level of cash and bank balances, funds generated internally from operations, the unutilized 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 and Singapore, and is exposed to foreign exchange risk arising from various currency exposures, primarily respect to Renminbi and United States dollars. 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 31 December 2021, the Group had net cash, which represented total restricted bank deposits and current deposits and cash and cash equivalents, less short-term borrowings, of HK\$6,176,934,000 (2020: HK\$6,429,536,000). 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 0.75% rate of return on the Group's cash for the year, representing 53 basis points above 3-month US Dollar London Interbank Offered Rate as at the end of December 2021. The Group had no financial instruments for interest rate hedging purposes.

Management Discussion and Analysis

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, sales to the largest customer and aggregate sales to the five largest customers accounted for 8% and 23% respectively (2020: 7% and 22% respectively) of the total revenue of the Group, while purchases from the largest supplier and aggregate purchases from the five largest suppliers accounted for 5% and 20% respectively (2020: 4% and 13% 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 owning more than 5% of the Company's shares had interests in the five largest customers and suppliers.

EMPLOYEES

As at 31 December 2021, excluding joint ventures and associates, the Group had 847 (2020: 833) employees, of which 176 (2020: 185) were Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, were HK\$427,291,000 (2020: HK\$455,491,000). 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.

The share option incentive scheme of the Company was adopted by the Shareholders at the special general meeting of the Company on 9 April 2020 (the "Share Option Incentive Scheme").

The Company granted an aggregate of 23,830,000 share options to certain directors of the Company and certain employees of the Group to subscribe for a total of 23,830,000 shares of the Company at a price of HK\$2.26 per share on 28 April 2020 under the Share Option Incentive Scheme. Subject to the fulfilment of the relevant conditions, these share options granted are exercisable from 28 April 2022 to 27 April 2026 in batches.

The Company granted an aggregate of 2,460,000 share options to certain employees of the Group to subscribe for a total of 2,460,000 shares of the Company at a price of HK\$2.184 per share on 6 October 2020 under the Share Option Incentive Scheme. Subject to the fulfilment of the relevant conditions, these share options granted are exercisable from 6 October 2022 to 5 October 2026 in batches.

The Company granted an aggregate of 1,370,000 share options to certain employees of the Group to subscribe for a total of 1,370,000 shares of the Company at a price of HK\$2.72 per share on 7 April 2021 under the Share Option Incentive Scheme. Subject to the fulfilment of the relevant conditions, these share options granted are exercisable from 7 April 2023 to 6 April 2027 in batches.

Each batch of the above share options is exercisable within the periods stated as follows: (a) 33.3% of the share options will be exercisable commencing on the first trading day after the expiration of the 24-month period (the second anniversary) from the respective dates of grant and ending on the last trading day of the 36-month period from the respective dates of grant; (b) 33.3% of share options will be exercisable commencing on the first trading day after the expiration of the 36-month period (the third anniversary) from the respective dates of grant and ending on the last trading day of the 48-month period from the respective dates of grant; and (c) 33.4% of the share options will be exercisable commencing on the first trading day after the expiration of the 48-month period (the fourth anniversary) from the respective dates of grant and ending on the last trading day of the 72-month period from the respective dates of grant.

Management Discussion and Analysis

REVIEW OF BUSINESS OPERATIONS

In 2021, the global economy encountered multiple challenges, including the aggravation of supply chain bottlenecks under the haze of the COVID-19 pandemic, imbalances in energy supply and demand, and intensifying inflationary pressures. Nevertheless, the global economy continued to recover amid fluctuations as governments have implemented robust stimulus measures and encouraged vaccine popularization. According to World Economic Outlook published by the International Monetary Fund in January 2022, the global economy achieved a year-on-year growth rate of 5.9% in 2021, rebounding sharply from a year-on-year decline of 3.1% in 2020. Meanwhile, China has maintained its world-leading position in pandemic prevention and control as well as promoting stable economic development. China achieved year-on-year economic growth of 8.1% in 2021, demonstrating the strong resilience of its economy and marking a promising beginning of its “14th Five-Year Plan”. The sound and steady progress of China’s economy has stabilized the global industrial supply chain and laid a solid foundation for the recovery of the global economy that helped revitalizing the global economy from the pandemic.

For shipping market, according to the National Bureau of Statistics of China, China’s total value of import and export in 2021 was RMB39.1 trillion, a year-on-year increase of 21.4%, of which, value of export reached RMB21.7 trillion, a year-on-year increase of 21.2%. After the outbreak of the COVID-19 pandemic, China implemented effective prevention and control policies, and the supply chain showed strong stability, which led to the rapid growth of exports, and China’s foreign trade contribution has reached its new heights to the world. According to data from the Ministry of Transport of the PRC, in 2021, China’s port cargo throughput reached 15.55 billion tonnes, a year-on-year increase of 6.8%, of which foreign trade cargo throughput amounted to approximately 4.7 billion tonnes, a year-on-year increase of 4.5%, and container throughput was approximately 280 million TEUs, a year-on-year increase of 7.0%. For 2021, the national accomplished shipbuilding output reached 39.703 million DWT, a year-on-year increase of 3.0%; as of the end of December 2021, the volume of orders-on-hand amounted to 95.839 million DWT, an increase of 34.8% from the end of the last year.

1. Core Business – Shipping Services

The Group’s core business of shipping services mainly include ship trading agency services, 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\$3,469,996,000 (2020: HK\$2,654,498,000), representing an increase of 31% year on year, mainly due to the increase in most of the core business segments. Profit before income tax from shipping services was HK\$293,736,000 (2020: HK\$363,305,000), representing a decrease of 19% year on year, mainly due to the turnaround from profit to loss in the trading and supply of marine fuel and related products segment, and the decline in the gross profit margin of the production and sale of coatings segment.

Excluding the impact of the turnaround from profit to loss in the trading and supply of marine fuel and related products segment, the adjusted profit before income tax of the Group’s shipping services segment was HK\$340,500,000 (2020: HK\$335,854,000), representing a year-on-year increase of 1%.

Management Discussion and Analysis



Ship Trading Agency Services

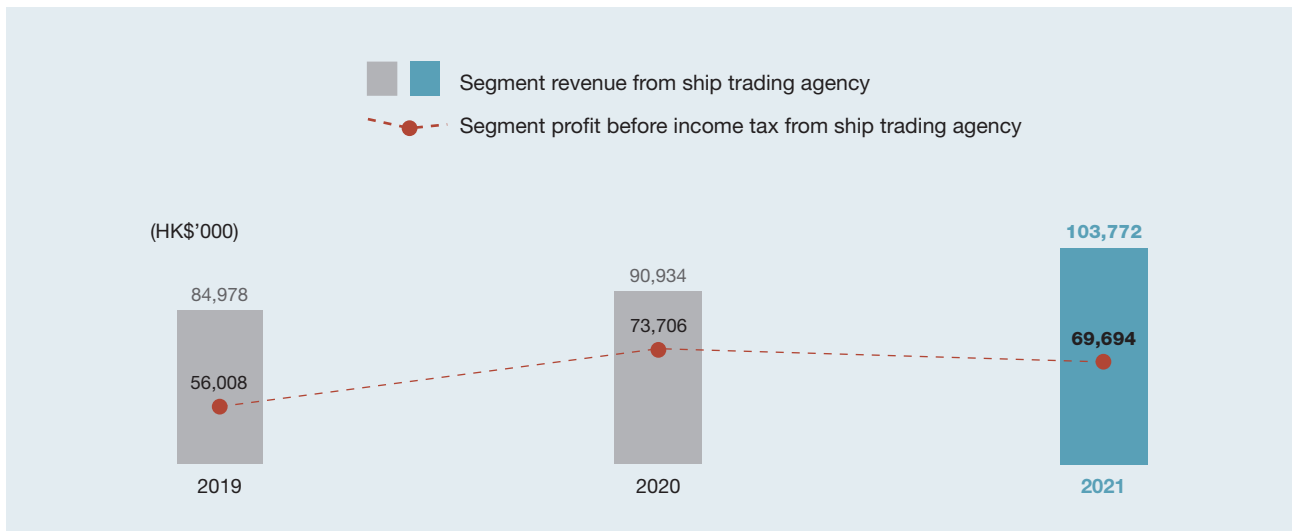
1.1 Ship Trading Agency Services

The Group's ship trading agency business is principally engaged in the provision of agency services relating to ship building, ship trading and chartering for shipping enterprises.

During the year, revenue from the ship trading agency segment of the Group increased by 14% year on year to HK\$103,772,000 (2020: HK\$90,934,000). Segment profit before income tax was HK\$69,694,000 (2020: HK\$73,706,000), representing a decrease of 5% year on year.

During the year, the Group's aggregate number of new build vessels delivery was 26 (2020: 35), aggregating 4,993,900 DWT (2020: 2,811,900 DWT). A total number of 16 (2020: 19) new build vessels have been ordered, aggregating 1,647,200 DWT (2020: 1,277,600 DWT). In addition, the sale and purchase of a total of 15 (2020: 29) second-hand vessels were recorded, aggregating 779,719 DWT (2020: 407,529 DWT).

Management Discussion and Analysis



Management Discussion and Analysis



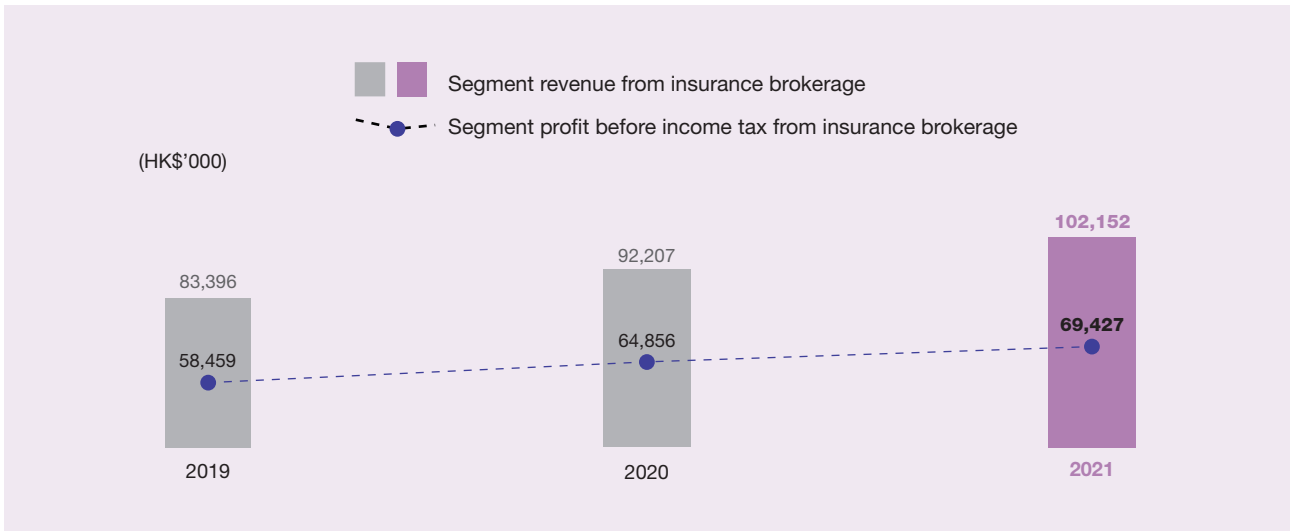
Insurance Brokerage Services

1.2 Insurance Brokerage Services

The Group's insurance brokerage services business is 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, revenue from insurance brokerage segment of the Group was HK\$102,152,000 (2020: HK\$92,207,000), representing an increase of 11% year on year. Segment profit before income tax was HK\$69,427,000 (2020: HK\$64,856,000), representing an increase of 7% year on year, which was attributed to the considerable growth in business volume of Protection and Indemnity Insurance and Terminal's Property and Liabilities Insurance.

Management Discussion and Analysis



Management Discussion and Analysis



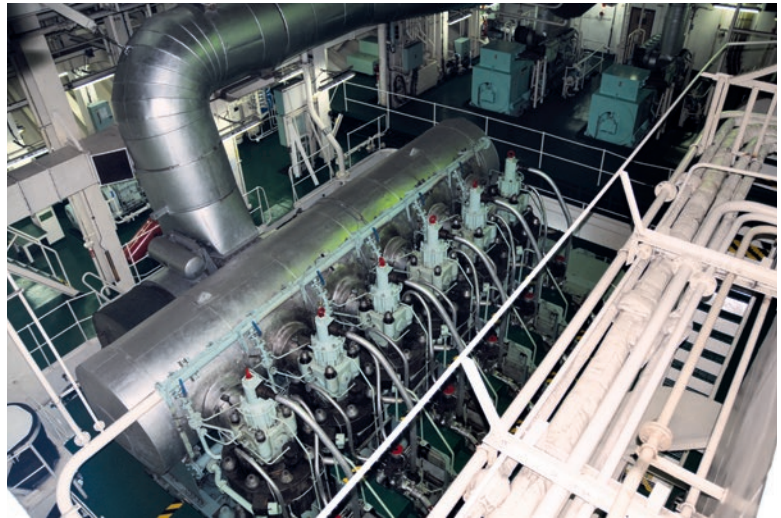
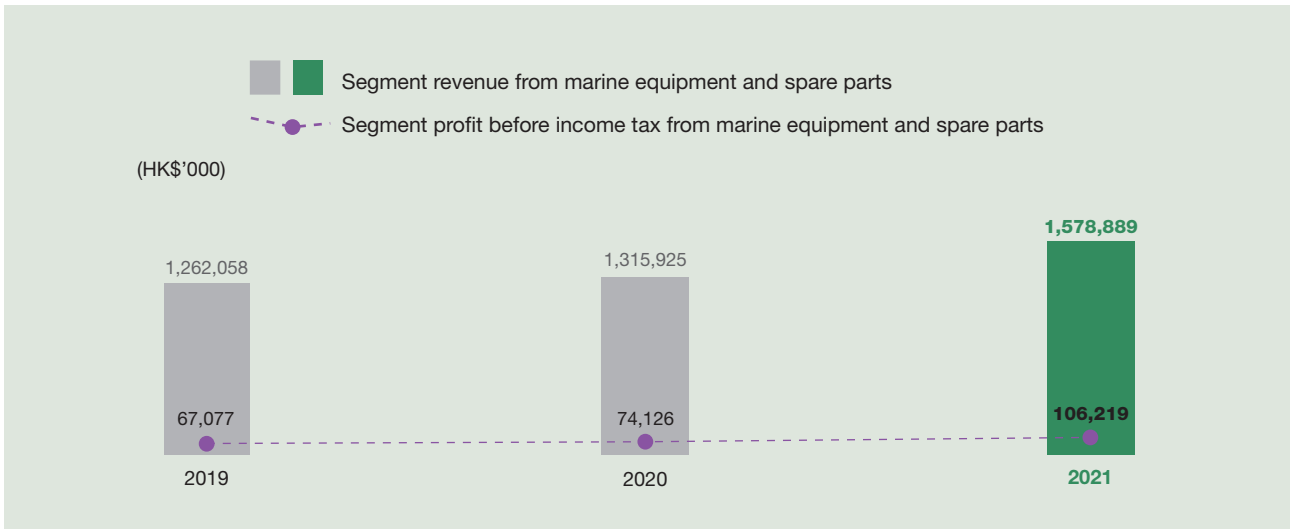
Supply of Marine Equipment and Spare Parts

1.3 Supply of Marine Equipment and Spare Parts

The Group's supply of marine equipment and spare parts business 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 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 of the Group was HK\$1,578,889,000 (2020: HK\$1,315,925,000), representing an increase of 20% year on year. Keeping abreast of the development trend of the industry, the Group has yielded good results in expanding its business scope, and has developed the supply of special equipment spare parts with green and low-carbon competitive advantages, recording a segment profit before income tax of HK\$106,219,000 (2020: HK\$74,126,000), a year-on-year increase of 43%.

Management Discussion and Analysis



Management Discussion and Analysis



Production and Sale of Coatings

1.4 Production and Sale of Coatings

The coating business of the Group primarily includes the production and sale of container coatings, industrial heavy-duty anti-corrosion coatings and marine coatings. COSCO Kansai (Tianjin), COSCO Kansai (Zhuhai), COSCO Kansai Paint (Shanghai) and COSCO Kansai (Shanghai) are non-wholly owned subsidiaries of the Company. 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. Nasurfar Changshu, in which the Company held 33% equity interest, is principally engaged in the research and development, production and sales of biomaterial application products, including surfactants, coating raw materials and additives, as well as resin modifiers.

During the year, revenue from coatings segment of the Group was HK\$1,685,183,000 (2020: HK\$1,085,028,000), representing an increase of 55% year on year. Segment profit before income tax was HK\$95,160,000 (2020: HK\$123,166,000), representing a decrease of 23% year on year, which was mainly attributable to the decrease in share of profit of Jotun COSCO.

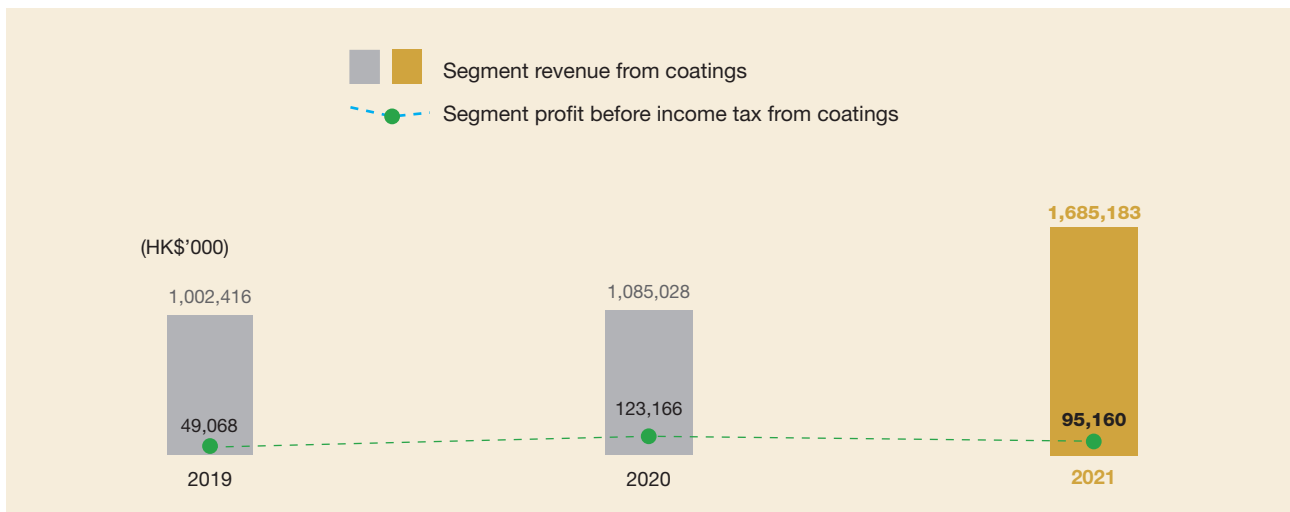
For container coatings, while benefiting from the strong recovery of the container manufacturing market, COSCO Kansai Companies took the initiative to strengthen the scientific research and development of coatings, further improved product quality, and strengthened marketing services. During the year, the sales volume of container coatings increased by 46% year on year to 42,935 tonnes (2020: 29,392 tonnes). The sales volume of industrial heavy-duty anti-corrosion coatings together with workshop primer amounted to 17,881 tonnes (2020: 18,033 tonnes), representing a decrease of 1% year on year.

Management Discussion and Analysis



For marine coatings, affected by the slowdown in the new build vessels delivery during the year, the sales volume of Jotun COSCO's coatings for new build vessels amounted to 45,166,000 litres (2020: 46,161,000 litres), representing a decrease of 2% year on year. Sales volume of coatings for repair and maintenance was 27,618,000 litres (2020: 27,674,000 litres), maintain closely the same level year on year. The sales volume of Jotun COSCO's marine coatings amounted to 72,784,000 litres (equivalent to approximately 98,258 tonnes) (2020: 73,835,000 litres (equivalent to approximately 99,677 tonnes)), slightly decreased by 1% year on year. During the year, the Group's share of profit from Jotun COSCO was HK\$47,482,000 (2020: HK\$99,518,000), representing a decrease of 52% year on year. It was mainly attributable to the increase in raw material prices that induced pressure on the gross profit margin.

During the year, the Group's share of profit from Nasurfar Changshu was HK\$13,920,000 (2020: HK\$6,683,000), representing an increase of 108% year on year, mainly driven by the substantial increase in production and sales as a result of the successful plant expansion.



Management Discussion and Analysis



Trading and Supply of Marine Fuel and Related Products

1.5 Trading and Supply of Marine Fuel and Related Products

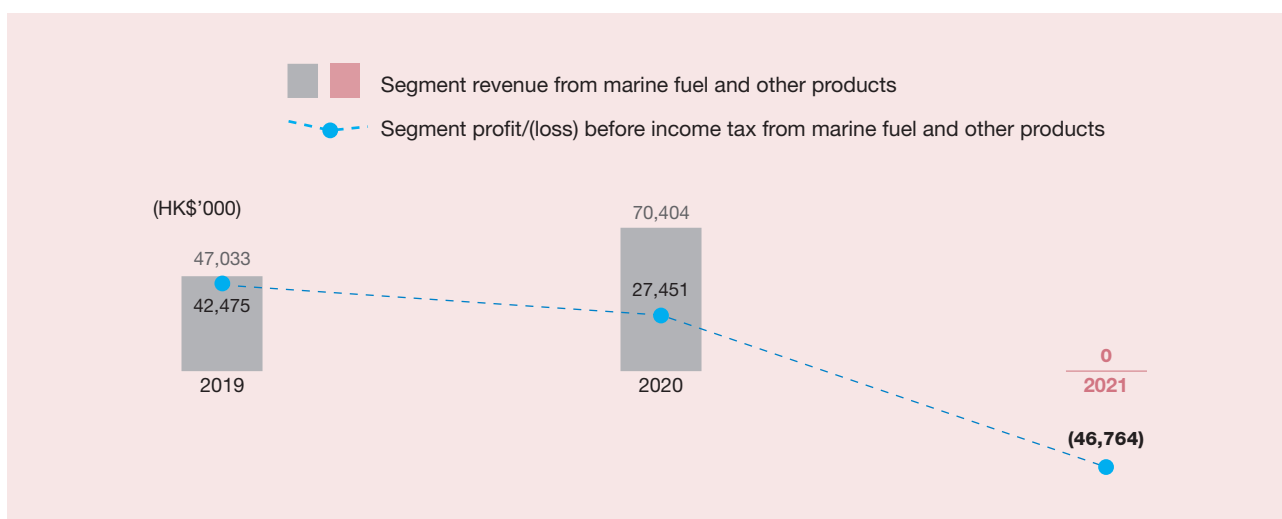
The Group's trading and supply of marine fuel and related products business is primarily engaged in the supply, trading and brokerage services of marine fuel and related products.

During the year, no revenue from marine fuel and other products segment of the Group was recorded (2020: HK\$70,404,000), and sales volume of marine fuel products was 24,382 tonnes for 2020. 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 4 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 31 December 2021 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 shipowners and ship operators. During the year, the Group's share of loss from Double Rich was HK\$45,984,000 (2020: share of profit of HK\$29,329,000), representing a turnaround from profit to loss, which was primarily due to the decrease in gross profit for low sulphur fuel.

During the year, loss before income tax from marine fuel and other products segment was HK\$46,764,000 (2020: profit before income tax of HK\$27,451,000), which was mainly due to the results from Double Rich that turned from profit to loss.

Management Discussion and Analysis



2. General Trading

The Group's general trading business is principally engaged in the trading, storage, processing, supply of asphalt and other comprehensive trading.

During the year, revenue from general trading segment of the Group was HK\$1,063,553,000 (2020: HK\$788,396,000), representing an increase of 35% year on year, which was mainly due to an increase of 15% year on year in sales volume of asphalt to 256,251 tonnes (2020: 222,618 tonnes). Segment profit before income tax was HK\$18,483,000 (2020: HK\$10,292,000), representing an increase of 80% year on year, which was mainly due to the increase in asphalt sales and share of profits of associates.

By the end of March 2021, the Group completed the capital injection in Zhejiang Four Brothers Rope, a leading rope production enterprise in the PRC, by subscribing 48% equity interest of Zhejiang Four Brothers Rope, thus providing a new source of profit. During the year, the Group's share of profit from Zhejiang Four Brothers Rope was HK\$1,616,000 (2020: nil), representing the share of profit since the subscription of 48% equity interest of Zhejiang Four Brothers Rope by the Group.



Prospects

With the impact on unbalanced global economic recovery, escalation in geopolitical conflicts, ineffective climate governance, the world is entering a new era that contains turbulence and uncertainties. The real growth of the global economy in 2022 is expected to be significantly slower than that in 2021, mainly as a result of the COVID-19 pandemic will continue to hamper economic development, and the supply chain is unlikely to have effective improvement. While high inflation rate will persist for a while longer, prices of energy and food will surge sharply. Expectations of monetary policies tightening in major economies have become more apparent, leading to a tightening of global financial conditions. The World Economic Outlook published by the International Monetary Fund in January 2022 expects that the global economy will grow by 4.4% in 2022, a 1.5 percentage points slower than that in 2021. China will cooperate with other countries to overcome the pandemic, mitigate various risks, build an open global economy, and promote the stable recovery of the global economy. China will maintain its continuity, stability and sustainability of its macro policies, open up a new path for inclusive growth and sustainable development, and inject strong impetus into the revitalization of global development while maintaining its economic stability and growth.

For the shipping market, the global shipping trade volume is expected to grow by 3.4% in 2022 according to the projection by Clarksons Research. In terms of segments, for container shipping, the congestion of European and American ports is likely to last for most of 2022, and the effective shipping capacity in the market is insufficient. The global container shipping rates are expected to remain at high level as the strong momentum of the freight market and the pandemic will continue to disrupt the supply chain, and the supply and demand imbalance is difficult to solve in the short run. For bulk cargo, Clarksons expects global dry bulk shipping turnover to grow by 2.2% and the fleet capacity to grow by 1.5% in 2022. With the growth rate of demand slightly higher than the growth rate of shipping capacity supply, it is expected that the bulk shipping market will remain stable. For tanker transportation, the disturbance of the pandemic has affected the recovery of terminal consumption demand for crude oil, and at the same time, the delivery capacity is likely to exceed the dismantling capacity. Therefore, the shipping capacity supply continues to expand, and the excess supply of oil tanker capacity may take some time to be digested. For the shipbuilding market, in the short run, the overall good momentum of the international shipping market is expected to prevail, constituting certain support for the shipbuilding market. However, in consideration of the concentrated release of backlog demand in early 2021, the industry generally expects that new shipbuilding orders will be pulled back in the short term. Nonetheless, in the medium and long term, it is still backed by the demands for low-carbon shipping and ship model updates, and the shipbuilding industry is expected to develop steadily.

For the ship trading agency services, the Group will constantly pay attention to the needs of the customers, improve service standards, strengthen market research and information management, continue to strengthen team building, and build up a professional and high-quality ship broker team.

For insurance brokerage services, the Group will deeply explore the new needs and new business in the market, innovate service products, broaden its service scope, optimise customer relationships and channels, and actively provide customers with value-added services.

For the supply of marine equipment and spare parts, the Group will strive to strengthen the centralised procurement, improve the information management, raise its operational efficiency, increase its market share, expand the profit margin of the businesses, and further enhance the technical service capabilities.

For container coatings, the Group will tap the needs of customers, and ensure a steady increase in market share. The Group will also continuously improve product research and development capabilities, strengthen research on raw material substitution, strive to enhance source procurement, and continue to improve the utilisation efficiency of production resources.

For industrial heavy-duty anti-corrosion coatings, the Group will have an in-depth research on the market segmentation to seek new business breakthroughs. The Group will expand into key industries and acquire key customers. The production costs under strict control will promote sustainable growth of economic benefits.

Prospects

For marine coatings, the Group will implement a sound marketing strategy, rationally expand production capacity, balance market share and profitability, continue to strengthen the management and control on safety, environmental protection and health risks, and promote the improvement of supply chain processes and control on operating costs and expenses, so as to reduce the adverse effect of rising raw material prices.

For the trading and supply of marine fuel and related products, the Group will continue to adhere to robust prudent operating approach and strive to conduct risk prevention and control.

For general trading, the Group will proactively drive business transformation, expand its business scope and extend the comprehensive range of the shipping services of the Group. The Group will also strengthen refined management and improve its influential ability in the market.

Profile of Directors and Senior Management

DIRECTORS



Mr. Zhu Jianhui

(Chairman and Managing Director)

Mr. Zhu, aged 59, has been the Chairman of the Board since March 2020, the Managing Director of the Company since January 2018 and the Executive Director of the Company since August 2016. He also had been the Vice Chairman of the Board of the Company from August 2016 to March 2020. Mr. Zhu is chairman of Corporate Governance Committee, Strategic Development Committee, Risk Management Committee, member of Remuneration Committee and Nomination Committee of the Company. Mr. Zhu leads overall management and operation, strategic development and human resources management of the Company. He is also director, chairman and president of COSCO SHIPPING (Hong Kong) Co., Limited (direct controlling shareholder) and vice-chairman and non-executive director of Piraeus Port Authority S.A. (listed in Athens) and the director of Hainan Harbor & Shipping Holding Co., Ltd.. He had been the manager of China Ocean Shipping Agency Nantong (Penavico Nantong), the deputy general manager of China Ocean Shipping Agency (Shanghai), the deputy general manager of China Ocean Shipping Agency head office, the deputy general manager of COSCO Logistics Co., Ltd., the general manager of China Ocean Shipping Tally Company and the general manager of Dalian Ocean Shipping Company. Mr. Zhu possesses extensive professional knowledge in ocean shipping and logistics management and also has rich experience in corporate operation and management. He graduated from Shanghai Maritime College and obtained a Master's degree. He is a senior economist.



Profile of Directors and Senior Management

Mr. Ma, aged 59, has been the Non-executive Director of the Company since October 2018 and re-designated as Executive Director of the Company in May 2020, and the chairman of Environmental, Social and Governance Committee, the member of Strategic Development Committee and Risk Management Committee of the Company. He is also Deputy General Manager of the Company and director and vice president of COSCO SHIPPING (Hong Kong) Co., Limited (direct controlling shareholder). Mr. Ma was the non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Shanghai and Hong Kong). He was also the deputy head of the human resources and labor department and the research officer of the Ministry of Transport of the PRC, the deputy party secretary and the leader of the discipline inspection team of Shenzhen Maritime Safety Administration, the deputy director of the general office and the deputy secretary of Chongqing municipality of the PRC, the party secretary and the deputy general manager of COSCO Logistics Co., Ltd., the party secretary and the deputy general manager of COSCO Shipbuilding Industry Company Limited, the supervisor, party secretary and deputy general manager of COSCO SHIPPING Holdings Co., Ltd.. Mr. Ma has extensive experience in transportation and logistics management, human resources management and modern corporate governance, etc.. Mr. Ma graduated from the Party School of the Central Committee of the Communist Party of China majoring in economics and management and is a senior engineer.



Mr. Ma Jianhua



Mr. Feng Boming

Mr. Feng, aged 52, has been the Non-executive Director and member of Strategic Development Committee of the Company since January 2018. He is also director of COSCO SHIPPING (Hong Kong) Co., Limited (direct controlling shareholder), executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Shanghai and Hong Kong), executive director and chairman of COSCO SHIPPING Ports Limited (listed in Hong Kong), executive director of Orient Overseas (International) Limited (listed in Hong Kong), non-executive director of Piraeus Port Authority S.A. (listed in Athens) and Qingdao Port International Co., Ltd. (listed in Shanghai and Hong Kong), and director of COSCO SHIPPING Investment Holdings Co., Limited (formerly known as COSCO SHIPPING Financial Holdings Co., Limited) and Hainan Harbor & Shipping Holding Co., Ltd. He was the supervisor of the Strategic Management Implementation Office of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company) and COSCO SHIPPING Holdings Co., Ltd., the manager of the Commercial Section of the Trade Protection Division of COSCO SHIPPING Lines Co., Ltd., the general manager of COSCO (Cayman) Mercury Co., Ltd., the general manager of the Management and Administration Department of COSCO Holdings (Hong Kong) Co., Ltd., the general manager of COSCO International Freight (Wuhan) Co., Ltd., and the general manager of the Strategy and Corporate Management Division of 中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited). He was also non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Shanghai and Hong Kong), COSCO SHIPPING Ports Limited (listed in Hong Kong), COSCO SHIPPING Energy Transportation Co., Ltd. (listed in Shanghai and Hong Kong) and COSCO SHIPPING Development Co., Ltd. (listed in Shanghai and Hong Kong), and also director of COSCO SHIPPING Bulk Co., Ltd.. Mr. Feng has over 20 years of work experience in the shipping industry and has extensive experience in port management and operation, corporate strategy management, business management and container shipping management. He graduated from Wuhan Institute of Water Transportation Engineering, major in Transportation Administrative Engineering and from The University of Hong Kong with a Master's degree in Business Administration and is an economist.

Profile of Directors and Senior Management



Mr. Chen Dong

Mr. Chen, aged 47, has been the Non-executive Director and member of Risk Management Committee of the Company since January 2018. He is also general manager of Finance and Accounting Division of 中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited), director of COSCO SHIPPING (Hong Kong) Co., Limited (direct controlling shareholder) and non-executive director of COSCO SHIPPING Ports Limited (listed in Hong Kong), and director of COSCO SHIPPING Specialized Carriers Co., Ltd. (listed in Shanghai), COSCO SHIPPING Bulk Co., Ltd. and COSCO SHIPPING Investment Holdings Co., Limited (formerly known as COSCO SHIPPING Financial Holdings Co., Limited). Mr. Chen was the deputy head of Risk Control Section under the Planning and Finance Department, the deputy head of the Finance Section under Planning and Finance Department and senior manager of the Finance and Taxation Management Office, the assistant to the general manager of the Finance Department and the deputy general manager of the Finance Department of 中國海運(集團)總公司 (China Shipping (Group) Company). He was the non-executive director of COSCO SHIPPING Development Co., Ltd. (listed in Shanghai and Hong Kong) and non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Shanghai and Hong Kong). Mr. Chen has over 20 years of working experience in shipping enterprises and has extensive experience in risks control, taxation management and finance. Mr. Chen obtained a Master's degree in Economics from Shanghai University of Finance and Economics and is a senior accountant.

Mr. Tsui, aged 72, has been the Independent Non-executive Director of the Company since February 2004 and is chairman of Nomination Committee, member of Audit Committee, Remuneration Committee and Corporate Governance Committee of the Company. Mr. Tsui is director of Industrial and Commercial Bank of China (Asia) Limited and also independent non-executive director of a number of listed companies in Hong Kong, namely, Pacific Online Limited, Hua Medicine and Brie Biosciences Limited as well as two companies listed overseas including independent director of ATA Creativity Global (listed on NASDAQ) and independent non-executive director of Melco Resorts & Entertainment Limited (listed on NASDAQ). Mr. Tsui graduated from the University of Tennessee, the United States and was awarded a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering and had completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University, the United States. He was the chairman of Hong Kong Securities Institute from 2001 to 2004 and the chief operating officer of Hong Kong Exchanges and Clearing Limited in 2000 and the adviser and council member of the Shenzhen Stock Exchange from July 2001 to June 2002. He has numerous years of experience in finance and administration, corporate and strategic planning, information technology and human resources management. Mr. Tsui was the chairman and director of WAG Worldsec Corporate Finance Limited from 2006 to 2016, and previously served as the independent non-executive director of the listed companies in Hong Kong, namely, Kangda International Environmental Company Limited until his resignation in April 2019, DTXS Silk Road Investment Holdings Company Limited until his retirement in May 2020 and Melco Resorts and Entertainment (Philippines) Corporation (listed in the Republic of Philippines in December 2012 and delisted in June 2019) until his resignation in November 2020.



Mr. Tsui Yiu Wa, Alec

Profile of Directors and Senior Management

Mr. Jiang, aged 68, has been the Independent Non-executive Director of the Company since April 2007 and is chairman of Remuneration Committee, member of Audit Committee, Nomination Committee and Corporate Governance Committee of the Company. He is an independent non-executive director of PetroChina Company Limited (listed in Hong Kong, Shanghai and New York) and chairman of Cyber City International Limited. Mr. Jiang is also a director of China Foundation for Disabled Persons and a senior associate at the Judge Business School of Cambridge University of England. He is currently a member of the United Nations Investments Committee. Mr. Jiang received his Bachelor's degree from Beijing Foreign Studies University, Master's degree from Australian National University and Doctorate's degree in Economics from Cambridge University of England. Mr. Jiang was the deputy chief of United Nations Joint Staff Pension Fund Investment Management Service, a trustee of Cambridge China Development Trust and a member of the 11th and 12th Sessions of the National Committee of the Chinese People's Political Consultative Conference. He has experience in fund management.



Mr. Jiang, Simon X.



Mr. Kwong Che Keung, Gordon

Mr. Kwong, aged 72, has been the Independent Non-executive Director of the Company since July 2020 and is chairman of Audit Committee, member of Nomination Committee, Remuneration Committee and Corporate Governance Committee of the Company. Mr. Kwong is also independent non-executive director of a number of listed companies in Hong Kong, namely, Agile Group Holdings Limited, Chow Tai Fook Jewellery Group Limited, FSE Lifestyle Services Limited, Henderson Investment Limited, Henderson Land Development Company Limited and NWS Holdings Limited. He is also an independent non-executive director of Piraeus Port Authority S.A. (listed in Athens), a fellow subsidiary of the Company. Mr. Kwong was the managing director of the Company from 1998 to 2001. He was an independent non-executive director of OP Financial Limited (now known as Wealthking Investments Limited) until his retirement in August 2019, an independent non-executive director of Global Digital Creations Holdings Limited until his retirement in May 2020 and an independent non-executive director of China Power International Development Limited until his retirement in June 2021. Mr. Kwong graduated from The University of Hong Kong with a Bachelor's degree in social sciences in 1972 and is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants respectively. Mr. Kwong was a partner of an international big four accounting firm from 1984 to 1998 and an independent member of the Council of The Stock Exchange of Hong Kong Limited from 1992 to 1997, during which he had also acted as the convener of both the listing committee and the compliance committee of The Stock Exchange of Hong Kong Limited. He has over 40 years of experience in accounting and auditing.

Profile of Directors and Senior Management

The Directors' interests in shares and underlying shares of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as at 31 December 2021 which were required to be notified the Company and the Stock Exchange, are disclosed under in the section headed "Directors' Interests in Securities" of the Directors' Report.

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

Save as disclosed in the Directors' respective biographical details under "Profile of Directors and Senior Management" and other part in this annual report, the Directors (a) have not held any directorships in other listed public companies whether in Hong Kong or overseas in the past three years; (b) do not hold any other positions in the Company and its subsidiaries; and (c) do not have any other relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company as at 31 March 2022.

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

The Directors referred to under "Profile of Directors and Senior Management" (except Mr. Ma Jianhua, Mr. Feng Boming and Mr. Chen Dong) received the Directors' emoluments for the year 2021 which will be determined with reference to the prevailing market conditions, director's experience, qualifications and responsibilities involved in the Company. The details of the emoluments of the Directors for the year ended 31 December 2021 on a named basis are disclosed in note 25 to the financial statements.

SENIOR MANAGEMENT

Mr. Liu Xianghao

aged 49, has been the Deputy General Manager of the Company since April 2018. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Liu had been the deputy manager of Secretariat of Executive Division, the deputy manager of Secretarial Office of Executive Division, the deputy director and director of Executive Division, the director of Office of Board of Directors/General Manager's Office of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the deputy director and director of General Manager's Office, the director of Office of Board of Directors/General Manager's Office of China COSCO Holdings Company Limited and the executive director and managing director of the Company. Mr. Liu is familiar with the operation of listed companies and has extensive experience in auditing and corporate management. Mr. Liu obtained a Bachelor's degree in Economics from Nankai University and a Master's degree in Business Administration from China Europe International Business School, and is an accountant.

Profile of Directors and Senior Management

Mr. Wang Wei

aged 50, has been the Deputy General Manager of the Company since April 2018. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Wang had been the deputy manager of Executives Management Department of Organisation Division/Human Resources Division, the manager of Executives Management Department of Organisation Division/Human Resources Division and the deputy general manager of Organisation Division/Human Resources Division of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the deputy general manager of Organisation Division/Human Resources Division, general manager of Organisation Division/Human Resources Division of China COSCO Holdings Company Limited, the director of COSCO (Hong Kong) Group Limited, the director of COSCO Shipping Co., Ltd. and the non-executive director of COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited) and the non-executive director of the Company. Mr. Wang is familiar with the operation of listed companies and has extensive experience in human resources management. Mr. Wang graduated from Renmin University of China, major in Human Resources Management.

Mr. Zhou Liliang

aged 60, has been the Deputy General Manager of the Company since April 2018. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. He had been the deputy division chief of Safety Supervision Bureau of Ministry of Transport of the PRC; the vice consultant, the consultant of the General Office of Ministry of Transport of the PRC; deputy general manager of COSCO International Freight Co., Ltd; deputy general manager of COSCO Logistics Co., Ltd; general manager of COSCO West Asia FZE and general manager of COSRACO L.L.C.. Mr. Zhou has extensive experience in corporate management, strategic operation and logistics, also in transportation management and traffic infrastructure construction aspects. He obtained a Master's degree in Dalian Maritime University.

Mr. Wang Guorong

age 59, has been the Deputy General Manager of the Company since April 2020. He is also vice president of COSCO SHIPPING (Hong Kong) Co., Limited. Mr. Wang was the general manager of 天遠國際勞務合作公司 (Tianyuan International Cooperation Company), the general manager of ship management department of 中遠散貨運輸有限公司 (COSCO Bulk Carrier Co., Ltd.), the deputy general manager of 中遠散貨運輸有限公司 (COSCO Bulk Carrier Co., Ltd.) and the general manager of 中遠散貨運輸有限公司 (COSCO Bulk Carrier Co., Ltd.) and the chairman of COSCO SHIPPING (Tianjin) Co., Ltd.. Mr. Wang has extensive experience in the operation and management of bulk carrier, international shipping and corporate management. He holds an Executive Master degree of Business Administration (EMBA) of Nankai University and is a senior engineer.

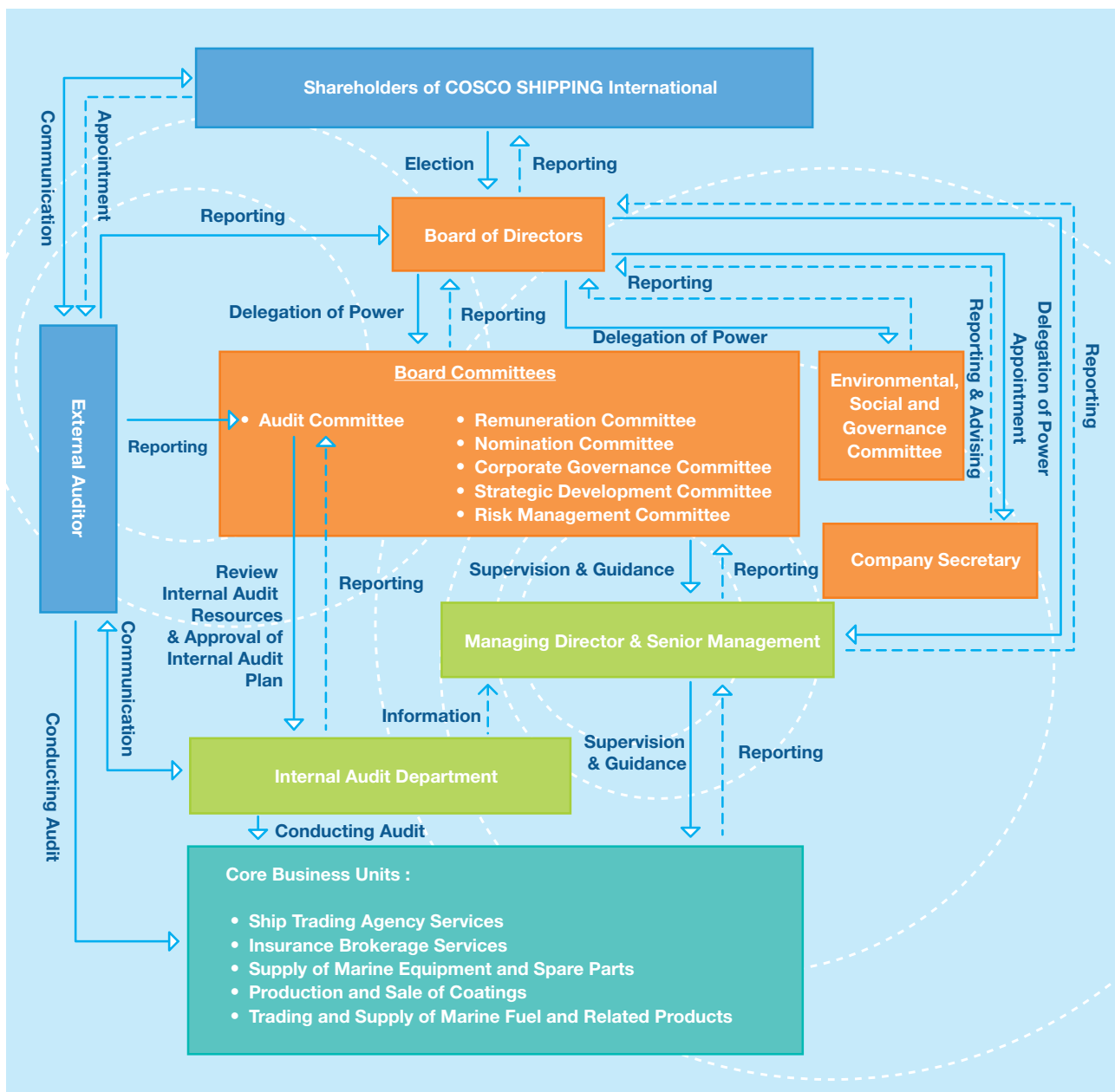
Ms. Chiu Shui Suet

aged 55, has been the Company Secretary of the Company since October 2005. She is also the secretary of six Board Committees of the Company and the company secretary of various subsidiaries of the Company. Ms. Chiu is in charge of corporate governance, legal, company secretarial, investor relations and related matters of the Company. Ms. Chiu obtained a Bachelor of Laws degree from the University of Wolverhampton in 1996 and completed her Postgraduate Certificate in Laws at the City University of Hong Kong in 1998. Ms. Chiu was admitted as a solicitor in Hong Kong in 2000. Besides being a member of the Law Society of Hong Kong, she is also a fellow of both The Chartered Governance Institute and The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries), holding Chartered Secretary and Chartered Governance Professional dual designations. Prior to joining the Company, Ms. Chiu had worked for various entities including accounting firms, legal firm and listed companies. She is well conversant with business law and company law and has extensive experience and solid knowledge in dealing with the company secretarial, corporate governance and legal matters for private and listed companies.

Corporate Governance Report

THE COMMITMENT AND COMPLIANCE OF THE COMPANY

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



Corporate Governance Report

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

The Company also maintains an employee management method providing guidance to employees on matters such as ethical standards, business conduct, employees conduct and reporting any misconduct within the Group. The employee management method applies to all employees of the Group who must ensure strict compliance with the policies therein. Through the establishment of a performance charter for the management and appropriate appraisal mechanisms, the Company has been able to align the interests of the management and all the staff with the growth and performance of the Company. The Company pays particular attention to the establishment of an optimal corporate culture. With the support of all staff, the Company has identified, formulated and implemented a corporate culture that is considered appropriate for its special circumstances, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Group. In addition to complying with applicable statutory requirements, the Company aims to continually review and enhance its corporate governance practices in light of local and international best practices. The Company had applied the principles and complied with the CG Code throughout the year ended 31 December 2021, except (a) (i) Mr. Feng Boming and Mr. Chen Dong, both the Non-executive Directors, were unable to attend the annual general meeting of the Company held on 28 May 2021 due to other business engagement; and (ii) Mr. Feng Boming, the Non-executive Director, was unable to attend the special general meeting of the Company held on 26 October 2021 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; and (b) the roles of Chairman and Managing Director are performed by the same

individual, Mr. Zhu Jianhui, which deviates from code provision A.2.1 of the CG Code. However, the Board believes that the roles of Chairman of the Board and Managing Director being performed by the same individual will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) all the Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among others, that he acts for the benefit and in the best interests of the Company; (ii) the balance of power and authority is ensured by the operations of the Board; and (iii) the overall strategic and other key business, financial and operational policies of the Company are made collectively after thorough discussion at both the Board and senior management of the Company, there is no other matter deviated from the CG Code. The Company will continue to review its corporate governance policies and compliance with the Listing Rules and will continue to comply with the relevant provisions as set out in the CG Code.

THE BOARD

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

Executive Directors are mainly responsible for the day-to-day operation and management of the Company. Non-executive Directors (including Independent Non-executive Directors) are well aware of their functions and have been actively performing their functions including but not limited to bringing an independent judgment at the Board meetings, taking the lead where potential conflicts of interests arise and scrutinising the Company's performance. Non-executive Directors and Independent Non-executive Directors have from time to time contributed to the Board their constructive and valuable advice on the development of the Company's strategy, in particular the internal controls of the Company. Besides, Independent Non-executive Directors serve as member of Board Committee(s), details of which are set out in the sub-section of "Board

Corporate Governance Report

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

During the year, the Chairman has a meeting with the Independent Non-executive Directors without the presence of other Directors. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters were openly discussed. In order to discharge the duties, all Directors are entitled to seek independent professional advice, if necessary, at the Company's expense and Directors and Officers Liability Insurance cover was arranged and subject to annual review. The overall management of the Company's business is vested in the Board. The Board is responsible for overseeing all major matters of the Company which include formulating and approving the Company's operational strategies, management policies, internal control and risk management systems, reviewing the Company's policies and practices on corporate governance, setting the objectives and targets with a view to enhance the Shareholders' value for the management, monitoring performance of the management and providing guidance to the management. The Directors have to make decisions objectively in the interests of the Company. The Board is accountable to the Shareholders, in a responsible and effective manner leading the Group.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management of the Company which include evaluating businesses and operational performance, ensuring effective implementation of the Board's decisions, ensuring adequate funding and monitoring performance of the management of the Group. The segregation of duties and responsibilities between the Board and the management is clearly defined in the internal guidelines of the Company. The senior management of the Company is being closely monitored by the Board through the Managing Director and is accountable for the performance of

the Company as measured against the business targets and management directions set by the Board. The Managing Director and the management of relevant subsidiaries and divisions of the Company closely communicated to review and discuss on operational and financial matters in order to enhance and strengthen internal communications and cooperation within the Group. The delegated functions and work tasks were periodically reviewed.

Remuneration of Directors

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

Nomination, Appointment and Re-election of Directors

The Company adopted the Director Appointment Policy (available on the Company's website) which provides framework and standards for the appointment of high calibre directors who should have the capacity and ability to lead the Company towards achieving sustainable development. The Nomination Committee is responsible for identifying and nominating suitable candidates for the Board's consideration. Pursuant to the bye-laws of the Company, any Director appointed to fill vacancy shall hold office until the next following general meeting or annual general meeting of the Company and shall then be eligible for re-election at that meeting, and every Director is subject to retirement by rotation at least once every three years and shall be eligible for re-election at such annual general meeting of the Company. Any further re-appointment of an Independent Non-executive Director, who has served the Board for more than nine years, will be subject to separate resolution to be approved by the Shareholders. In addition, Nomination Committee recommended the proposal of Directors' re-election in the 2022 annual general meeting of the Company. Mr. Zhu Jianhui, being the Executive Director, has entered into a letter of appointment with the Company on 29 May 2020 for a term commencing from 29 May 2020 to the conclusion of the 2022 annual general meeting of the Company. Mr. Ma Jianhua, being the Executive Director, has entered into a letter of appointment

Corporate Governance Report

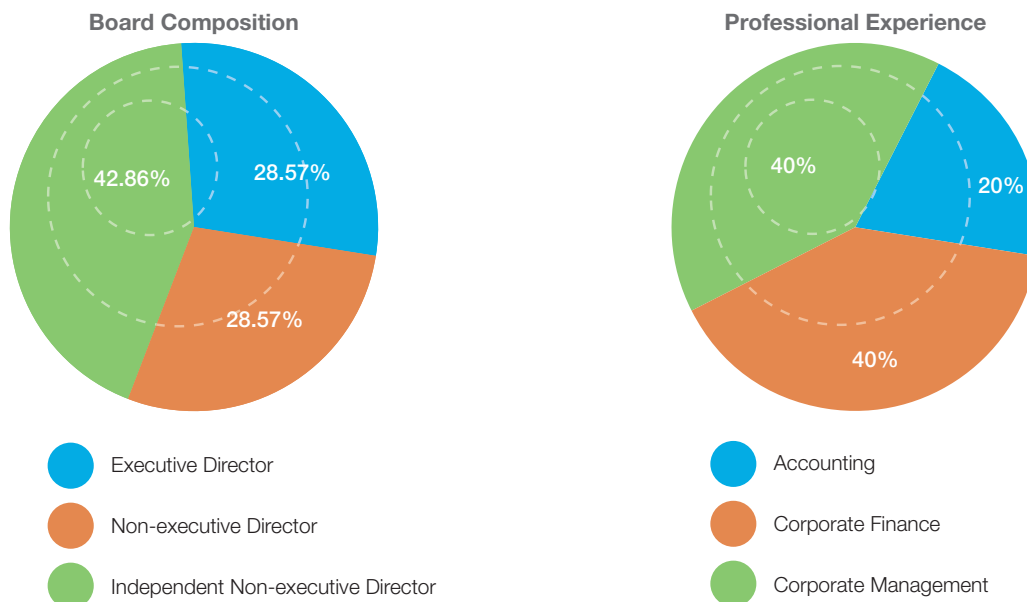
with the Company on 19 May 2020 for a term commencing from 19 May 2020 to the conclusion of the 2022 annual general meeting of the Company. Each of Mr. Feng Boming and Mr. Chen Dong, being the Non-executive Director, has entered into a letter of appointment with the Company on 29 May 2020 for a term commencing from 29 May 2020 to the conclusion of the 2022 annual general meeting of the Company. Each of Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X., being the Independent Non-executive Director, has entered into a letter of appointment with the Company on 29 May 2020 for a term commencing from 29 May 2020 to the conclusion of the 2022 annual general meeting of the Company. Mr. Kwong Che Keung, Gordon, being the Independent Non-executive Director, has entered into a letter of appointment with the Company on 9 July 2020 for a term commencing from 9 July 2020 to the conclusion of the 2022 annual general meeting of the Company. Each of the above letters of appointment is subject to termination by either

party giving one month's prior notice in writing or such other shorter notice period as may be agreed by both parties. In addition to the Independent Non-executive Directors and the Non-executive Directors, all Executive Directors were appointed for a specific term and letters of appointment setting out the key terms and conditions of appointment were entered into between the Company and each of the Directors, details of which are set out in the "Directors' Report" of this annual report.

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

Board Diversity

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



Corporate Governance Report

Induction and Continuous Professional Development

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

Directors' Responsibilities for Financial Reporting and Disclosures

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

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

The Directors acknowledged their responsibilities for preparing the financial statements of the Group. The Directors were not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern. The Company aimed to present a clear and balanced assessment of its financial position and prospects. The Board must ensure that the financial statements of the Group prepared to give a true and fair view of the financial status of the Group. Audited financial statements are published in accordance with the disclosure requirements under the Listing Rules. The reporting responsibilities of the Directors and the external auditor are further set out in the "Independent Auditor's Report" of this annual report. For other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements. The Company is committed to ensuring compliance with

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

Securities Transactions of Directors and Relevant Employees

The Company has adopted a Code of Conduct regarding Securities Transactions of Directors and Employees (the "Securities Code") (available on the Company's website) no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. In order to ensure Directors' dealings in the securities of the Company are conducted in accordance with the Model Code and the Securities Code, a committee was set up to deal with such transactions. The Company had made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Securities Code during the year of 2021, all Directors confirmed that they had complied with the required standards as set out in the Model Code and the Securities Code during the year.

Board Meetings

The Board met regularly and held four regular meetings in 2021. Notice of meeting was given to the Directors at least 14 days prior to each regular Board meeting. The Directors were invited to include any matters which they thought appropriate in the agenda. Agenda and board papers with adequate information were sent to all Directors at least 3 days before the meeting in order to ensure that they had sufficient time to review the board papers and prepare for the meeting. At each regular Board meeting, the Directors were properly briefed on the Company's current situation and issues arising at such meeting. Executive Director(s) and/or chairman of Board Committees and/or the senior management of the Company reported to the Board on various aspects, including the business performance, financial performance, corporate governance, risk management and internal control as appropriate, etc.. Queries raised by the Directors were responded promptly by the senior management

Corporate Governance Report

of the Company. Directors were encouraged to make an active contribution to the Board's affairs and express their views and concerns. Sufficient time was allowed for the Directors to discuss matters about which they were concerned. For Director who was unable to attend the regular Board meeting, he was properly briefed the matters to be discussed in advance and his view expressed prior to the meeting was reported to the Board.

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

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

	Annual General Meeting	Special General Meeting	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	Strategic Development Committee Meeting	Risk Management Committee Meeting
Executive Directors									
Mr. Zhu Jianhui	1/1	1/1	4/4	N/A	4/4	1/1	2/2	2/2	1/1
Mr. Ma Jianhua	1/1	1/1	4/4	N/A	N/A	N/A	N/A	2/2	1/1
Non-executive Directors									
Mr. Feng Boming	0/1	0/1	3/4	N/A	N/A	N/A	N/A	2/2	N/A
Mr. Chen Dong	0/1	1/1	0/4	N/A	N/A	N/A	N/A	N/A	1/1
Independent Non-Executive Directors									
Mr. Tsui Yiu Wa, Alec	1/1	1/1	4/4	3/3	4/4	1/1	2/2	N/A	N/A
Mr. Jiang, Simon X.	1/1	1/1	4/4	3/3	4/4	1/1	2/2	N/A	N/A
Mr. Kwong Che Keung, Gordon	1/1	1/1	4/4	3/3	4/4	1/1	2/2	N/A	N/A

Board Committees

The Board delegates its power and authorities from time to time to the Board Committees in order to ensure the operational efficiency and specific issues are being handled by relevant expert. The Board currently has six Board Committees, namely, Audit Committee, Remuneration Committee, Nomination Committee, Corporate Governance Committee, Strategic Development Committee and Risk Management Committee with respective terms of reference which clearly defined its authorities and duties. The terms of reference of Audit Committee, Remuneration Committee and Nomination Committee are available on the website of the Stock Exchange

and the Company respectively and the terms of reference of Corporate Governance Committee, Strategic Development Committee and Risk Management Committee are available on the website of the Company. The chairmen of the Board Committees report regularly to the Board of their work, findings and recommendations. All Board Committees are provided with accurate and sufficient information in timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties and may have access to external professional advice, if necessary, at the Company's expense.

Corporate Governance Report

(a) Audit Committee

Members Three Independent Non-executive Directors, namely, Mr. Kwong Che Keung, Gordon (committee chairman), Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X..

Major responsibilities

- reviewing the accounting policies and supervising the Company's financial reporting process;
- monitoring the performance of both the internal and external auditors;
- monitoring the effectiveness of the financial reporting, risk management and internal control systems;
- ensuring compliance with applicable statutory accounting and reporting requirements;
- reviewing the financial information of the Company; and
- acting as the key representative body responsible to oversee the relationship between the Company and the external auditor, include the relationships involving the provision of non-audit services.

Major work performed during the year 2021

- reviewing and making recommendations for the Board's approval on 2020 annual results announcement, the audited consolidated financial statements for the year ended 31 December 2020, 2021 interim results announcement, interim report 2021 and the unaudited condensed consolidated financial information for the six months ended 30 June 2021;
- reviewing the report of external auditor;
- reviewing the continuing connected transactions of the Group for the year ended 31 December 2020 and for the six months ended 30 June 2021 respectively;
- reviewing the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2020;
- reviewing the compliance of code of conduct self-evaluation report of the Group for the year ended 31 December 2020;
- making recommendations to the Board, subject to the Shareholders' approval at the 2021 annual general meeting, the re-appointment of PricewaterhouseCoopers as the external auditor of the Company;
- reviewing the internal audit work and approve the internal audit planning for the year 2022 and external audit plan for the year ended 31 December 2021; and
- reviewing the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting function, and their training programmes and budget.

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

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

Corporate Governance Report

(b) Remuneration Committee

Members Three Independent Non-executive Directors, namely, Mr. Jiang, Simon X. (committee chairman), Mr. Tsui Yiu Wa, Alec and Mr. Kwong Che Keung, Gordon; and an Executive Director, namely, Mr. Zhu Jianhui.

Major responsibilities — making recommendations to the Board on the policy for the remuneration of the Directors and senior management of the Company;

— ensuring the remuneration offered to the Directors and senior management of the Company is appropriate for the duties and in line with market practice;

— determining the remuneration packages of individual Executive Directors and senior management of the Company with delegated responsibility by the Board; and

— making recommendations to the Board on the remuneration of Non-executive Directors.

Major work performed during the year 2021 — reviewing and approving the adjustment of the annual salary of Mr. Zhu Jianhui, the Executive Director, Managing Director and Chairman of the Company;

— reviewing and making the recommendation to the Board on the grant of share options;

— reviewing and making recommendations to the Board on the Directors' fees of Independent Non-executive Directors for the year 2021; and

— reviewing the remuneration report of the Group including determining the salary package for senior management of the Company.

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

(c) Nomination Committee

Members Three Independent Non-executive Directors, namely, Mr. Tsui Yiu Wa, Alec (committee chairman), Mr. Jiang, Simon X. and Mr. Kwong Che Keung, Gordon; and an Executive Director, namely, Mr. Zhu Jianhui.

Major responsibilities — reviewing the structure, size and composition of the Board;

— making recommendations to the Board on the appointment and succession planning for the Directors;

— assessing the independence of Independent Non-executive Directors;

— monitoring the annual checks and assessment on the members of the Board, including the suitability and the sufficiency of time commitment of Non-executive Directors; and

— monitoring and reviewing the implementation of the Board Diversity Policy.

Major work performed during the year 2021 — conducting a review of the Board diversity, assessing the independence of Independent Non-executive Directors and the contributions of the Board members and recommending the submission of the proposal on Directors' re-election at the annual general meeting of 2022; and

— reviewing the consultation conclusions regarding review of CG code and the related Listing Rules.

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

Corporate Governance Report

(d) Corporate Governance Committee

Members An Executive Director, namely, Mr. Zhu Jianhui (committee chairman); and three Independent Non-executive Directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Kwong Che Keung, Gordon.

Major responsibilities — formulating and reviewing the Company's policies and practices on corporate governance;
— reviewing and monitoring the training and continuous professional development of Directors and/or senior management of the Company; and
— reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the annual report.

Major work performed during the year 2021 — reviewing the continuous professional development of Directors, the Company's compliance status of the CG Code for the year ended 31 December 2020 and the disclosure of the corporate governance report in the annual report of 2020; and
— reviewing the Company's compliance status of the CG Code for the six months ended 30 June 2021.

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

(e) Strategic Development Committee

Members Two Executive Directors, namely, Mr. Zhu Jianhui (committee chairman) and Mr. Ma Jianhua; and a Non-executive Director, namely Mr. Feng Boming.

Major responsibilities — reviewing the annual strategic development plan of the Company and monitoring the implementation of strategies;
— reviewing the major investment projects and financing proposals;
— reviewing the major capital deployment and project on operation of assets;
— reviewing the strategic direction of the Company's business and operational management; and
— reviewing and evaluating the project evaluation system(s).

Major work performed during the year 2021 — reviewing and discussing the report on the implementation of strategic development plan for the year 2020 and the strategic development plan for 2021; and
— to approve the subscription of 48% equity interests of Zhejiang Four Brothers Rope Co., Ltd. by capital injection.

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

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(f) Risk Management Committee

Members Two Executive Directors, namely, Mr. Zhu Jianhui (committee chairman) and Mr. Ma Jianhua; and a Non-executive Director, namely, Mr. Chen Dong.

Major responsibilities — monitoring the risk management framework to identify and deal with risks faced by the Group (including operational, regulatory and financial risks etc.);
— reviewing and assessing the Group's risk management framework; and
— monitoring the implementation of risk control.

Major work performed during the year 2021 — reviewing the risk management assessment report of 2021 in relation to the analysis on risks identified, improvement of internal control and risk management system and the risk management plan for 2022.

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

Other Committee

In addition to the above-mentioned board committees, the Company has set up an Environmental, Social and Governance Committee (the "ESG Committee") on 28 May 2021 with respective terms of reference which clearly defined its authority and duties. The Board has delegated its ESG function to the ESG Committee. The terms of reference of ESG Committee is also available on the website of the Company.

Members An Executive Director, Mr. Ma Jianhua (committee chairman), Mr. Wang Guorong, a Deputy General Manager of the Company, and a representative of each of Shipping Services Division, Executive Division, Strategy Development Division, Human Resources Division and Public Relations Division.

Major responsibilities — assisting the Board to identify, evaluate and manage the Company's risk, opportunities and major issues in relation to ESG aspects;
— monitoring the implementation and effectiveness of ESG policies and practices of the Company in compliance with legal and regulatory requirements; and
— organising the preparation of the ESG report annually together with reporting and making recommendations to the Board.

Major work performed during the year 2021 — approving the ESG 10-year emission reduction targets plan.

During the year, the ESG Committee met once with major work performed mentioned above. All committee members attended the aforesaid committee meeting.

Corporate Governance Report

INTERNAL CONTROL AND RISK MANAGEMENT

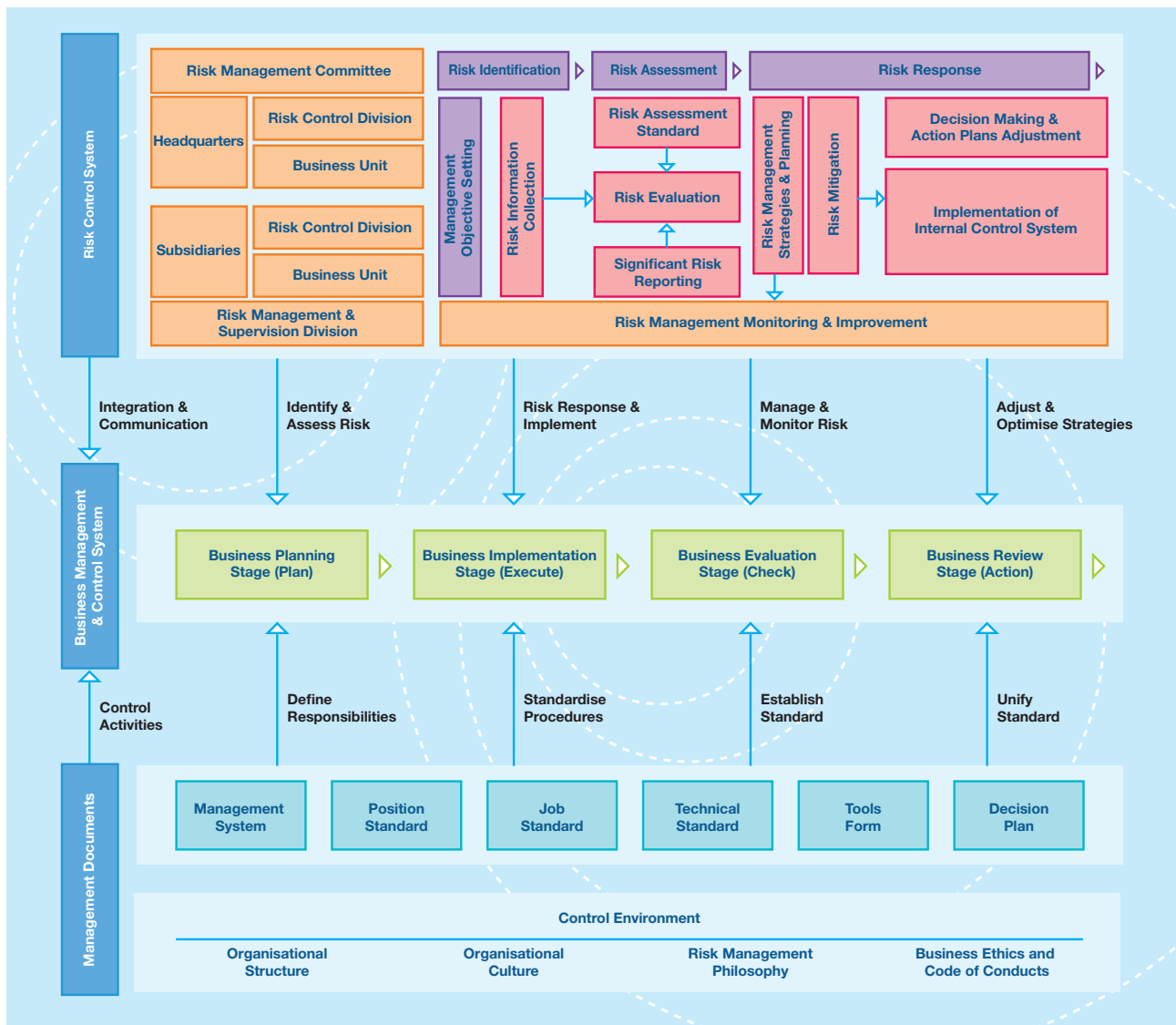
Responsibility

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

Framework and Approach

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

Risk Management Framework of the Group



Corporate Governance Report

Control Environment

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

Control Activities

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

- the design of an organisational structure with defined lines of responsibility and delegation of authority;
- the setup and adherence of authorisation and approval limits of the Company and each business unit;
- the establishment of policies and procedures to support deployment of management's directives;
- the systems and procedures to identify and mitigate risks on an ongoing basis; and
- the application of Enterprise Resource Planning (ERP) systems and other relevant information technology (e.g. customers compliance risk management system) in business processes to strengthen internal controls and promote internal efficiency.

In addition, the Information Management Method regulates the information management of the Company and ensures inside information being properly disseminated and timely disclosed. With respect to procedures and internal control measures for the handling and dissemination of inside information, the Company informs all directors, senior management and related staff of the latest regulations and requirements according to the letters issued or announcements published by the Securities and Futures Commission and the Stock Exchange, and has developed procedures and mechanisms to evaluate whether disclosure of the inside information is required.

Risk Management Process

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

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

Major Operational Risk Factors and Measures

The annual risk assessment is performed by means of survey, questionnaire and interview that are conducted by core divisions and business units. The questionnaire includes the assessment of two aspects regarding possibility and impact of specific risks on the company's risk register. In 2021, according to the Company's risk assessment, the identified top five risks were economic fluctuation risk, raw material price fluctuation risk, selling price fluctuation risk, receivable risk and industrial prospects estimates risk.

For economic fluctuation risk, as a result of the significant changes in the domestic and international political, economic and social environment, in addition to the high dependence of the Company's business on the macroeconomic environment, the increase in uncertainties in its future business development

Corporate Governance Report

and strategy implementation likely adversely affected the Company's performance and financial position. The Company and its subsidiaries took a more cautious wait and see approach to policies and markets, and adhered to its strategy of steady development and sustainable operation.

For raw material price fluctuation risk, overall profitability of the Company was affected by market price fluctuation, the rising raw material supply prices, higher production costs, and the greater difficulty in cost sharing along the supply chain. The business departments tracked and prompted the important information in the raw material market in a timely manner, and the subsidiaries paid attention to the activities of key industries and their upstream industries, expanded raw material supply channels, improved the certainty and bargaining power in supply, and strictly controlled the procurement progress and inventory exposure.

For selling price fluctuation risk, market uncertainty triggered price fluctuation with slowdown in demand growth. Major competitors might reduce their prices to serve promotional purposes, thereby causing vicious price competition in the industry, and affecting the overall profitability. Each business unit timely recognized the market competition environment and the business activities of competitors or potential competitors, reviewed and analyzed its own products and its operating strategies, established its overall suitable competition plans, continuously strived for excellence within and outside the COSCO SHIPPING Group, actively maintained quality customers, and reduced management costs, thus laying a good foundation for sustainable and healthy development and coping with the selling price fluctuation risk.

For receivable risk, customers had greater difficulty in payment as a result of changes in domestic and international macroeconomic policies, and receivables were not recovered on a timely basis due to the transactions exposed to risks of receivables not properly covered with means of recovery. The Company attached great importance to and refined its accounts receivable management processes and methods, in order to prevent business risks and customer credit risks. The new Customer Credit and Accounts Receivable Front-end Management Measures provided that units at all levels should strengthen control at source, make flexible assessment, and ensure accountability.

For industrial prospects estimates risk, the Company might fail to accurately forecast the industrial prospects due to cycle,

growth, industrial relevance, market concentration, macroeconomic policies and other risks. The management analyzed and forecasts the industry prospects from the perspectives of cyclical risks, industrial risks and market risks, adjusted the Company's strategy in a timely manner, and enhanced its ability to resist risks. Each subsidiary actively adjusted its business development directions and models and expanded new businesses according to the prospects estimates.

Internal Audit and Control Effectiveness

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

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

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

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

Corporate Governance Report

assignment were reported to and reviewed by the Audit Committee.

The Audit Committee reviews the internal audit work conducted by the Audit & Supervision Division which includes the review of effectiveness of the Group's risk management and internal control systems covering all material controls, including financial, operational and compliance controls every year. During the year, such exercise has been conducted. The Audit Committee considered that the risk management and internal control systems of the Group were effective and adequate and its opinion was endorsed by the Board. In addition, the chairman of Audit Committee would report to the Board on any key findings at least twice a year. However, the system aims to manage but not eliminate the risks relating to failure to achieve business objectives, and the Board will only give reasonable but not absolute assurance against material misstatement or loss. During the year, no significant areas of concern which might affect the Shareholders were identified.

EXTERNAL AUDITOR

During the year, the remuneration paid or payable to the Company's external auditor, PricewaterhouseCoopers, in respect of audit and non-audit services provided to the Group were approximately HK\$2,886,000 and HK\$1,388,000 respectively. These amounts excluded remuneration paid or payable to other external auditors of subsidiaries of the Company which were included in Auditors' remuneration disclosed in note 23 to the financial statements.

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

COMPANY SECRETARY

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

updating Directors on the latest developments and changes to the Listing Rules and the applicable regulatory requirements.

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

COMMUNICATION WITH SHAREHOLDERS

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

The Board believes that the general meetings provide an opportunity for communication between the Shareholders and the Board members. During the year, an annual general meeting of the Company was held on 28 May 2021 (the "2021 AGM"). Shareholders were given at least 20 clear business days' notice of the 2021 AGM. Besides, a special general meeting of the Company was held on 26 October 2021 (the "2021 SGM"). Shareholders were given at least 10 business days' notice of the 2021 SGM. The Chairman and the chairmen of relevant committees attended the 2021 AGM. The representative from PricewaterhouseCoopers, the external auditor of the Company attended the 2021 AGM to answer questions if necessary about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence. The representatives of the independent financial adviser and the legal adviser attended the 2021 SGM to answer questions if necessary about the Supplemental Agreement and revision of the annual caps for the respective financial year ending 31 December 2021 and 2022 in relation to the continuing connected transactions contemplated under the Master Supply Agreement (as amended by the Supplemental Agreement). Q&A sessions had been provided to the Shareholders to raise their concern at the 2021 AGM and the 2021 SGM respectively. The chairman of each of the 2021 AGM and the 2021 SGM explained the detailed procedures for conducting a poll at such meetings. At the 2021 AGM, separate resolution for each substantially separate issue was proposed in order to avoid bundling resolutions. The poll voting results of the 2021 AGM and the 2021 SGM were published on the websites of the Stock Exchange and the Company on the same day after the meeting.

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Shareholders' Rights

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

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

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

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

Shareholders' Enquiries

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

Procedures for Shareholders to make proposals at general meeting

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

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

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

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

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CONSTITUTIONAL DOCUMENTS

There was no change to the memorandum of association and bye-laws of the Company during the year ended 31 December 2021.

INFORMATION DISCLOSURE

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

By order of the Board

CHIU Shui Suet

Company Secretary

Hong Kong, 25 March 2022

Investor Relations

INVESTOR RELATIONS MANAGEMENT STRATEGY

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

The Company attaches great importance to prompt communication with all participants in the capital market. We communicate timely and comprehensively with wide-ranging investors through diversified communication channels. Besides answering enquiries and concerns from investors promptly as a daily routine, the Company proactively initiates regular activities, including roadshows, press conference, investor conference, meetings with fund managers, media gathering, etc..

COMPREHENSIVE INVESTOR RELATIONS MAINTENANCE

In 2021, major economies across the world launched various financial and monetary easing policies to tackle the shock caused by the pandemic to the economy. The capital market regained confidence, in particular the United States stock market has the best performance and reached new highs in an everlasting manner. However, Hong Kong was still suffering from the pandemic and other events, resulting in underperformance in Hong Kong's stock market.

Stepping into 2022, under the expectation of high inflation, geopolitical instability, interest rate hike and monetary tightening, the market enters a risk-off phase, as volatility in stocks, bonds and commodity markets surges. Adhering to excellent corporate governance and investor communications strategies, the Company is committed to responding promptly to investors' enquiries, to ensure investors' full understanding of the Company's operations and strategic direction, and actively promote our corporate culture which places emphasis on shareholders returns, as well as the investment value and prospects of COSCO SHIPPING International to the potential investors.

The Company performs regular analysis of shareholders structure, measuring the shareholding distribution between institutional and retail shareholders as well as their investment orientations and origins and closely monitoring the changes of their equity interests, in order to identify the Company's position in the capital market and facilitate daily maintenance of investor relations management. According to the Bloomberg Terminal, as at the end of 2021, the top 10 institutional shareholders' shareholding in COSCO SHIPPING International accounted for 2.43% (as at the end of 2020: 2.07%) of the total issued share capital of the Company. These institutional shareholders are based in Hong Kong, the United States, Singapore, Malaysia and Europe, all of which focus on long-term value investing and are large investment institutions with high reputation in the industry.

DIVERSIFIED, REAL-TIME AND TRANSPARENT COMMUNICATION CHANNELS

COSCO SHIPPING International is committed to maintaining high standards of corporate governance and transparency through applying high standards of disclosure all along and releasing corporate information timely and accurately. Among which, the annual report is one of important channels for shareholders and investors to understand the development of the Company. By upholding the principles of easy-to-read, complement the corporate culture and economical, the Company spares no effort in preparing its annual report, which allows investors to understand our corporate structure, business scopes, key figures and messages at a glance. As time progresses, the Company adheres to a diversified and real-time communications culture to allow the capital market to have immediate access to the latest updates of the Company through comprehensive channels, including the Company's website, WeChat, corporate periodicals, etc.. Since 2014, in advance of the regulatory requirements, the Company has included Environmental, Social and Governance Report in its annual reports, with an aim to further enhance the transparency of the Company and be responsible to all of our stakeholders.

KEY CONCERNS BY SHAREHOLDERS AND INVESTORS IN 2021

- Core business — The performance of the five segments of shipping service
- The radiating effect of the Company's performance that drove by the robust shipping industry
- The impacts of expectation in high inflation and increase in the raw material price to the business of the Company
- The utilisation plan of the large sum of idle cash on hand and potential investment direction
- The possibility of a higher dividend payout ratio and share repurchase

SHARE PRICE PERFORMANCE

On the last trading day of 2021, the closing share price of COSCO SHIPPING International was HK\$2.38 (2020: HK\$2.37) per share. The number of shares in issue of COSCO SHIPPING International was 1,532,955,429 shares (2020: 1,532,955,429 shares). The market capitalisation of the Company was HK\$3,648,434,000 (2020: HK\$3,633,104,000). During the year, the highest share price was HK\$2.65 and the lowest share price was HK\$2.045. The daily average trading volume and daily average trading turnover were 587,000 shares (2020: 1,421,000 shares) and HK\$1,506,000 (2020: HK\$3,254,000), respectively.

DIVIDEND POLICY

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

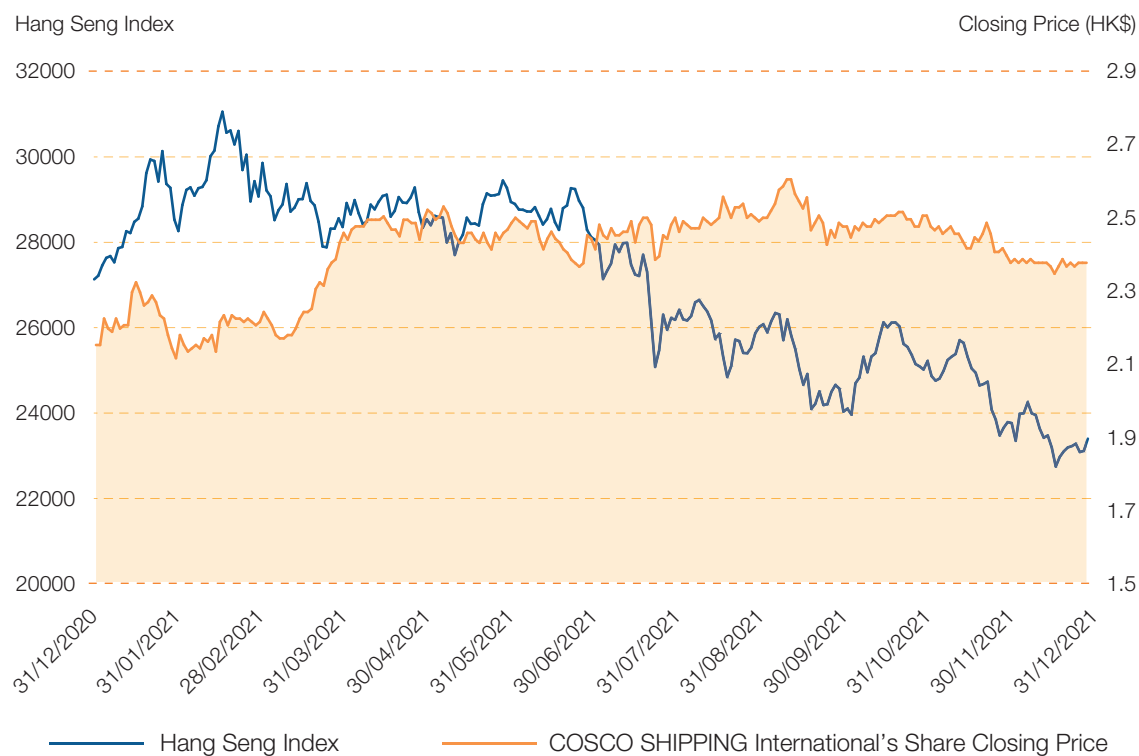
EARNINGS PER SHARE AND DIVIDENDS PER SHARE

The basic and diluted earnings per share of the Company for 2021 were 18.81 HK cents (2020: 22.08 HK cents). The Board proposed the 2021 final dividend of 9 HK cents (2020: 15.5 HK cents) per share. Together with the interim dividend of 10 HK cents (2020: 6.5 HK cents) per share paid, annual dividends per share for 2021 were 19 HK cents (2020: 22 HK cents).

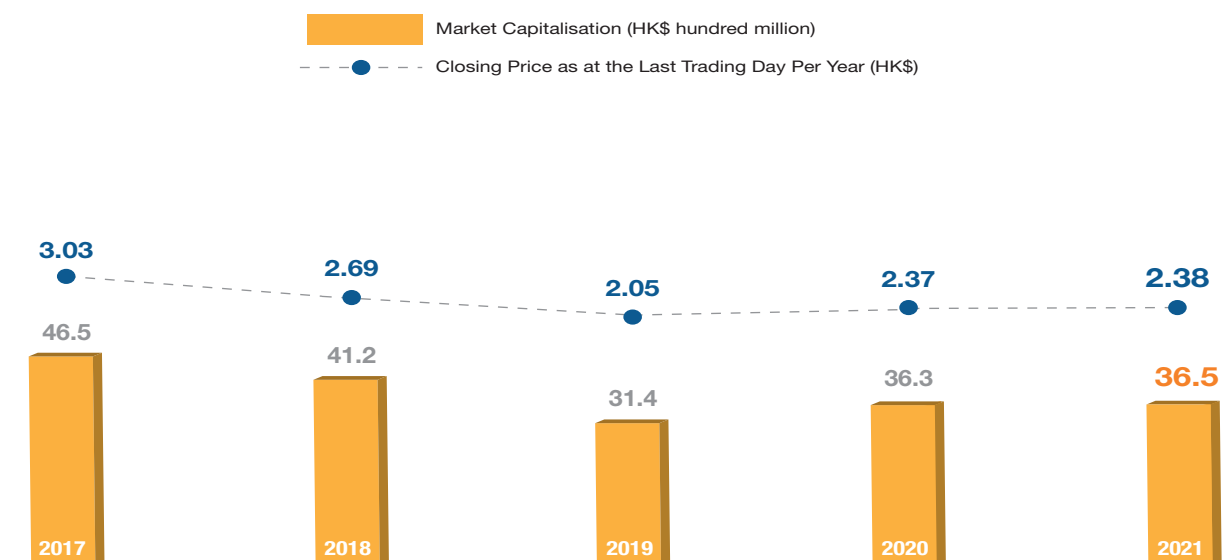
The annual dividend payout ratio of 2021 was approximately 101% (2020: 99.6%).

Investor Relations

COSCO SHIPPING INTERNATIONAL'S SHARE PRICE PERFORMANCE VS HANG SENG INDEX IN 2021



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



A GLANCE AT FIVE-YEAR FINANCIAL STATISTICS

For the year ended and as at 31 December	2017	2018	2019	2020	2021
Total number of shares issued (million)	1,533	1,533	1,533	1,533	1,533
Closing price ^{Note 1} (HK\$)	3.03	2.69	2.05	2.37	2.38
Market capitalisation ^{Note 1} (HK\$ hundred million)	46.5	41.2	31.4	36.3	36.5
Basic earnings per share (HK cents)	23.26	18.67	21.57	22.08	18.81
Price/earnings ratio ^{Note 1} (times)	13.0	14.4	9.5	10.7	12.7
Dividends per share (HK cents)	18.0	14.0	16.5	22.0	19.0
Dividend payout ratio ^{Note 2} (%)	77	75	76	99.6	101
Net assets value per share (HK\$)	5.16	5.12	5.17	5.29	5.26
Return on total assets (%)	3.8	3.0	3.6	3.5	2.9
Return on shareholders' equity (%)	4.6	3.6	4.2	4.2	3.6
Cash-to-shareholders' equity ratio (%)	82	81	80	80	77
Current ratio (times)	6.4	7.8	7.5	6.0	6.5
Liquidity ratio (times)	6.1	7.5	7.2	5.7	6.2
Interest coverage (times)	85.7	103.2	97.6	83.0	48.6

Notes:

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



Environmental, Social and Governance Report

1. ABOUT THIS REPORT

This report presents the contents of the environmental, social and governance (“ESG”) as well as our sustainable development, activities, achievements and performance of COSCO SHIPPING International and its subsidiaries (the “Group”) and the joint venture, Jotun COSCO, aiming to address the expectations of its stakeholders.

a. Reporting Period and Boundary

The Report covers the period from 1 January to 31 December 2021 (the “reporting period”). It covers the sustainability performance and measures of our key business segments, including ship trading agency, insurance brokerage, supply of marine equipment and spare parts, production and sale of coatings, and trading of other related shipping products and services. The general disclosure in this report reflects the ESG related strategies, policies objectives, management approach and initiatives adopted by the Group, unless otherwise specified, and the key performance indicators (“KPIs”) cover all subsidiaries of the Group, and are presented in aggregate figures. Meanwhile, even though the environmental and social figures of our joint venture Jotun COSCO are not consolidated, its relevant ESG initiatives are also included in this report. Overall, the reporting boundary remains the same as the prior year.

b. Reporting Standards and Principles

This report is prepared in accordance with the “mandatory disclosure requirements” and adhere to the “comply or explain” provisions outlined in the Environmental, Social and Governance Reporting Guide (the “ESG Guide”) under Appendix 27 of the Listing Rules issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), as well as the principles of materiality, quantitative, balance and consistency, taking into consideration the impacts on stakeholders and disclosure level of related issues.

As a responsible corporate social citizen, we continuously enhance our sustainable operating environment and practices with an aim to enhance long-term shareholder returns and striving to contribute the communities where we operate.

2. PHILOSOPHY AND POLICIES OF CORPORATE ENVIRONMENTAL, SOCIAL AND GOVERNANCE MANAGEMENT

2.1 Sustainability Vision

Sustainability is embedded in our business model and day-to-day operations. We are aware of the challenges facing in our industry and understand the demands from the stakeholders we serve. We endeavor to capture the opportunity created by sustainability transformation by revisiting our strategy and operations to be more aligned with our vision.

As the COSCO Kansai Companies accounted for more than 90% of the Group’s energy consumption, we have formulated the following sustainability-related targets for the COSCO Kansai Companies and aimed to achieve these targets by 2030, measuring against a 2020 baseline:

- Reduce greenhouse gas (“GHG”) emission (scope 1 and scope 2) by 10%;
- Reduce Volatile Organic Compounds (“VOCs”) and Benzene emission by 5%; and
- Reduce energy consumption by 10%.

To achieve the above targets, the COSCO Kansai Companies have gradually increased the portion water-based coatings used in production to more than 50% in the past 3 years to reduce the overall VOCs emissions. The Group will continuously track and monitor its energy consumption and relevant emissions against the above sustainability-related targets and find ways to improve overall cost and production efficiency.





Environmental, Social and Governance Report

2.2 Environmental, Social and Governance Structure

The Group keeps abreast of the rising expectations on corporate sustainable development with respect to the latest ESG Guide issued by the Stock Exchange which puts great emphasis on the Board of Directors (the “Board”) involvement in the governance of ESG issues. We continue to remain anchored with the Group’s environmental and social commitments and defined clear responsibilities for the Board and the governance structure amongst the Group, laying a solid foundation for our sustainable development.

2.3 Board Statement

The Board acknowledges the significance of effective sustainability practices and actively integrating ESG stems in its key business decisions. The Board is ultimately responsible for our ESG strategy and reporting and oversee our management approach and strategy to monitor ESG issues. During the reporting period, an environmental, social and governance committee (the “ESG Committee”) was established to assist the Board in overseeing the Group’s ESG-related strategies, policies and development plans. The ESG Committee comprising an Executive Director, a Deputy General Manager and a representative from each of Shipping Services Division, Executive Division, Strategy Development Division, Human Resources Division and Public Relations Division.


Currently, the ESG Committee meets at least once a year and whenever necessary to identify and address ESG related opportunities, topics and risks. The Group’s ESG vision, strategies and targets will be formulated by the ESG committee to navigate the Group’s direction in ESG contribution and evaluate the performance. Under the ever-changing regulatory environment, the ESG Committee is held accountable for the coordination of preparing ESG reports and monitoring the Group’s compliance to relevant laws and regulations. Every year, the ESG Committee reports to the Board on its work, progress and/or recommendations on ESG-related matters.

2.4 Environmental, Social and Governance Management Approach

To boost the sustainable development of the Group, various ESG factors are taken into account when formulating different strategies of the Group. Considering the Group’s diversified business operations, our policies are tailor-made to better suit the business models of subsidiaries and the ESG risk assessments are conducted separately. As the business environment is rapidly changing, we continue to enhance our policies to ensure its suitability by reviewing our management approach and keeping abreast of the latest market trends and industry development, as well as the regulatory requirements.

To address the surging concerns on environmental protection of the public and tightening regulations, the respective subsidiaries of the Group has formulated their own environmental policies in compliance with the Environmental Management System Certification’s management measures from International Organisation for Standardisation (“ISO”). Apart from having accreditation from recognised bodies, we are committed to minimising the environmental impacts brought by our operations. We continue to invest and upgrade our equipment to reduce our emission of VOCs. Jotun COSCO, has formulated “One Factory One Policy” (“一廠一策”) that outlines the emergency procedures on tackling air pollutions in response to the regional contingency plan of Qingdao.

To address the concern in social perspective, we are dedicated to promoting occupational health and safety (“OHS”) and product quality in our operations, aiming to uphold the highest OHS and quality standards. We have continued our accreditations of Quality Management System Certification (ISO9001), Environmental and Energy Management System Certification (ISO14001) and Occupational Health and Safety Management Systems Certification (ISO45001:2018).



Having an extensive network of subsidiaries, the Group strives to enhance its internal coordination in order to foster its sustainable development. Every year, subsidiaries are required to submit their annual quantitative performance figures and highlights of their management approach, practices and initiatives to the headquarters, while the Group continues its strategic role to formulate the business development and sustainability plan. To foster efficiency, the status of strategy implementations and other ESG-related matters are closely monitored and reported.

Environmental, Social and Governance Report

3. DETERMINING MATERIALITY



3.1 Stakeholder Engagement

We hold a strong belief that stakeholders' opinions are the key to our future success. We value opinions from our stakeholder groups that have impacts and/or are potentially impacted by our operations as well as those external organisations that have expertise in aspects that we consider material. We engage with them through a variety of channels and collect their feedbacks and opinions on a regular basis. These opinions are crucial for our regular review, and the formulation of strategies and plans for our business and sustainable development.

Communication channels corresponding to the identified stakeholders at our daily operations are summarised as follow:

Stakeholder groups	Communication channels	Purposes	Frequency
Government authorities	<ul style="list-style-type: none"> • Questionnaires • Meetings • Site visits • Information submission 	<ul style="list-style-type: none"> • Compliant operation • Governance on the environmental management • Social aids • Tax compliance 	<ul style="list-style-type: none"> • Irregular
Shareholders and investors	<ul style="list-style-type: none"> • Post-results roadshows • Company visits • Investment Summits • Telephone conferences, emails, WeChat, etc. 	<ul style="list-style-type: none"> • To communicate and report the Company's latest developments and future directions 	<ul style="list-style-type: none"> • Semi-annual/annual • Real-time communication such as meetings, calls and emails
Employees	<ul style="list-style-type: none"> • Training and educational activities • Employee satisfaction survey • Annual staff meeting • Work meetings 	<ul style="list-style-type: none"> • Reduce employee turnover • Enhance occupational safety and health awareness 	<ul style="list-style-type: none"> • Annual • Weekly meetings, or monthly, quarterly or annual work summary
Business partners, customers and suppliers	<ul style="list-style-type: none"> • Company visits • Telephone conferences, emails and other electronic means • Social media • Inspection and evaluation 	<ul style="list-style-type: none"> • Maintain stable and efficient supply chain management 	<ul style="list-style-type: none"> • Semi-annual/annual • Irregular meetings
Local communities and Non-Government Organisations ("NGOs")	<ul style="list-style-type: none"> • Community projects • Collaborative projects 	<ul style="list-style-type: none"> • Create Social benefits 	<ul style="list-style-type: none"> • Annual



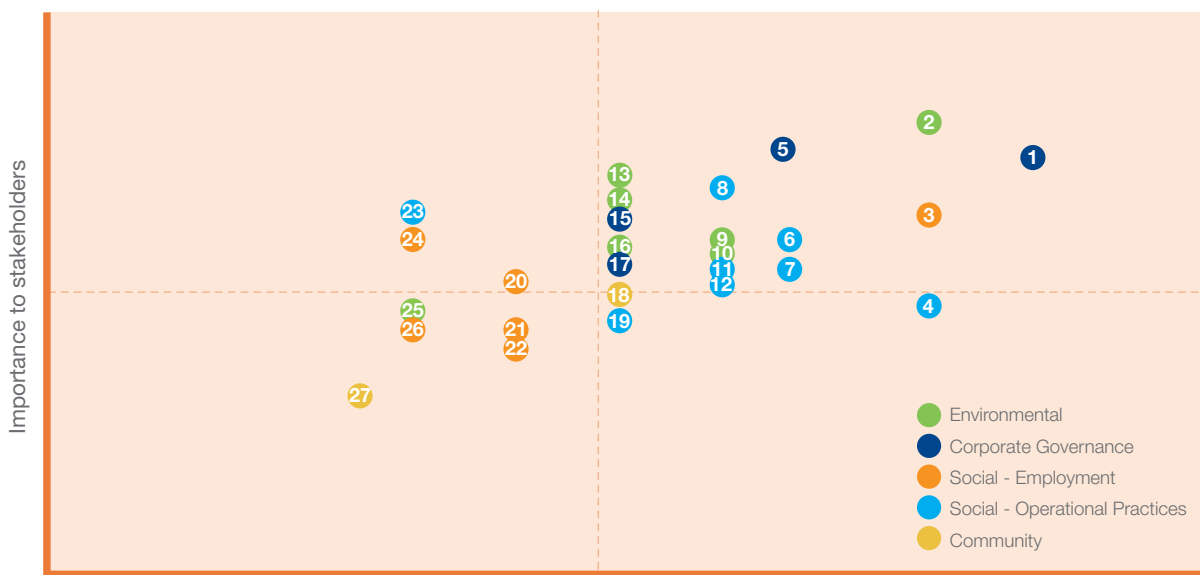
Environmental, Social and Governance Report

3.2 Materiality Assessment

We have reviewed our ESG material issues based on previous external professional consultancy results. With the stable diverse business nature and the continuing existence of COVID-19 pandemic, our materiality assessment has been prolonged and remains unchanged for this reporting period. Through this stakeholder engagement exercise, we have identified 27 ESG material topics, covering corporate governance, environmental, employment, operational practices and community welfare. These ESG material topics reflect the latest development of our ESG considerations in conducting our business, and were taken into thorough consideration for the preparation and compilation of this report.

The following materiality matrix summarises the ESG material issues that are relevant to us.

2021 Materiality Matrix of ESG Topics of COSCO SHIPPING International



- | | | |
|-------------------------------------|---|--|
| 1 Business compliance | 10 Environmental and ecological protection | 19 Differentiation of product and service |
| 2 Environment compliance | 11 Operational efficiency of company assets | 20 Equal rights of employees |
| 3 Occupational health and safety | 12 Continuity and security of service | 21 Employee benefits |
| 4 Product and technology innovation | 13 Response to Climate Change | 22 Employment welfare |
| 5 Anti-corruption | 14 Low carbon operation | 23 Customer privacy protection |
| 6 Supply chain management | 15 Economic performance | 24 Labour standards |
| 7 Sustainable procurement policy | 16 Water resources management | 25 Energy efficiency and energy saving |
| 8 Customer service | 17 Business ethics | 26 Staff development and training |
| 9 Waste management | 18 Serving local economy | 27 Community communication and participation |





4. ENVIRONMENTAL PROTECTION



The Group is dedicated to conducting our business in a more environmentally sustainable manner with an aim of minimising the negative environmental impacts brought by our operation. To advocate a greener and healthier shipping industry, we always go beyond legal compliance and take a proactive role in achieving emission reduction, resource optimisation and biodiversity conservation. We continue to investigate and develop new applications of innovative technology, and introduce products with more environmentally friendly features and considerations. Furthermore, through various trainings, we seek to build an environmentally-conscious workplace and raise our employees' awareness on conservation and sustainability.

The Group strictly abides with the applicable environmental laws and regulations, including but not limited to:

- Environmental Protection Law of the People's Republic of China;
- Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution;
- Water Pollution Prevention and Control Law of the People's Republic of China;
- Law of the People's Republic of China on the Promotion of Clean Production;
- Law of the People's Republic of China on Environmental Impact Assessment;
- Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste;
- Law of the People's Republic of China on the Prevention and Control of Pollution by Environmental Noise Pollution;
- Environmental Protection Tax Law of the People's Republic of China; and
- Other local rules and standards concerning the prevention and control of environmental pollutions by discarded dangerous chemicals, standards of air pollutants and integrated wastewater discharge standards in its all operating locations.

To achieve our internal environmental goals, the Group implemented a comprehensive environmental management system and devised a set of policies in line with ISO14001 requirements, to ensure that our subsidiaries adhere to the operating standards and devote more to continuous performance improvement. In 2021, COSCO Kansai Companies and Jotun COSCO remained certified with ISO14001 for their respective environmental management systems. Besides, the Group has set up a comprehensive internal risk control system and management framework, with a top-down approach to identify all the environmental risks arising from our daily operations, in order to ensure that all the risks are appropriately addressed at operational levels.

To better improve our performance, the Group also commissioned independent parties to perform regular audits on our performance and help identify improvement areas in various environmental matters, ranging from wastewater management to exhaust gas management to noise control. In this regards, COSCO Kansai Companies have employed additional measures in response to the tightening pollutant discharge standards as required in their operating permits.

In 2021, there was no case of non-compliance concerning our operating practices.



Environmental, Social and Governance Report

4.1 Environmental-conscious Operations

4.1.1 Air Emission Reduction

The Group's major air emissions are VOCs produced from the coating production business in the form of benzene, toluene, xylene volatiles and particulate matters. With stricter national and local emission standards, we continue to explore different initiatives ranging from product development and material selection to production technologies and efficiency improvement to strengthen our control on our VOCs emissions. For instance, our transition from solvent-based to water-based coatings has contributed significantly to our VOCs emission reduction achievements.

Apart from the transition of coatings, COSCO Kansai Companies were equipped with multiple exhaust gas after-treatment facilities with an aim of establishing a more comprehensive emission control mechanism. For instance, the bag-type dust collector and the integrated exhaust gas treatment unit with spray filter, primary and medium filters, zeolite channel, and catalytic oxidation, help capture VOCs and particulates from production exhaust. Coupled with the forklift induction automatic access control systems and activated carbon absorbers, COSCO Kansai Companies were able to maintain a VOCs level below the requirements in "Emission Control Standard of Volatile Organic Compounds for Industrial Enterprises (工業企業揮發性有機物排放控制標準)". Moreover, the regenerative thermal oxidizers ("RTO") technology that both COSCO Kansai Companies and Jotun COSCO put in practice, facilitates the decomposition of VOCs from exhaust gas before emission, achieving a purification degree of 99.5%. In 2021, maintenance work was carried out on RTO equipment and the exhaust ducts of the laboratories in COSCO Kansai Companies and Jotun COSCO were redesigned and installed to improve the performance in capturing and decomposing VOCs.

To further reduce our GHG emission, COSCO Kansai Companies adopted employees' suggestions in 2021 from "Implementation Award Measures for Reasonable Recommendations (合理化建議獎勵實施辦法)" initiative. Our operation mode of the chiller system and water machine system was further enhanced by modifying their running time according to the cooling water temperature. This saved a total of 124,500 kilowatt-hours of electricity and further enhanced our energy efficiency. This suggestion won the first prize in our initiative and we will continuously encourage our employees to raise new suggestions to help the Group reduce energy consumptions.

From time to time, our factories are subject to the Government's periodic inspections. Our factories are committed to comply with the requirements stated by the Government. In 2021, our Zhuhai plant of COSCO Kansai Companies has passed the inspection of Department of Ecology and Environment of Guangdong Province for its compliance on VOCs emission standards.



Environmental, Social and Governance Report



Breakdown of GHG emissions of the Group

	Unit [#]	2021	2020	2019
Scope 1				
Total emissions ^{Note 1}	metric tonnes	600	710	574
Petrol	metric tonnes	74	71	123
Diesel	metric tonnes	172	177	215
Natural gas ^{Note 2}	metric tonnes	354	462	236
Scope 2				
Total emissions	metric tonnes	5,423	5,218	5,457
Electricity	metric tonnes	5,423	5,218	5,457
Scope 3				
Total emissions ^{Note 5}	metric tonnes	374	347	488
Business travel ^{Note 3}	metric tonnes	225	191	337
Paper consumption ^{Note 4,5}	metric tonnes	149	156	151
Total GHG emissions ^{Note 5}				
Scopes 1, 2 and 3	metric tonnes	6,397	6,275	6,519
GHG emissions per m ² of floor area (Scopes 1, 2 and 3)	metric tonnes/m ²	0.14	0.14	0.15
GHG emissions per employee (Scopes 1, 2 and 3)	metric tonnes/ employee	7.55	7.53	7.24

[#] GHG emissions data are presented in carbon dioxide equivalent.

Notes:

- 1 The emission factors of Scope 1 GHG emissions was calculated based on the emission factors provided in "Appendix 2: Reporting Guidance on Environmental KPIs" in "How to prepare an ESG Report" published by the Stock Exchange.
- 2 The GHG emission contributed by natural gas was reduced significantly in 2021 due to the maintenance of RTO equipment in COSCO Kansai Companies.
- 3 The emission of Scope 3 GHG emissions contributed by business travel is calculated by International Civil Aviation Organization (ICAO) Carbon Emissions Calculator.
- 4 The emission factor of paper consumption in Scope 3 GHG emissions was calculated based on the emission factors provided in "Appendix 2: Reporting Guidance on Environmental KPIs" in "How to prepare an ESG Report" published by the Stock Exchange.
- 5 In order to provide a more comparable and accurate reflection of air pollutant emission generated from the paper consumption, the figures in 2019 and 2020 have been restated.



Environmental, Social and Governance Report

4.1.2 Waste Management

Considering the nature of the coatings business, the Group is conscious of the waste generated from production and continuously seek for improvements on its waste management. COSCO Kansai Companies have devised a hazardous waste management plan by giving clear and appropriate guidelines to factories on hazardous waste treatment, disposal and recycling. Recyclable packaging drums are introduced by the Group to reduce packaging waste.

To further reduce our carbon footprint, COSCO Kansai Companies and Jotun COSCO adopted refined production models to practice active recycling and reuse of materials and waste, including residues from exhaust gas treatment, wastes from manufacturing workshops and R&D laboratories, cleaning solvents, chemical raw materials and their packaging. In 2021, our Production Department of COSCO Kansai Companies started recycling emulsions. After carrying out a series of testing, we developed an extrusion device that could extract the uncontaminated residue emulsions from liner bags. The extracted emulsions will be recycled and repackaged for our own use, which significantly reduced our paint hazardous waste. Moreover, Jotun COSCO has established Hazardous Waste Label Use and Packaging Standards (危險廢物標籤使用及包裝標準) in 2021. Facilitating the identification and improving the treatment of hazardous waste, this further prevents employees from having any unnecessary contacts with hazardous substances.

In addition, COSCO Kansai Companies set up a specific on-site warehouse with anti-seepage and corrosion prevention design for temporary and classified hazardous waste storage to prevent any mistreatment or unintended contact. Designated staff carry out regular management and counting on the waste collected and stored on-site, and qualified third parties are then engaged to arrange proper disposal of the hazardous waste. Whereas, non-hazardous waste is stored in a separate warehouse and handled on a monthly basis. Our Safety Management Department monitors the entire waste management process to see if the treatments are in line with all applicable laws and regulations.



Fire Safety and Solid Waste Management Competition Award Ceremony

Environmental, Social and Governance Report



During the reporting period, Jotun COSCO has organised various trainings on waste management to allow their employees to better understand the Group's expectations and get familiarise with the existing waste handling practices.

4.1.3 Wastewater Management

Water scarcity is a pressing issue for many countries around the world and it is therefore everyone's responsibility to ensure this vital resource is conserved. Although we do not consume and discharge a significant amount of fresh water and wastewater respectively in our coatings production operations, we dedicated to managing our consumption and discharge of wastewater consciously.

In order to recycle and reuse wastewater, we conduct quarterly wastewater analysis to ensure that the quality of the discharged wastewater complies with the prescribed requirements listed in the relevant standards, such as "Integrated Wastewater Discharge Standard (污水綜合排放標準)". We also commissioned qualified service agencies to facilitate our wastewater treatment before discharging it into the environment.

4.1.4 Resources Optimisation

To promote sustainable operation in our production plants, the Group is devoted to ensuring the efficient use of different resources. Energy-saving technologies are increasingly adopted in our coatings manufacturing business. COSCO Kansai Companies have established "Energy Resource Conservation Control Procedure (能源資源節約控制程序)" to provide employees with clear guidelines on how to achieve optimal use of resources, including water, electricity, and steam in the production process. In Jotun COSCO, air compressors were installed to recycle residual heat for operational use and reduction of overall energy consumption. Furthermore, we introduced machinery powered by renewable energy such as solar and wind energy to gradually phase out traditional fossil-fuel powered electrical machinery. Employees are encouraged to optimise the use of resources, where reward and accountability system is set up to foster collaborative efforts.

For our non-production business, we are devoted to promoting a green office and working environment through various resource-saving measures. To avoid unnecessary consumption of electricity, the companies regulate air conditioners to maintain optimal indoor temperature and conduct regular inspections to switch off any unused electrical appliances. To support green commuting, we encourage employees to take public transport and consider environmental impacts when planning their overseas travels where possible, employees are encouraged to use of digital communication technologies as an alternative to business travels. We maintained clear record of vehicle fuel and other energy consumption to identify potential areas for reduction. Educational posters are displayed on prominent locations in our offices to raise our employees' awareness and promote responsible consumption behaviors.

4.2 Biodiversity and Marine Environment Conservation


Being one of the world's leading shipping service companies, the Group is committed to preserve the marine environment and biodiversity in different means as it is where our company creates value for our customers.

Our products strictly comply with all applicable laws and regulations, including the Performance Standard for Protective Coatings (PSPC) by the International Maritime Organisation (IMO), the International Convention on the Control of Harmful Anti-fouling Systems on Ships (AFS Convention), the International Convention for the Prevention of Pollution from Ships (MARPOL). The GB 30981 Limit of Harmful Substances of Industrial Protective Coatings has been a focus for us since its implementation in 2020. We arranged seminars to communicate the regulations for our R&D departments and revisited the formula of our products to ensure they are up to standards.





Environmental, Social and Governance Report



To go beyond compliance, COSCO Kansai Companies offer tin-free proof coating products with detailed and comprehensive material safety data sheets (MSDS) for shipping companies' detailed considerations and use with confidence. Annual VOCs inspections and risk assessment were conducted by appointing third-party environmental protection agencies on our coatings products to ensure that the products do minimal harms to marine lives and biodiversity. While the Sea Quantum introduced by Jotun COSCO was recognised as one of the leading green anti-fouling coatings in the globe. The solvent-free and VOCs-free universal primer “Jotacote Universal S120” launched in 2020 was a product which strives to cause zero impact on the marine environment.

To reaffirm our commitments to biodiversity conservation, both COSCO Kansai Companies and Jotun COSCO signed the “Responsibility for Prevention and Control of Soil Pollution (土壤污染防治責任書)” and engaged third party consultant to devise corporate land use survey plans and carry out ground-water quality testing. Furthermore, Jotun COSCO also conducted assessments with respect to the “JCMC Soil Self-Testing Scheme (中遠佐敦土壤自行監測方案)” to monitor the potential risks of soil pollutions.

4.3 Green Products and Service Innovations

Being one of the key players in the market, we commit to providing customers with sustainable solutions to foster the sustainable development of the shipping industry.

Leveraging today's advanced technology, Jotun COSCO launched Hull Performance Solutions (HPS) supported by advanced big data analysis, real-time ship hull monitoring system and high-tech antifouling coating technology to maximise hull performance. Since 2011, the solution has been applied to over 1,100 vessels, contributing to over 40 million tonnes of carbon dioxide (CO₂) reduction. The Hull Skating Solutions (HSS) launched by Jotun COSCO in 2020, utilises the latest antifouling coatings technology, big data applications and underwater cleaning robotics to achieve significant energy saving and reduce carbon footprint.

At the same time, we also provide environmental liability insurance and professional consultation services in our insurance brokerage services segment, which help build customers' capacity in pursuing continuous improvement of environmental performance. Further, we organised seminars hosted by the Protection and Indemnity Club and lawyers for ship owners to gain insights into the development of international policies and industry best practices.

4.4 Climate-related Risk Adaption

The threats of climate change is imminent, we continue to study the impacts to our operations and make respective enhancement to our internal capacity to adapt the increasing climate-related risks, particularly with extreme weather like frequent typhoons, seasonal storms and abnormal precipitations. Therefore, we continue to enhance our precautionary measures to strengthen our business climate resilience and get prepared for any potential climate impact.

Our coatings production business have been closely monitoring on climate-related risks that may impact out business operations. COSCO Kansai Companies and Jotun COSCO have established a series of emergency management plans and a natural disaster contingency plan to address climate-related risks. We also carried out annual emergency drills to raise the awareness of our employees in the production plants and foster effective internal communication in response to different natural disasters. For instance, the Tianjin plant established flood prevention and extreme cold weather response plans, while the Zhuhai plant established response plans on storm, flood and heatstroke prevention. COSCO Kansai Companies also set up emergency response teams for the effective implementation of plans and close monitor to the climate situations.



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5. ENSURING OUR HEALTH AND SAFETY



The Group attaches the utmost importance to the health and safety of its employees. We have formulated a set of safety production and supervision management policies that adhere to two basic principles, namely “Share Responsibilities in One Post, Joint Management and Accountability for Delinquency (一崗雙責、齊抓共管、失職追責)” and “Safety as an Essential Component in Managing the Industry, Business, as well as Manufacturing and Operation (管行業必須管安全、管業務必須管安全、管生產經營必須管安全)”. We promote accountability among employees and divisions. All employees are responsible for cultivating a safe workplace culture and all departments are accountable to ensure occupational health and product safety. The heads of corresponding divisions and the Group’s headquarters will further oversee safety production.

We comply with applicable safety laws and regulations in Mainland China and Hong Kong, which includes but not limited to:

- Production Safety Law of the People’s Republic of China;
- Fire Control Law of the People’s Republic of China;
- Law of the People’s Republic of China on the Prevention and Treatment of Occupational Diseases; and
- Occupational Safety and Health Ordinance of Hong Kong (Cap. 509).

During the reporting period, we did not violate any relevant laws and regulations in relation to occupational health and safety.

5.1 Safety Committee

“Safety First, Precaution as Crucial and Consolidated Governance (安全第一、預防為主、綜合治理)” has been our motto to promote and ensure occupational health and safety at the workplace. In 2006, we have established a Safety Committee for this objective. The Committee comprises of the Company’s senior management. The committee is headed by the Group’s director responsible for the production safety and consists of general managers from various divisions of the Company, including human resources, finance & accounting and audit & supervision, as members.

The primary responsibilities of the Safety Committee are as follows:

1. Oversee the safety-related issues, formulate overall production safety plan and provide safety production guidance for the Group;
2. Review and determine the Group-level annual production safety goals, make recommendations on major production safety measures and resolve major production safety issues; and
3. Oversee and advise the Group on key progress in executing the safety production plan.



5.2 Production Safety Management

The Group believes that a robust production safety management system is the key to drive long-term business success. We uphold the long-term safety goal of achieving “zero casualties” and continuously measure our OHS performance. Every year, we review and update our internal OHS targets where necessary. We met our 2021 goals this year, with zero serious fires, traffic accidents, equipment accidents, and work-related fatalities, and an annual work-related injury rate of less than 5%.

The operations of COSCO Kansai Companies and Jotun COSCO, which are mainly engaged in manufacturing activities, are exposed to relatively significant safety concerns. COSCO Kansai Companies have formulated “Occupational Health and Safety Management Procedure” to stipulate the accountability for safety production in different divisions and to ensure the effective implementation of safety policies and standards. It also provides guidelines for the correct occupational health and safety procedures for various business activities. To further minimise OHS risk, COSCO Kansai Companies conduct regular OHS risk identification aiming to identify and control OHS hazards at an early stage. Besides, the local Government and appointed third parties environmental protection agencies pay regular visits and conduct safety inspections at our factories. Upon completion of the inspections, the government authority would send us enforcement documents on safety production, requiring the plants to address any risk points.

Both COSCO Kansai Companies and Jotun COSCO certified their production facilities with the latest ISO45001:2018 standards, to guide our daily practices up to international standards. We also formulated an OHS manual to prevent and control foreseeable workplace accidents. The management identifies and assesses potential OHS risks and then set out precautionary measures in the OHS manual. We compiled an OHS risk control handbook that set out measures to prevent employees from exposing to hazards including chemicals, dust, noise, extreme temperature, hygiene and manual lifting.

Employees working in manufacturing plants are at higher risks of chemical and toxic substances exposure. In addition to providing appropriate personal protective equipments, we adopt a “STOP” principle to minimise the adverse health impacts on our employees. The principle comprises four distinct aspects, namely “Substitution”, “Training and Precautionary Measures”, “Operation and Engineering Control” and “Protection of Individuals”.





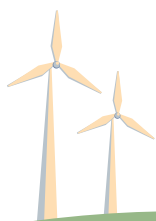
5.2.1 Production Safety at Manufacturing Plants

The Group pays extra attention to protecting the employees working in plants. Jotun COSCO has formulated the “Chemical Safety Technical Specification” which provides detailed information on chemical hazards and records the potential risks of chemicals used in our production operations to the environment and humans. Employees are provided with clear instruction on the production procedures in accordance with guidelines, such as limiting the exposure to xylene and ethylbenzene, to ensure hazardous chemical and toxic substances are handled in a professional and proper manner. We also require our plants to develop comprehensive control measures including a high-degree engineering control and personal protection. Besides, we formulated emergency response plans for handling different incidents such as first-aid for chemical contact, fire protection, chemicals leakage and waste handling. We formulated our operational specifications in compliance with international standards, such as International Maritime Dangerous Goods Code (IMDG Code) of the United Nations, International Air Transport Association (IATA) and International Maritime Organisation (IMO) to ensure appropriate paint transportation requirements.

Meanwhile, COSCO Kansai Companies appointed an internal safety investigation team to conduct safety inspections quarterly. It is composed of professionals in relevant fields such as electrical, mechanical and operational. In case of any safety hazards identified, the team reports to the relevant management departments and ensures appropriate follow-up measures are taken to improve address the concerns. Our senior management also guides regular safety inspections at plants to further ensure production safety. During the year, the factories of COSCO Kansai Companies have conducted over 600 inspections on OHS. We have achieved a 100% rectification rate by addressing all of the 906 risk points identified across the year.

The VOCs level of our production areas has drawn our attention and inputs for continuous improvement. Meanwhile, Jotun COSCO invited external experts to examine on their production procedures. The level of VOCs was one of the graded criteria and subject to in-depth measurement. We took the suggestions given by the experts seriously to further improve our workplace environmental quality.

On the other hand, COSCO Kansai Companies procured numbers of explosion-proof trucks with higher protective features. These trucks do not produce any spark during operations and thus eliminate the risks of explosion and fire hazards inside our factories. Meanwhile, we require all employees to hold relevant certificates or attend training before operating any machineries, including but not limited to the certificates for operating trucks, electricians and electric welders.



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5.2.2 Safety Management Self-Assessment System

Since 2012, the Group has adopted the Safety Management Self-Assessment System (“SMSA”) for its coatings business companies to measure the effectiveness of safety measures. The SMSA was developed in accordance with the national safety technical specification of coating industry such as the “Production Safety Law of the People’s Republic of China”, the “Regulation on the Safety Management of Hazardous Chemicals”, “General Norms for Safety Standardization of Hazardous Chemical Enterprises”, “Guidelines for Work Safety Standardisation of Coating Enterprises” and “The Safety Technical Specification of Coating Manufacturer”.

Particularly, the SMSA helps monitor the major 10 safety management aspects, namely governance structure, risk and environmental factors control, laws and regulations and management policy, training and education, production facilities, operation safety, product safety and hazard notification, OHS hazards, accident and emergency response as well as inspection and self-assessment. The Group conducts SMSA examinations biannually based on the Likelihood Exposure Consequences (LEC) method. If any potential hazards are found during the inspection, the relevant departments must formulate corresponding remedial measures or corrective measures within the specified time.

The following rating scale is used in the SMSA evaluation:

SMSA Score	Below 90	90–105	106–135	135–150
Rating	Disqualified	Qualified	Good	Excellent

Summarised in the table below are the results of the SMSA Evaluation of various production plants of COSCO Kansai Companies in the prior years:

Year	Tianjin Plant		Shanghai Plant		Zhuhai Plant	
	First half of the year	Second half of the year	First half of the year	Second half of the year	First half of the year	Second half of the year
2021	138	140	139	140	141	139
Average value for the assessment from 2012 to 2021	135	135	136	135	136	134

5.2.3 Occupational Health and Safety at workplace

Being a responsible employer, the Group aims to build a safe working environment and promote safety culture. We strive to protect employees’ health and raise their understanding of the importance of following safety operating procedures. Apart from obtaining ISO45001 accreditation in 2021, we have adopted a series of measures to ensure that our employees are always healthy and safe.

Prevention is better than cure, the Group has been providing employees with a series of extensive trainings and fire drills (e.g. fire drills) throughout the year with an aim to minimise workplace injuries and accidents and raise the safety awareness of the employees. These trainings cover fire safety, use of firefighting equipment, occupational hygiene, medical emergency, safety laws and regulations, accident cases sharing, hazardous chemical safety, special equipment safety etc.. We also share with newly joined employees the OHS matters that required their extra attention in written documents prior to their report of duties.

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Fire drill

Safety of our employees is always the top priority of Group. Due to the COVID-19 pandemic, we conducted online trainings instead of on-site trainings, where we upload the latest information and training materials regarding workplace and production safety, including videos, questions and related documents, to our online training platform. Employees can attend these trainings via their personal computers or mobile devices at any places and anytime. In order to advocate and encourage employees' innovative thinking, we introduced various interactive training, virtual reality (VR) technologies, cloud classroom and safety knowledge competitions to make our trainings become more memorable and fun experience to our employees.

On top of the basic medical care, we offer all employees annual physical examinations. Employees engaged in duties with higher OHS risks are provided with a specific medical assessment, aiming for early diagnosis of occupational diseases and potential injuries. When abnormal examination results obtained, responsible departments will offer the employee a follow-up examination for a refined assessment on the particular issues. Meanwhile, newly joined employees and transferred employees are required to undergo health check-ups prior to their onboarding days, as well as post-employment medical examinations for employees leaving their positions.

5.3 Non-Production Safety Management

Our non-production businesses such as ship trading agency services, insurance brokerage services and the supply of marine equipment and spare parts, are exposed to lower health and safety risks. Upholding our deep-rooted spirit of "safety first", we adopted a series of safety measures to further eliminate OHS risks in the offices across our non-production businesses.

"Safety Month" is held during the year for non-production employees to raise their safety awareness should emergency events occur. Apart from the fire safety training, we also arranged a team for safety inspections to ensure proper measures are adopted within our properties and offices.

During the year, different business segments organised educational events to promote fire safety awareness among employees and conducted inspections to identify fire risks of the offices. We also ensured the fire-fighting equipment within the office area and escape route are in good conditions.



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Beijing Public Fire Safety Education Consulting Centre held fire safety lecture for our employees

5.4 Reporting and Investigation Mechanism

The Group established a reporting and investigation mechanism for safety incidents. We adopted an accountability system and clarified the duties of responsible personnel. In case of any safety accidents, the relevant personnel are required to immediately report to the head of relevant departments and then notify the Safety Committee Office within 60 minutes and submit a complete accident report. The Safety Committee Office conducts preliminary verification and inspection on the accident and further report the Group's Safety Committee. Based on the severity of the incident, the Group sends out a specific investigation team for internal investigations and, if necessary, invite internal and external experts to conduct in-depth investigation on the root causes and losses of the incidents. They also help identify the accountable parties and provide effective suggestions for risk mitigation.

According to our accountability system, relevant employees shall be subject to admonitory interview or warnings based on the severity of the incident. Upon detection of any concealment of facts, delay report and omitted report or failure to demonstrate immediate and sustained improvement, the personnel may be subject to disciplinary actions.

In 2021, the Group received no recorded incidents of non-compliance with relevant laws, regulations and standards with significant impacts. The Group also maintains zero work-related fatalities (2020: Nil), nor any significant production safety accidents.

5.5 COVID-19 Pandemic Responses

The COVID-19 pandemic has indisputably posed significant health and safety risks on our employees and therefore, a variety of measures have been adopted by the Group to cope with the situation and reduce the infection risks borne by employees in the workplace. We uphold a high-level standard of environmental hygiene and provide employees with sufficient resources to protect themselves.

We have established a pandemic prevention and control leading group at Group level. According to the relevant requirements from COSCO SHIPPING and the superior units, the Chairman of the Board and the Deputy General Managers of the Company are responsible for overall leadership of various pandemic prevention and control work and have formulated a COVID-19 prevention and control emergency plan, implementing a three-level response mechanism and providing employees with clear guidelines for emergency response and operation during the pandemic. At the same time, the Company has also established a pandemic prevention and control working taskforce, which is responsible for the full implementation of the pandemic prevention and control work in accordance with the requirements from the management and the instructions of the leading group.

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As a responsible and caring employer, we actively source various pandemic prevention supplies and personal protective gears, such as gloves, masks and sanitisers, for distribution to employees. We closely monitor the inventory levels of these pandemic prevention supplies on a daily basis to ensure that sufficient inventory and effective distribution of resources. Meanwhile, the Group keeps abreast of the development of the pandemic and complies with local regulations when making work and operational arrangements.

To create a safe working environment and prevent cross infection among employees, employees are required to wear masks at all times and measure their body temperature before entering the offices. Additional masks, thermometers, disinfectants and other prevention materials were prepared for them. We commissioned a third party to carry our disinfection work at our workplace and ordered lunch for employees during severe pandemic to reduce chance of infection when dining out. Employees returning from high-risk areas are required to undergo quarantine according to the regulatory requirements internal protocols. In response to the social distancing rules and measures, we allowed flexible working hours, work from home arrangement or “A/B Shift” arrangement, by which employees can avoid commuting in rush hours and thus reduce close contact with people.

During the year, COSCO Kansai Companies, Jotun COSCO and Yuantong have organised various vaccination programmes to encourage employees in receiving vaccination to get better protect themselves during the COVID-19 pandemic. As of 31 December 2021, more than 90% of the employees in COSCO Kansai Companies, Jotun COSCO and Yuantong were vaccinated.

6. EMPLOYEE EMPOWERMENT

Human capital is the most valuable asset of the Group and one of the crucial factors that contributes to our long-term business success. Therefore, we formulate people-oriented strategies according to four management principles: managing by regulations, establishing a fair and open system, meritocracy and emphasising the coexistence of rights and obligations.

To attract and retain talents, we offer comprehensive and competitive compensations and benefits, together with great development opportunities based on a well-established appraisal and recognition system. We are keen on nurturing future talents to develop their potentials and create a continuous learning culture that help employees unleash their great potential.

We are committed to quality, professionalism and integrity throughout our business. The Group strictly comply with applicable employment laws and regulations, which includes but not limited to:

- Employment Ordinance of Hong Kong (Cap. 57);
- Employees’ Compensation Ordinance of Hong Kong (Cap. 282);
- Labour Law of the People’s Republic of China;
- Labour Contract Law of the People’s Republic of China; and
- Law of the People’s Republic of China on the Protection of Disabled Persons.

In 2021, there is no non-compliance case reported regarding our employment practices.



6.1 Inclusive and Supportive Workplace

We are committed to fostering an inclusive and supportive workplace where every employee is fairly treated and respected regardless of their gender, age, family status, race, religion, nationality, sexual orientation or disability. We offer competitive remuneration packages, including basic salary, incentive bonus, and mandatory provident fund. Our comprehensive benefits include paid annual leave, paid sick leave, medical insurance, healthcare benefits, further educational opportunities and training subsidies. Also, additional leave options such as paid wedding leave and employee paternity leave are available subject to employees' specific needs. In view of the changing working and lifestyles of the modern societies, we formulated the "Flexible Working Time Policy" to enable employees' pursuit of diverse personal development and cope with the situation of COVID-19 pandemic.

We prohibit any use of child labour and forced labour in our operations by setting our standardised recruitment procedures with comprehensive employment related policies in place, including the "Administrative Measures on Recruitment and Employment" and the "Administrative Measures on Labour Contract". We also regularly update and verify employees' personal information to ensure no violation of any regulations and policies.

We advocated the United Nations Children's Fund ("UNICEF") and participated in the "Say Yes to Breastfeeding" campaign to show our gratitude and support to working mothers. Furthermore, Jotun COSCO has organised a "Diversity and Inclusion" campaign in 2021 by holding various seminars and trainings among the managers and staff to promote the importance of diversity and build a more inclusive workplace environment.

6.2 Employee Training and Development

Equipping employees with skills and knowledge is always the key to our long-term business success. We, therefore, formulated a set of "Management Methods for Setting Up of Professional Talent Pool (專業人才庫建設管理辦法)" to enhance our employees' capabilities and equip them with relevant skills and professional knowledge. The Group offers a structured leadership development plan, which is managed and reviewed by a dedicated team under the leadership of the Human Resources Division. We regularly review the talent pool categorized by various businesses and industries. We have an incentive mechanism in place to offer bonus and development opportunities, including training courses, academics conferences, and exchange programmes, to accelerate the growth of talented individuals.

To promote continuous learning to enrich our employees' capabilities, we have developed a comprehensive training and development system with four training categories to cater their specific training needs:

- **Induction training:** We provide induction training for all newly joined employees to introduce corporate strategic plans, policies, and logistics rules to ensure that they are aware of the Group's OHS standards, standard operating procedures, as well as our expectations on their workplace behaviours, so as to better integrate them into our organisation;
- **Regular assessments:** Regular assessments are conducted by the Human Resources Division and various divisions to identify key training aspects tailored to our business needs. Relevant experts and professionals may also be invited to host training programmes and give presentations;
- **Regular trainings:** We provide regular trainings to general employees so as to keep them abreast of the related market and regulatory information; and
- **External training programmes:** Employees are encouraged to participate in external training programmes such as certificates, diplomas, degree courses, lectures, seminars and conferences by providing training subsidies.





"Production Safety Law" lecture

To recognise and motivate employees with outstanding performance, we conduct regular performance assessments to evaluate employee contribution and provide them with timely feedback. We employed an updated online performance assessment system to streamline and facilitate the assessment process. The system also creates anonymous accounts to collect and consider feedback from other members of the teams in the evaluation process to make comprehensive and fair assessment on participating employees.

With an aim to enhance the professional and career development of our employees, we have introduced new training or workshop to provide a greater variety of training activities. For instance, Jotun COSCO has organised a new "Collaboration Workshop" (合作工作坊) to encourage employees to reflect the way they cooperated with team members in the past and enhance their collaboration skills through sharing and takeaways. We believe such training could further strengthen the bonding and collaboration between our employees.

6.3 Employee Well-being

6.3.1 Employee Communication

The Group recognises frequent and open dialogues with our employees as the key of building mutual trust and respect. Therefore, we constantly collect employees' feedback and opinions via diverse communication channels. Under our "Implementation Award Measures for Reasonable Recommendations (合理化建議獎勵實施辦法)", employees are encouraged and incentivised to submit their recommendations to management. Our recommendation team are responsible for assessing and reviewing the proposals and then approving the provision of monetary incentives for employees' outstanding suggestions based on the actual benefits brought to the companies. The programme aims to foster an open and dynamic culture that encourages the internal improvement driven by employees' observations and open sharing.

Besides, a human resources mailbox was also set up on the Group's internal system homepage, serving as a regular platform for employees to voice out their concerns. The Human Resources Division helps gather the incoming mails and transfer enquiries to relevant departments for the formulations and implementations of follow-up actions for the wellbeing of all employees.

6.3.2 Employee Work-Life Balance

It is the Group's commitment to improving the health and wellness of its employees by creating a workplace with work-life balance. We provide them with recreational and team-building exercises such as sports activities and interest classes to improve their wellbeing. We aim to motivate employees to attain higher morale and build stronger team bonding, thereby increasing productivity and sense of belonging at work.



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To facilitate the interactions between employees, we established an employee association, which helps bring employees together by setting up a volunteer team and coordinating different volunteer services.

COSCO Kansai Companies held a variety of activities to promote work-life balance. In 2021, COSCO Kansai Companies held various activities to their employees, including photography, fishing, hiking, as well as weekly table tennis and badminton competition to promote employee well-being and team building. 2022 Beijing Winter Olympics Games is a big event, COSCO Kansai Companies and 深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited*) have organised fitness-walking and welcoming activities respectively in the end of 2021 to express our excitement to this world-class event.



Welcoming of the Beijing Winter Olympics Games activities



Fitness-walking activities for welcoming Beijing Winter Olympic Games

During the year, Jotun COSCO has regularly organised “Happy Friday and Weekend Series” and other family day activities to contribute to the well-being of our employees as well as our care to their family members.



Jotun COSCO “Family Day”

* for identification purposes only





7. BUSINESS DEVELOPMENT AND COLLABORATION

The Group values the collaboration with its business partners and the quality of products and services as fundamentals of our sustainable business development. We devote effort to build a responsible supply chain and ensure customer satisfaction towards the products and services we deliver. With an aim of upholding business ethics in our operations and keeping potential risks at a minimum level, relevant policies and standards supervising our business conducts and operations are in place to maintain a high standard of integrity.

7.1 Supply Chain Management

7.1.1 Sustainable Procurement

To fulfil our duty of corporate citizenship, we aspire to build a green and responsible supply chain with carefully selected suppliers that meet our high-standard requirements on sustainability. A set of standardised procurement procedures were set out to facilitate the selection and assessment of suppliers with consideration of their environmental and social impacts. We select supplier in accordance with the specifications outlined in the “Procurement Management Measures” and the “Supplier Management Measures” which require potential suppliers to meet the Group’s expectations on aspects namely environmental protection, health and safety. In addition, we have other sustainable procurement policies in place to facilitate the selection and engagement with suppliers, including the “Tendering Procurement Management Measures”, “Non-tendering Procurement Management Measures”, “Centralised Procurement Management Measures”, “Special Affiliated Enterprises Management Measures” and “Procurement, Outsourcing and Supplier Management Supervision Measures”.

These internal procurement policies, coupled with our initial screening with relevant accreditations such as ISO9001, ISO14001 and ISO45001 at the early stage of selection, allow us to carry out careful selections of suppliers for our coatings business. Relevant terms are also incorporated in the contracts to further ensure their compliance. Only selected suppliers are added in the Group’s procurement supplier database where purchasing units reach out to the suppliers that fulfil the specific requirements.

To ensure our sustainability performance and reputation along the supply chain, we continuously monitor the compliance status of shortlisted suppliers and update the database every three years to exclude suppliers who fail to comply with relevant laws and regulations. In case of any non-compliance with the safety regulations, we shall terminate our relationships or contracts with the concerned suppliers and, when they have properly addressed and resolved the matters, we assess the effectiveness of their measures and the readiness to re-establish partnership.

Apart from the standardised supplier selection measures, we customise and implement special management procedures on our suppliers whose product or service supplies are particularly material to our operations. For instance, the “Asphalt Supplier Management System” has been implemented to evaluate the sustainability performance of asphalt suppliers, including their initiatives in fire prevention and environmental assessment.

7.1.2 Supplier Monitoring and Supervision Mechanism

Through our supplier monitoring mechanism, suppliers’ performance is evaluated and reviewed on a yearly basis in accordance with a comprehensive set of quantitative indicators, including fundamental capability, cost competitiveness, delivery fulfilment, quality control, customer service, business innovation, and safety and environmental protection. We provide preventive and improvement suggestions to suppliers based on their evaluation results and supervise their implementation in attempt to enhance their product and service quality. Penalties and immediate termination of the contractual relationship will be given to suppliers who fail to maintain professional conducts or qualifications on safety and environmental protection, and those committed bribery and other commercial misbehaviours.



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To prioritise suppliers with outstanding sustainability performance, the supplier rating scale has been established to rank and classify suppliers based on their evaluation result.

Below is the rating scale of our supplier evaluation:



Rating	Definition
A	Strategic Suppliers: Outstanding suppliers that achieved good progress in sustainability that it is in line with the Group's ambition
B	Quality Suppliers: Good suppliers that performed well beyond the basic requirements in some of the key indicators
C	Qualified Suppliers: Fair suppliers that met our basic requirements of indicators
D	Negative Suppliers: Poor suppliers that failed to meet some of our requirements of indicators
E	Eliminated Suppliers: Poor quality suppliers that are eliminated and taken out from our supplier database

Ratings are jointly reviewed by the supplier purchasing departments as well as the user departments every year to ensure credibility. Partnership opportunities or extensions are favourably given to suppliers receiving higher ratings. Suppliers being absent or failed in the annual inspection or have not maintained a partnership with the Group for three consecutive years shall be excluded from the database. Besides, the Group takes a proactive role in supporting the localisation of supply chain to reduce the delivery time and environmental footprints due to transportation and to boost local economic development.

7.2 Product Quality and Responsibility

Being one of the market leaders in our industry, we commit to deliver high-quality, healthy and safe products and services to our customers. In adherence to both internal procedures and international guidelines on product safety and quality, we strictly monitors the execution of technical standards and ensure the product and service quality throughout the lifecycle of our products from sourcing raw materials, production, sales and marketing to recall, return and replacement.

Internal policies on Health, Safety, Environment and Quality (HSEQ) have been developed in line with international standards focusing on subsidiaries involved in chemical productions. A comprehensive set of control procedures are in place to monitor and evaluate the quality of our coating products. Tests and inspections are carried out for intermediate and final products to determine their compliance with our quality control requirements. To ensure that our products are safe and environmentally conscious, we have been abiding to the following technical requirements set out by the Ministry of Emergency Management of the People's Republic of China:

1. The notice of the "Implementation Plan for Reducing Lead Content in Coatings of the Container Industry" issued by China Container Industry Association;
2. The "Rules for Classification and Labelling of Chemicals" under the GB30000 national standard series of the People's Republic of China;



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3. The “Product Quality Law of the People’s Republic of China”;
4. The “Regulations of the People’s Republic of China on Administration of Chemicals subjected to Supervision and Control”;
5. The “Regulations on Administration of Precursor Chemicals”; and
6. The “Measures for Environmental Management of New Chemical Substances”.

During the reporting period, the Group was not aware of any non-compliance with relevant standards, rules and regulations that imposed any significant impacts on the Group.

Apart from implementing our internal policies and adherence to industry standards, raising the awareness and promoting technical knowledge exchange on product responsibility among suppliers, customers and the industry are equally essential to foster a responsible market. COSCO Kansai Companies and Jotun COSCO continue to get in touch with customers regularly to exchange of suggestions and feedbacks on technical knowledge of our products with customers to understand the user experience and explore rooms for improvement.

One step further, we continued to explore opportunities in making effective use of the latest technologies to provide innovative solutions to satisfy customers’ demands systematically. Jotun COSCO applied ship coating solutions for the first auto-cargo ship in China. Upon understanding the coating needs of the new types of ship, we attempted to lower the risk of corrosion and thus to reduce the frequency of ship maintenance. Jotun COSCO utilised the world’s leading coating techniques and took reference from the cases of auto-cargo ships in other countries. We will keep up with the latest market of auto-cargo ships and to claim the leading position in the expanding market.



Jotun COSCO “Safety Day” Event

7.3 Customer Care

7.3.1 Customer Satisfaction

The Group values the opinions from customers as an important driver for its continuous business improvement. We keep close monitoring of our customer satisfaction through survey that delves into the multiple facets of customer experience, covering the quality of service by sales and technical service personnel, delivery, ordering and invoicing, and the overall experience in contact with us.

Procedures for handling complaints are in place to address customers’ concerns about our products and services. COSCO Kansai Companies and Jotun COSCO stipulated the “Administrative Procedure for Customer Feedback” to enable systematic management of complaints and to guarantee complaints handling in a fair, consistent and expeditious manner. Upon the receipt of complaints, relevant personnel are delegated to investigate the case and take corresponding measures as appropriate to avoid reoccurrence of similar issues. Meanwhile, our “Process for Paint Return” spells out the management’s awareness of the return of disqualified products and the necessary measures to be taken to address the issues.



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During the reporting period, there was no unresolved complaint relating to service-related complaints and recall of products due to safety and health reasons.

We continue to cultivate and maintain close customer relationships to better understand their needs, thereby delivering products and services with satisfactory feedback. COSCO Kansai Companies continued to pay monthly visits to the customers in Mainland China every month in order to promote exchange of ideas on technical knowledge and carry out promotions for new products. However, for certain high-risk areas in Mainland China and other overseas countries, online video conferencing systems would be used to maintain relationships with ship owners and production plants and minimise the impacts induced by the pandemic on our trading businesses, such as irregular delivery dates and longer quotation periods. Our insurance brokerage services also visited the clients to discuss on the relevant measures in business continuity under the pandemic, the shipping market and other concerned topics, committed to offering comprehensive risk management advise from an insurance perspective.



Technical exchange with ship owners and ship manufacturers

7.3.2 Customer Privacy

The Group stresses the importance of customer privacy in our business operations with strict compliance with applicable local and international laws and regulations, including the “Personal Data (Privacy) Ordinance (Cap. 486)” of Hong Kong. Jotun COSCO also adheres to the “European Union (EU) General Data Protection Regulation (GDPR)”. The “Binding Corporate Rules (BCR)” is also established to call for employees’ compliance with the same system on privacy protection.

In close observation of international statutory standards, we put in place a series of internal policies to ensure information confidentiality and to avoid the leakage of sensitive information of stakeholders. The “Information Management Method” affirms the four basic principles — “Truth, Accuracy, Completeness and Timeliness” — in our approach of information dissemination. To securely protect all trade secrets and customer information, we formulated the “Administrative Measures on the Protection of Trade Secrets” following the Anti-Unfair Competition Law of the People’s Republic of China”, the “Interim Provisions on the Protection of Trade Secrets of Central Enterprises” promulgated by the SASAC, and the “Administrative Measures on the Protection of Trade Secrets of China COSCO Shipping Corporation Limited”. Our “Staff Management Measures” are in practice to prohibit any leakage of customer information and strategic cooperation agreements to any third parties.





Cyber Security Knowledge Seminar

To further enhance our employees' awareness on data privacy and protection, the Group has participated in the Cyber Security Knowledge Seminar (both on-site and virtual) held by our immediate holding company, COSCO SHIPPING (Hong Kong), in December 2021. This seminar covered topics on phishing activities, cyber viruses, APT attacks, and provided safeguard measures regarding password safety, network safety and data safety to our employees. More than 700 employees from different subsidiaries of our Group have participated in this seminar. With greater consciousness on cyber security, our employees are more well prepared in providing the greatest protection on customer data and avoiding any leakage by any means.



Cyber Security Knowledge Seminar

During the reporting period, there was no complaint regarding breaches of customer privacy or loss of customer data.

7.4 Anti-Corruption

7.4.1 *Anti-Corruption Policy*

The Group has zero tolerance towards any forms of corruption and bribery. We strictly abide to the "Criminal Law of the People's Republic of China", the "Anti-Unfair Competition Law of the People's Republic of China" and the "Bidding Law of the People's Republic of China". In view of the importance of corporate ethics and anti-corruption, elements in relation to business ethics and code of conduct have been incorporated into the Group's risk management framework and were subject to close monitoring.

The Group established the "Professional Ethics and Code of Conduct for the Staff of COSCO SHIPPING International" (the "Code") to require employees' acknowledgement and adherence to the provisions listed in order to practise high integrity and moral standards. We also offer guidelines for employees' appropriate behaviours in occasions that they may encounter. In particular, the Code highlights that any staff should not use their authority to engage in bribery behaviour or to receive inappropriate benefits, seize any business opportunities from the Group, use company assets in any form for personal interests, and engage in other activities that may potentially compromise the interests of the Group. Employees are also expected to maintain long-lasting relationships with our suppliers, contractors and customers that rest on mutual trust. For any breaches of the Code, the concerned personnel shall be subject to disciplinary punishment, including the termination of employment. For any breaches suspected of regulation and law violations, the Group shall report the relevant cases to corresponding authorities and cooperate for the further investigations.

7.4.2 *Whistleblowing Policy*

To promote probity and maintain transparency and accountability, a Whistleblowing Policy of COSCO SHIPPING International ("Whistleblowing Policy") was established to lay down the details of the reporting channels for employees to raise their concerns on any suspected corruption behaviours anonymously. Upholding confidentiality, the Whistleblowing Policy ensures that the identities of employees making the allegation are not disclosed or accessed without consents. Any attempt by individuals to intervene the investigation process is regarded as a severe disciplinary breach. The Board is accountable for ensuring effective implementation and enforcement of this policy, and maintaining a high degree of corporate justice.

Environmental, Social and Governance Report

7.4.3 Anti-Corruption Supervision

The Group strictly forbids any kinds of corruption activities, including but not limited to receiving benefits and rebates from business partners, colluding with suppliers, committing fraud and forging business volume. Adopting the principle of “whoever takes charge should be responsible (誰主管誰負責)”, managers in relation shall be responsible while the individuals who commit the mentioned activities remain liable. In case of any identified behaviour of transferring benefits, we shall undergo investigation involving not only the liable personnel, but the entire business unit. As set out in the “Measures for Managing Performance Examination of Companies under Direct Management”, restrictive indicators on management transactions, risk and internal control and other requirements on employee ethics and anti-corruption are closely tracked and evaluated in our business assessment guidelines.

Supervising the implementation of anti-corruption policies, dedicated divisions and business divisions exert extensive efforts in preventing any unethical business behaviours. The Audit & Supervision Division of the Company oversees the related matters at the Group level. As specified in the “Measures for Managing Special Affiliated Enterprises”, the Audit & Supervision Division also supervises special affiliated enterprises via a range of channels, namely special examination, efficiency supervision and audit on either a regular or irregular basis. The delegates of each business division shoulder the responsibilities of rolling out anti-corruption initiatives, also are in charge of guiding their own suppliers to provide products and services in accordance with the Group’s procurement and supply chain management policies, while the Audit & Supervision Division oversees the inspection and assessment in relation to the implementation of practices. Further, the subsidiaries are responsible for reporting employees’ compliance with the policies to the Audit & Supervision Division.

We seek to enhance employees’ awareness on business integrity and honesty. Thus, departments and subsidiaries conduct an annual employee self-evaluation survey that examines a wide array of areas covered in relation to the Code, namely integrity and fairness, acceptance and provision of interest, conflict of interest, handling confidential information and company’s property, and relationships with customers, suppliers and contractors. During the reporting period, more than 860 person-time of the self-evaluation survey were completed.

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

7.4.4 Anti-Corruption Training

Anti-Corruption Training is indisputably the most important precautionary measure to strengthen employees’ awareness on anti-corruption.

ICAC Anti-bribery and Integrity Training

In October 2021, we invited the Hong Kong Independent Commission Against Corruption (“ICAC”) to deliver an anti-bribery and integrity training to the employees of COSCO SHIPPING International. A total of 120 employees, including senior management have attended this training. Through this training, they have developed a deeper understanding on business ethics, integrity, and the Listing Rules of the Stock Exchange regarding anti-corruption, acknowledging greater importance to maintain corporate probity.



Anti-bribery and Integrity Training delivered by ICAC



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Job Crime Prevention Seminar for COSCO Kansai Companies

In November 2021, COSCO Kansai Companies also invited People's Procuratorate of Jing'an District (上海市靜安區檢察院) to deliver a seminar on the prevention of job crime. This seminar shared deep analysis of past cases of job crimes and corruptions to enhance the awareness of the 106 participants.



Job Crime Prevention Seminar

8. COMMUNITY INVESTMENT

We are committed to promoting and investing in the development and betterment of the communities where we operate. In 2014, we have established the Group's Donation Policy, which was revised as the "External Donations Management Method" in 2018, to address the local needs and the interests of people in each community. The policy details our partnership strategies with local NGOs and charitable bodies, and the manners in which our philanthropic efforts are handled. The policy provides clear guidelines on determining the amount and method of community investment or donation events, together with information related to the annual charitable donation budgets.

We established volunteer teams and coordinated employees who are enthusiastic about serving the community to join us in sharing love and care with people in need. To encourage our employees to actively participations and appreciate their ongoing support and enthusiasm, we offered volunteers with a half-day holiday or a one-day paid leave when they contributed more than 2 but less than 4 hours or 4 or more hours on the event day respectively.

8.1 Contribution to Community

"Our Passion to Serve" has been the team slogan to reaffirm the devotion to community investment of the Group when participating various volunteering services. The Group also regularly review the community investment strategies in order to maximise the contribution of the Group in the community. In 2021, our community contribution mainly focused on five major areas: charitable donations, environmental conservation, education, disadvantaged assistance and community support in response to the COVID-19 pandemic.

8.1.1 Charitable Donation

During the reporting period, we have donated to various charities directly to support the community with details as below:

Charitable Organisations	Donation Amount (HK\$)
Sowers Action	140,000
The Neighbourhood Advice-Action Council	23,000
UNICEF Hong Kong	50,000
World Wide Fund For Nature Hong Kong ("WWF")	50,000
Total donations	263,000



Environmental, Social and Governance Report



Certification of Appreciation from the Neighbourhood Advice Action Council for elderly visits in Dragon Boat Festival 2021



Certification of Appreciation from the Neighbourhood Advice Action Council for elderly visits in Mid-Autumn Festival 2021

8.1.2 Environmental Conservation

As a shipping services company, we recognise that our primary responsibilities for the environment begin with the sea and extend beyond the horizons. We are aware of the growing societal concerns on marine pollutions and other environmental issues. Thus, we are determined to alleviate the adverse impact brought by human activities.

We continued to support the good cause of WWF by donating HK\$50,000 during the year and became a Silver member of WWF. Under the Corporate Membership Programme, the Group is committed to the partnership with WWF and funding its environmental preservation projects to transform Hong Kong into a more sustainable city.

Apart from the donations, we also contributed to the community by delivering seminars to convey the importance of environmental protection and conservation. In December 2021, the Technical and Market Director of Jotun COSCO, delivered a seminar on environmental protection to the secondary school students in Yunnan. In particular, we discussed today's environmental issues related to the marine with students. As a shipping services company, we aspire to raise the public's awareness on marine conservation, as well as waste reduction and environmental protection.



Jotun COSCO held a lecture on environmental protection for a secondary school of Yunnan

8.1.3 Education

Young people are the future pillars of our society and the Group believes that everyone deserves equal opportunities to learn. Playing a crucial role to empower future generations, we continue to invest in youth education and development in order to inspire individuals and nurture future talents.

In 2021, we continued to sponsor and support the underprivileged students in both Hong Kong and Mainland China under partnership with Sowers Action. The Group donated HK\$80,000 to the Education Assistance Programs (內地助學項目) to improve the learning conditions of 43 students living in impoverished mountainous areas. Since 2008, we have donated approximately HK\$2,190,000 to various educational support programmes with more than 1,200 students benefited.

Jotun COSCO also donated a total of RMB 120,000 this year to subsidise the purchase of computer equipment and establish “Jotun COSCO Chunlei Class” in a junior secondary school to allow underprivileged students to receive proper education.



Jotun COSCO Chunlei Scheme

8.1.4 Disadvantaged Assistance

We embrace individual's uniqueness and understand that people face different obstacles in their daily lives. With this in mind, we are committed to fostering greater social integration and inclusion in the community and working closely with local NGOs and mobilise our resources to respond to a variety of community needs.

Since 2011, we have established partnership with Neighbourhood Advice-Action Council and organised volunteering activities to visit the elderly during different festive seasons. Our dedicated volunteering team continued to participate in the “Inheriting Love Deep Care Plan” hosted by the Sham Shui Po District Elderly Community Centre of Neighbourhood Advice-Action Council.

At the Dragon Boat Festival, we gathered a total of 36 employees and their family members to share their love with the elderly people living in Shek Kip Mei and distributed Dragon Boat Festival lucky bags containing rice dumplings, fruits and other items. At the Mid-Autumn Festival, we further gathered another 59 employees and their family members to send the warmth to the elderly with lucky bags distributed. A total of 570 service hours have been contributed. Our employees are grateful to have warm chats with the elderly people and the elderly also expressed their gratitude to the volunteers for visiting.



Distributing lucky bags activity

During the reporting period, we donated HK\$50,000 to UNICEF Hong Kong to promote the rights and well-being of children. Our donation will support UNICEF works to help children to live free of illness and preventable diseases such as HIV and AIDs, have better access to clean water, benefit from quality education, live free from exploitation and violence, etc.. Children are the future pillars of society and every child should deserve equal care and opportunity. We will continue to contribute more on child protection work in the future.

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8.1.5 Community Support in Response to COVID-19 pandemic

Under the COVID-19 pandemic, many elderly people forced to stay at home with limited outdoor activities. In November 2021, the Group co-organised a “Have Fun with Seniors and Get in Touch with Nature” (與耆同遊系列之親親大自然) event with the Sham Shui Po District Elderly Community Centre of Neighbourhood Advice-Action Council. 15 volunteers brought a group of 36 elderly people to visit different places in New Territories, including the Reptile House in Tuen Mun Park and vineyard in Yuen Long, and had seafood lunch in Lau Fau Shan. These elderly people were elated for having such outdoor activity safely during the COVID-19 pandemic.



Visiting a Vineyard in Yuen Long

9. AWARDS AND RECOGNITIONS

In 2021, the Group continued to prioritise sustainability in our business operations and achieved significant business successes. We are proud and honored to receive recognitions and awards from different parties in the market in diverse aspects.

Certificate of Excellence

The Group has once again received the “Certificate of Excellence” from the Hong Kong Investor Relations Association. The award recognises the Group’s dedication to maintaining high standard investor relationship management despite the challenges brought by the COVID-19 pandemic.

Honoured with the “10 Years Plus Caring Company Logo”

For the 4th consecutive year, the Group has received “10 Years Plus Caring Company Logo” awarded by Hong Kong Council of Social Service (HKCSS) to recognise our contribution and commitment to caring for employees, the environment, and society. The programme encourages business to partnership with the social welfare communities to promote corporate social responsibility.



2021 Gold Award for Outstanding Corporate Participation in the Challenging 12 Hours’ Marathon

Continued from the participation in the event, the Group was awarded the “2021 Gold Award for Outstanding Corporate Participation in the Challenging 12 Hours’ Marathon” hosted by Sower Action. Since 2008, we have sponsored the event for 14 consecutive years and continued to support Sower Action’s vision in promoting equitable wealth distribution and improving the learning conditions of underprivileged children. We are glad to receive this award from our long-standing community partners and look forward to the future collaborations.





PERFORMANCE DATA SUMMARY – ENVIRONMENTAL

	Unit	2021	2020	2019
Energy Consumption				
Indirect energy consumption				
Electricity consumption	kWh	6,647,174	6,409,646	6,437,058
Electricity consumption intensity per m ² of floor area	kWh/m ²	145.11	142.60	143.44
Electricity consumption intensity per employee	kWh/employee	7,847.90	7,694.65	7,144.35
Direct energy consumption				
Diesel	liter	66,545	66,620	80,805
Petrol	liter	27,082	26,060	45,271
Natural gas	cubic meter	163,606	213,273	108,863
Water Consumption				
Total water consumption ^{Note 1}	metric tonnes	41,806	41,463	37,707
Water consumption intensity	metric tonnes/m ²	1.14	1.14	1.03
Waste Management				
Solid wastes (hazardous)	metric tonnes	1,464	1,439	1,484
Solid wastes (non-hazardous)		261.4	246.4	277.5
Wastewater				
Wastewater	metric tonnes	21,520	23,726	27,374
Waste Gas				
VOCs and Benzene		3.98	3.91	3.38
Toluene		0.44	0.53	0.13
Xylene	metric tonnes	0.49	0.65	0.19
Particulate matter		0.14	2.31	1.38
Other exhaust gas emission ^{Note 2}		0.48	0.1	0
Packaging Materials				
Coating package materials ^{Note 3}	metric tonnes	6,902	5,442	5,100

Notes:

- 1 The members of the Group had their water supply controlled by their respective property management offices who did not provide sub-meters for the units that they occupied. Thus, the data relating to water consumption and intensity in 2021 only covers COSCO Kansai Companies.
- 2 The figure for "Other exhaust gas emission" in 2020 was restated as the disclosed emission figure of 3.91 included emission of "VOCs and Benzene".
- 3 The increase in the consumption of coating package materials is mainly due to the increase in the production volume of Jinshan plant of COSCO Kansai Companies.



Environmental, Social and Governance Report

PERFORMANCE DATA SUMMARY – SOCIAL



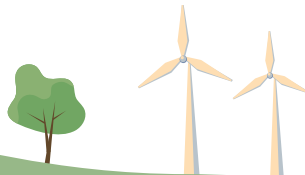
	Unit	2021	2020	2019
Total Workforce				
Employee	number of person	847	833	901
Employee by employment type				
Full-time (Permanent)		827	833	901
Contract or short-term employment	number of person	20	Nil	Nil
Employee by Gender				
Male		636	616	669
Female	number of person	211	217	232
Employee by Region				
Hong Kong		176	185	168
Mainland China	number of person	639	611	697
Overseas		32	37	36
Employee by Age Group				
Below or equal to 30		51	58	79
31 to 50	number of person	597	598	649
Over 50		199	177	173
Overall Turnover Rate of Employee				
Turnover rate	%	9	12	7
Turnover Rate by Gender				
Male		8	9	7
Female	%	10	15	7
Turnover Rate by Region				
Hong Kong		15	6	14
Mainland China	%	7	13	6
Overseas		6	3	0
Turnover Rate by Age Group				
Below or equal to 30		31	17	13
31 to 50	%	8	8	5
Over 50		5	18	13
Employee Development and Training				
Total training hours received	hours	11,449	12,254	16,254
Percentage of workforce trained by Gender				
Male		82	84	90
Female	%	86	96	79



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	Unit	2021	2020	2019
Percentage of workforce trained by Employment Category				
Senior Management		75	86	89
Middle-level Management	%	91	94	49
General Employee		81	85	97
Average training hours by Gender				
Male	hours/person	15	15	18
Female		19	14	29
Average training hours by Employment Category				
Senior Management		23	23	35
Middle-level Management	hours/person	19	16	27
General Employee		15	14	19
Supply Chain Management				
Total number of suppliers	number	1,606	1,568	1,908
Number of suppliers by geographical region				
Mainland China		797	766	857
Hong Kong	number	243	245	290
Other Countries		566	557	761
Employee Health and Safety				
Work-related fatalities (person)	number	Nil	Nil	Nil
Work injury cases (case)	number	1	Nil	3
Lost days due to work injury	day	84	Nil	487
		2021	2020	2019
Community Investment				
Corporate charitable donations & sponsorships (HK\$)		263,000	269,000	294,000
Volunteer Participation				
Participants		121	91	401
Service hours		712	546	2,818
Beneficiaries				
Number of beneficiaries		251	177	224



Directors' Report

The board of directors of the Company (the "Director(s)" or the "Board") presents this Directors' Report (the "Report") together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding. The principal activities of the Group include shipping services and general trading. The activities of the principal subsidiaries are set out in note 35 to the financial statements. An analysis of the revenue and segment information of the Group for the year is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated income statement on page 130 of this annual report. The Board has recommended the payment of a final dividend of 9 HK cents (2020: 15.5 HK cents) per share for the year ended 31 December 2021. Subject to the approval of the shareholders of the Company (the "Shareholders") in the annual general meeting to be held on 31 May 2022, approximately HK\$137,966,000 will be payable on 28 June 2022 to the Shareholders whose names appear on the register of members of the Company on 10 June 2022. The proposed final dividend together with the interim dividend of 10 HK cents per share, total dividends per share for the year 2021 are 19 HK cents (2020: 22 HK cents).

BUSINESS REVIEW

The Group is principally engaged in the provision of shipping services and general trading. The shipping services business, the core business of the Group which includes ship trading agency services, insurance brokerage services, supply of marine equipment and spare parts, production and sale of coatings, and trading and supply of marine fuel and related products. The Group is committed to promoting green operation and actively implementing energy saving, emission reduction and recycling by implementing practices such as turning off all non-essential lights. In addition, the Group's coating business reflects the significant environmental impacts among other businesses and therefore the coating manufacturing subsidiaries of the Company in Mainland China strictly comply with the relevant laws and regulations in the People's Republic of China (the "PRC"). Being people-oriented, the Group ensures that all staff is reasonably remunerated and maintains a good relationship with its customers and suppliers. Further discussion and analysis of the Group's activities as required by Schedule 5 to the Companies Ordinance of Hong Kong (Cap.622), including a fair review of the Group's business, a description of the principal risks and uncertainties facing by the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2021, an indication of likely future development in the Group's business, an analysis using financial key performance indicators, a discussion on the Group's environmental policies and performance and the compliance with the relevant laws and regulations that have a significant impact on the Group, and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends, are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis", "Prospects", "Corporate Governance Report", "Environmental, Social and Governance Report" and "Five-Year Financial Summary" of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 3 to the financial statements.

Directors' Report

PROPERTY, PLANT AND EQUIPMENT

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

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2021 calculated under Companies Act of Bermuda amounted to HK\$6,718,133,000 (2020: HK\$7,471,654,000).

BORROWINGS

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

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 19 and note 34 to the financial statements respectively.

SHARE CAPITAL

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

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "SHARE OPTION INCENTIVE SCHEME" on pages 116 to 119 and any outstanding share options granted thereunder, no equity-linked agreements which may result the Company issuing share was entered into or existed during the year.

DONATIONS

Donations made by the Group during the year amounted to approximately HK\$263,000 (2020: HK\$269,000).

FIVE-YEAR FINANCIAL SUMMARY

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

DIRECTORS

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

Executive Directors

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

Mr. Ma Jianhua

Non-executive Directors

Mr. Feng Boming

Mr. Chen Dong

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec

Mr. Jiang, Simon X.

Mr. Kwong Che Keung, Gordon

In accordance with bye-law 99 of the Company's bye-laws, every Director shall be subject to retirement by rotation at least once every three years and a retiring Director shall be eligible for re-election at such annual general meeting of the Company. Pursuant to bye-law 99 of the Company's bye-laws, Mr. Feng Boming, Mr. Chen Dong and Mr. Jiang, Simon X. shall retire from office at the forthcoming annual general meeting of the Company and be eligible for re-election.

DIRECTORS' SERVICE CONTRACTS

Mr. Zhu Jianhui, being the Executive Director, has entered into a letter of appointment with the Company on 29 May 2020 for a term commencing from 29 May 2020 to the conclusion of the 2022 annual general meeting of the Company. Mr. Ma Jianhua, being the Executive Director, has entered into a letter of appointment with the Company on 19 May 2020 for a term commencing from 19 May 2020 to the conclusion of the 2022 annual general meeting of the Company. Each of Mr. Feng Boming and Mr. Chen Dong, being the Non-executive Director, has entered into a letter of appointment with the Company on 29 May 2020 for a term commencing from 29 May 2020 to the conclusion of the 2022 annual general meeting of the Company. Each of Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X., being the Independent Non-executive Director, has entered into a letter of appointment with the Company on 29 May 2020 for a term commencing from 29 May 2020 to the conclusion of the 2022 annual general meeting of the Company. Mr. Kwong Che Keung, Gordon, being the Independent Non-executive Director, has entered into a letter of appointment with the Company on 9 July 2020 for a term commencing from 9 July 2020 to the conclusion of the 2022 annual general meeting.

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

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

Directors' Report

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

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

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

* for identification purposes only

Directors' Report

CONNECTED TRANSACTIONS

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

A. Continuing Connected Transactions

1. (a) A master supply agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) Co., Limited, the immediate holding company of the Company, being connected person of the Company ("COSCO SHIPPING (Hong Kong)") on 18 November 2019 in relation to (1) provision of marine and general insurance brokerage services and other services by the relevant member(s) of the Group to the relevant member(s) of 中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*), the ultimate holding company of the Company ("COSCO SHIPPING") and its subsidiaries and associates (other than the Group), being connected persons of the Company (collectively, "COSCO SHIPPING Group"); and (2) provision of shipping services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group, including without limitation: (a) the provision of ship agency services in relation to shipbuilding, ship trading, chartering businesses and the sale and purchase of marine equipment and other related services; (b) the provision of supply and installation, repair, logistics and agency services in relation to (i) ship facilities and accessories, which include equipment, materials, spare parts for vessels, oil drills, projects at sea or on land and ports, (ii) radio communication, satellite communication, navigation equipment and other materials, and (iii) construction materials and facilities, chemicals and information management systems; and (c) the sale of coatings for the three financial years ending 31 December 2022 (the "Master Supply Agreement") and a supplemental master supply agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 6 September 2021 (the "Supplemental Master Supply Agreement") to revise the annual caps for the financial year ending 31 December 2021 and 2022 from HK\$1,690,000,000 to HK\$2,150,000,000 and from HK\$1,780,000,000 to HK\$2,420,000,000 respectively (collectively the "Revised Caps"). The transactions contemplated under the Master Supply Agreement and the Supplemental Master Supply Agreement are collectively called the Supply Continuing Connected Transactions. The transactions contemplated under the Master Supply Agreement and the Supplemental Master Supply Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees, commission, brokerage income and the consideration for the sale of materials and products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. The amount of service fees payable by COSCO SHIPPING Group under the Master Supply Agreement and the Supplemental Master Supply Agreement would be mainly determined by pre-determined formulae adopted by the Group (for example, insurance brokerage services and shipping agency services will be charged at certain fixed percentages of the value of the subject matter with reference to market price of comparable services). The prices offered to COSCO SHIPPING Group for services provided by the Group and the sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to independent third party customers for comparable services and similar materials and products (based on similar amount and similar specifications) respectively. For the purpose of determining the market rates for services fees and the prices for sale of materials and products, the Group will consider the certain fixed percentages of the value of the subject matter and prices offered to independent third party customers of comparable services and similar materials and products (based on similar amount and similar specifications) respectively and compare to those offered to COSCO SHIPPING Group. In particular, the relevant sales department of the related companies within the Group will compare the services fees and selling price offered to different customers (including COSCO SHIPPING Group and at least three independent third party customers) in respect of comparable service and a similar type of materials or products (based on similar amount and similar specifications) respectively. The aggregate amount of the Supply Continuing Connected Transactions for each of the financial years ending 31 December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO SHIPPING Group" (the "Supply Caps").

* for identification purposes only

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

Directors' Report

at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. Part of the services provided by COSCO SHIPPING Group will be charged by adopting pre-determined formulae (for example, provision of agency services, technical services and ancillary services and solicitation and referral of businesses will be charged at certain fixed percentages of the value of the subject matter with reference to market price of comparable services) and the remaining services will be charged by COSCO SHIPPING Group at fixed per unit consideration (for example, provision of logistics, transportation and business travel services will be charged at a fixed per unit price based on the quantity of the subject matter involved and the distance of the destination and location). The prices offered by COSCO SHIPPING Group for services provided to the Group and sale of other materials and products including construction materials and chemicals to the Group shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available from independent third party suppliers for comparable services and similar materials and products (based on similar amount and similar specifications) respectively. In particular, the relevant purchasing department of the related companies within the Group will obtain quotations from different suppliers (both COSCO SHIPPING Group and independent third party suppliers) in respect of comparable services and a similar type of materials or products (based on similar amount and similar specifications) respectively for comparison. The aggregate amount of the Purchase Continuing Connected Transactions for each of the financial years ending 31 December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO SHIPPING Group" (the "Purchase Caps").

- (d) A management services master agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 18 November 2019 in relation to the provision of administrative services including information technology and office communication network support, business management and manpower resources (including without limitation manpower resources with expertise and experience in the business carried on by the Group from time to time and management of human resources), technical support and other administrative and ancillary support (including without limitation sharing of office premises, office equipment, network and communication system, information technology, other technical support, system management, financial system and maintenance) by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group and sharing of office premises by the relevant member(s) of the Group (collectively the "Management Services Continuing Connected Transactions") for the three financial years ending 31 December 2022 (the "Management Services Master Agreement"). The transactions contemplated under the Management Services Master Agreement shall be conducted on normal commercial terms. The management fee shall be calculated based on either (a) the Group's prorated share of the common administrative costs which shall be determined based on the statistics of time-sharing of the workload of staff members shared by the Group and COSCO SHIPPING Group or the utilisation rate of the office support functions and network systems (depending on the type of management services which are provided) and the actual costs, expenses and disbursements incurred by COSCO SHIPPING Group in the course of its provision of the administrative services to the Group; or (b) fixed per unit consideration. This shall take into account the historical usage of administrative services by the Group provided by COSCO SHIPPING Group in the past two to three years with reference to the statistics of time-sharing of the workload of staff members shared by the Group and the utilisation rate of the office support functions and network systems and sharing of office premises (depending on the type of management services which are provided) and the actual costs, expenses and disbursements incurred by COSCO SHIPPING Group in the course of its provision of the administrative services to the Group. The fixed per unit consideration (subject to annual adjustment by inflation rate depending on the type of management services which are provided) will then be used to determine the annual services fees to be paid by the Group. The Group will consider the fees offered to be charged by independent third parties of similar services and compare to those offered by COSCO SHIPPING Group. In particular, the relevant department of the related companies within the Group will obtain quotations from different service providers (both COSCO SHIPPING Group and independent third parties) in respect of similar services for

comparison. The aggregate amount of the Management Services Continuing Connected Transaction for each of the financial year ending 31 December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed “Caps with COSCO SHIPPING Group” (the “Management Services Caps”).

- (e) A master tenancy agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 18 November 2019 in relation to the leasing or sub-leasing of any of the properties owned by or leased to COSCO SHIPPING Group from time to time by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group (collectively the “Tenancy Continuing Connected Transactions”) for the three financial years ending 31 December 2022 (the “Master Tenancy Agreement”). The transactions contemplated under the Master Tenancy Agreement shall be conducted on normal commercial terms and negotiated on arm’s length basis and the rent and other fees and charges payable by the Group to COSCO SHIPPING Group would be determined based on fixed per unit consideration and the Group would consider the rental offered to be charged by independent third parties of similar properties (based on similar location and similar area) and compare to those offered by COSCO SHIPPING Group. In particular, the relevant department of the related companies within the Group will obtain quotations from different parties (both COSCO SHIPPING Group and independent third parties) in respect of similar properties (based on similar location and similar area) for comparison. The aggregate amount of the Tenancy Continuing Connected Transactions for each of the financial years ending 31 December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed “Caps with COSCO SHIPPING Group” (the “Tenancy Caps”).
- (f) A financial services master agreement was entered into between the Company and 中遠海運集團財務有限責任公司(COSCO SHIPPING Finance Co. Limited*), a subsidiary of COSCO SHIPPING (“COSCO SHIPPING Finance”) on 25 May 2020 in relation to the provision of a range of financial services, including the deposit services, loan services, settlement services, remittance services, entrusted loan services (as lending agent in entrusted loan arrangements among members of the Group) and acceptance bill services by COSCO SHIPPING Finance to the Group (collectively the “Financial Services Continuing Connected Transactions”) for the three financial years ending 31 December 2022 (the “Financial Services Master Agreement”). The transactions contemplated under the Financial Services Master Agreement shall be conducted on normal commercial terms and negotiated on arm’s length basis and the terms of the transactions (including the interest receivable by the Group and the fees (including the service fees and handling charges) payable under the financial services to COSCO SHIPPING Finance) shall be at market rates or rates no less favourable than those available to independent third parties from COSCO SHIPPING Finance or from independent third parties to the relevant members of the Group (as appropriate). It was agreed that the interest payable to or receivable by the Group (as appropriate) or service fees payable by the Group for the services are (a) the interest rate for the deposit services shall be no lower than: (i) the floor rate for the same category of deposit services stipulated by the People’s Bank of China from time to time; (ii) the rate for the same category of deposit services offered by independent commercial banks in the PRC; and (iii) the rate for the same category and same class of deposit services offered by COSCO SHIPPING Finance to other member company(ies) of COSCO SHIPPING Group; (b) the interest rate for the loan and entrusted loan services shall be no higher than: (i) the cap rate for the same category of loan services stipulated by the People’s Bank of China from time to time; and (ii) the rate for the same category of loan services charged by independent commercial banks in the PRC of the same period; and (c) service fees of other services approved by the China Banking and Insurance Regulatory Commission shall be determined in accordance with the following pricing principles: (i) the price to be complied with the fee standards prescribed by the People’s Bank of China or China Banking and Insurance Regulatory Commission; (ii) no higher than those charged by independent commercial banks in the PRC for services of similar nature; and (iii) no higher than those charged by COSCO SHIPPING Finance to other member company(ies) of COSCO SHIPPING Group for services of similar nature. The aggregate amount of the Financial Services Continuing Connected Transactions for each of the financial year ending 31 December 2020, 2021 and 2022 would not exceed the relevant cap amounts set out in the table headed “Caps with COSCO SHIPPING Group” (the “Financial Services Caps”).

* for identification purposes only

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The Master Purchase Agreement, the Management Services Master Agreement, the Master Tenancy Agreement, the Purchase Caps, the Management Services Caps and the Tenancy Caps were exempt from shareholders' approval requirement under Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 18 November 2019. The Master Supply Agreement, the Fuel Oil Master Agreement, the Supply Caps and the Fuel Oil Caps were approved by the independent shareholders at the special general meeting of the Company held on 30 December 2019, details of which were disclosed in the announcement and circular of the Company dated 18 November 2019 and 9 December 2019 respectively. The Financial Services Master Agreement and the Financial Services Caps were approved by the independent shareholders at the special general meeting of the Company held on 7 July 2020, details of which were disclosed in the announcements and circulars of the Company dated 25 May 2020 and 15 June 2020 respectively. The Supplemental Master Supply Agreement and the Revised Caps were approved by the independent shareholders at the special general meeting of the Company held on 26 October 2021, details of which were disclosed in the announcement and circular of the Company dated 6 September 2021 and 28 September 2021 respectively.

Caps with COSCO SHIPPING Group

	Caps for the year ending 31 December 2020	Caps for the year ending 31 December 2021	Caps for the year ending 31 December 2022
Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement and the Supplemental Master Supply Agreement	HK\$1,600,000,000	HK\$2,150,000,000	HK\$2,420,000,000
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	US\$45,000,000	US\$45,000,000	US\$45,000,000
Aggregate amount payable by the Group for transactions contemplated under the Master Purchase Agreement	HK\$135,000,000	HK\$138,000,000	HK\$140,000,000
Aggregate amount payable by the Group to COSCO SHIPPING Group for transactions contemplated under the Management Services Master Agreement	HK\$22,000,000	HK\$20,000,000	HK\$21,000,000
Aggregate amount payable by the Group to COSCO SHIPPING Group (being the annual aggregate maximum amount of rent and other fees and charges payable by the Group to COSCO SHIPPING Group) for transactions contemplated under the Master Tenancy Agreement	HK\$30,000,000	HK\$31,000,000	HK\$32,000,000
Amount of daily cash balance(s) of all cash deposits accounts of the member(s) of the Group maintained with COSCO SHIPPING Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services, entrusted loan services and acceptance bill services) payable by the Group to COSCO SHIPPING Finance for transactions (except transactions in connection with the provision of loan services) contemplated under the Financial Services Master Agreement	RMB725,000,000	RMB730,000,000	RMB735,000,000
Amount of daily outstanding balance(s) of all loan accounts of the member(s) of the Group maintained with COSCO SHIPPING Finance (together with interests accrued thereon) and all service fees and handling charges for the loan services payable by the Group to COSCO SHIPPING Finance for loan transactions contemplated under the Financial Services Master Agreement*	RMB140,000,000	RMB140,000,000	RMB140,000,000

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

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The amount of the Supply Continuing Connected Transactions, the Fuel Oil Continuing Connected Transactions, the Purchase Continuing Connected Transactions, the Management Services Continuing Connected Transactions, the Tenancy Continuing Connected Transactions and the Financial Services Continuing Connected Transactions, (collectively called the "Continuing Connected Transactions with COSCO SHIPPING Group") for the financial year ended 31 December 2021 were as follows:

Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement and the Supplemental Master Supply Agreement	HK\$2,039,077,584
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	Nil
Aggregate amount payable by the Group for transactions contemplated under the Master Purchase Agreement	HK\$16,145,650
Aggregate amount payable by the Group to COSCO SHIPPING Group for transactions contemplated under the Management Services Master Agreement	HK\$8,582,994
Aggregate amount payable by the Group to COSCO SHIPPING Group (being the annual aggregate maximum amount of rent and other fees and charges payable by the Group to COSCO SHIPPING Group) for transactions contemplated under the Master Tenancy Agreement	HK\$28,351,189
Amount of daily cash balance(s) of all cash deposits accounts of the member(s) of the Group maintained with COSCO SHIPPING Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services, entrusted loan services and acceptance bill services) payable by the Group to COSCO SHIPPING Finance for transactions (except transactions in connection with the provision of loan services) contemplated under the Financial Services Master Agreement	Not exceeded RMB730,000,000 with highest daily balance of RMB438,870,692
Amount of daily outstanding balance(s) of all loan accounts of the member(s) of the Group maintained with COSCO SHIPPING Finance (together with interests accrued thereon) and all service fees and handling charges for the loan services payable by the Group to COSCO SHIPPING Finance for loan transactions contemplated under the Financial Services Master Agreement*	Not exceeded RMB140,000,000 with highest daily balance of RMB5,045,694

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

- On 31 December 2019, a COSCO SHIPPING HK management services master agreement was entered into between the Company, COSCO SHIPPING (Hong Kong) and COSCO SHIPPING (the "COSCO SHIPPING HK Management Services Master Agreement") in relation to the provision of management services by the Company regarding the day-to-day business operations and management of COSCO SHIPPING (Hong Kong) and its subsidiaries (other than those relating to the Group and Piraeus Port Authority S.A.) ("COSCO SHIPPING (Hong Kong) Group") (collectively the "COSCO SHIPPING HK Management Services Continuing Connected Transactions") for the three financial years ending 31 December 2022. The management fee to be received by the Company shall be negotiated at arm's length by the Company and the relevant member of COSCO SHIPPING (Hong Kong) Group and at a price determined upon the basis of the principle of "cost-plus" which is based on the cost arising from the provision of management services to COSCO SHIPPING (Hong Kong) Group by the Company plus a margin as agreed after arm's length negotiations between the Company and the relevant members of COSCO SHIPPING (Hong Kong) Group. In determining the costs, the Company will take into account the actual costs incurred (including, among others, the cost of human resources, professional knowledge and other resources). In determining the margin, the Company will take into account the scope

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and type of the services to be provided by the Company and rates that are generally accepted by the market and/or the general tax authorities and/or transfer pricing rules. The Company will refer to, among other things, the terms in relation to the provision of services of similar nature in the market by independent third parties and compare them with the terms for the provision of services by the Company (such as through conducting comparability analysis on transfer pricing) to ensure that the fees payable by the relevant members of COSCO SHIPPING (Hong Kong) Group to the Company will be calculated in accordance with the actual market circumstances and will not be less favourable than the fees receivable from an independent third party for the provision of services of similar nature. The aggregate amount of COSCO SHIPPING HK Management Services Continuing Connected Transactions for each of the financial years ending 31 December 2020, 2021 and 2022 would not exceed HK\$130,000,000, HK\$130,000,000 and HK\$130,000,000 respectively (the "COSCO SHIPPING HK Management Services Caps"). The COSCO SHIPPING HK Management Services Master Agreement and the COSCO SHIPPING HK Management Services Caps were exempt from shareholders' approval requirement under Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 31 December 2019.

The amount of the COSCO SHIPPING HK Management Services Continuing Connected Transactions for the financial year ended 31 December 2021 was HK\$77,943,198.

The price and the terms of the Continuing Connected Transactions with COSCO SHIPPING Group have been determined in accordance with the pricing policies disclosed in the announcements of the Company dated 18 November 2019, 25 May 2020 and 6 September 2021 and the circulars of the Company dated 9 December 2019, 15 June 2020 and 28 September 2021. The price and the terms of the COSCO SHIPPING HK Management Services Continuing Connected Transactions have been determined in accordance with the pricing policies disclosed in the announcement of the Company dated 31 December 2019. As set out in notes 33(a)(i), 33(a)(ii), 33(a)(iii), 33(a)(iv), 33(a)(v), 33(a)(vi), 33(a)(vii), 33(a)(viii), 33(b)(i), 33(b)(ii), 33(b)(iii), 33(b)(v), 33(b)(vi) and 33(b)(viii) to the financial statements, certain related party transactions of the Group also constituted continuing connected transactions of the Group as disclosed above.

The Independent Non-executive Directors had reviewed (1) the Supply Continuing Connected Transactions; (2) the Fuel Oil Continuing Connected Transactions; (3) the Purchase Continuing Connected Transactions; (4) the Management Services Continuing Connected Transactions; (5) the Tenancy Continuing Connected Transactions; (6) the Financial Services Continuing Connected Transactions; and (7) the COSCO SHIPPING HK Management Services Continuing Connected Transactions (collectively the "Group's Continuing Connected Transactions") and were of the opinion that the Group's Continuing Connected Transactions for the financial year ended 31 December 2021 had been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

For the purposes of Rule 14A.56 of the Listing Rules in relation to the Group's Continuing Connected Transactions, the Board engaged the auditor of the Company to report on the Group's Continuing Connected Transactions for the year ended 31 December 2021 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued an unqualified letter containing the findings and conclusions in respect of the Group's Continuing Connected Transactions for the year ended 31 December 2021 in accordance with Rule 14A.56 of the Listing Rules. A copy of aforesaid auditor's letter has been provided by the Company to the Stock Exchange.

B. Connected Transaction

Termination of Asset Acquisition Agreement

On 21 September 2020, 中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*) (“CSITC”), a wholly-owned subsidiary of the Company, entered into the asset acquisition agreement with 深圳市中海海盛瀝青有限公司 (Shenzhen China Shipping Haisheng Asphalt Co., Ltd.*) (“Shenzhen Haisheng”), pursuant to which Shenzhen Haisheng agreed to sell and CSITC agreed to acquire the assets, including the structures and equipment within the asphalt depot (“Target Assets”), at a consideration of RMB16,277,000 (the “Acquisition Transaction”), completion of which would be subject to the fulfillment of conditions precedent (the “Asset Acquisition Agreement”). As the structures of the Target Assets are constructed on a parcel of land within Macun in Chengmai County in the Hainan Province of the PRC (“Leased Land”), on or before the completion of the Acquisition Transaction (“Completion”), 海南國盛石油有限公司 (Hainan Guosheng Petroleum Co., Ltd.*) (“Hainan Guosheng”) (as lessor) and CSITC (as lessee) would enter into the new lease agreement in respect of Leased Land for a term commencing from the date of Completion to 31 December 2032. Shenzhen Haisheng and Hainan Guosheng are both subsidiaries of COSCO SHIPPING, the ultimate holding company of the Company. Therefore, each of Shenzhen Haisheng and Hainan Guosheng is an associate and a connected person of the Company under the Listing Rules. The Acquisition Transaction and the transactions contemplated under the new lease agreement based on the value of the right-of-use assets to be recognised by the Group, constitute connected transactions of the Company under the Listing Rules, details of which were disclosed in the announcement of the Company dated 21 September 2020.

As informed by Shenzhen Haisheng that the time required for the coordination with the entities responsible for building, site investigation, design, construction, supervision and inspection of the asphalt depot to issue the necessary documents is longer than expected, the obtaining of the planning permit, construction permit and filing of construction inspection and acceptance by Shenzhen Haisheng would be delayed. In addition, for the purpose of the filings for fire safety of the asphalt depot, certain public facilities within the oil depot of Hainan Guosheng would also need to be upgraded and modified. It was therefore unlikely that Shenzhen Haisheng could complete the aforesaid outstanding conditions precedent within a short period of time. As such, CSITC and Shenzhen Haisheng were in the course of negotiating for the extension of long stop date for satisfaction of the outstanding conditions precedent to 31 March 2021, details of which were disclosed in the announcement of the Company dated 21 December 2020.

Since CSITC has been informed by Shenzhen Haisheng that the outstanding condition precedent to Completion cannot be fulfilled by 31 March 2021 and a notice was given by CSITC to Shenzhen Haisheng to terminate the Asset Acquisition Agreement in accordance with the terms of the Asset Acquisition Agreement and therefore the Acquisition Transaction would not proceed. Further, in view of the termination of the Asset Acquisition Agreement, the new lease agreement was not entered into between Hainan Guosheng and CSITC, details of which were disclosed in the announcement of the Company dated 30 March 2021.

RELATED PARTY TRANSACTIONS

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

* for identification purposes only

Directors' Report

SHARE OPTION INCENTIVE SCHEME

The Company's share option incentive scheme has been adopted by the Shareholders at the special general meeting on 9 April 2020 (the "Share Option Incentive Scheme"). Summary of the Share Option Incentive Scheme disclosed in accordance with the Listing Rules is as follows:

1. Purposes of the Share Option Incentive Scheme

The purposes of the Share Option Incentive Scheme are, among other things,

- (a) to further refine the Company's corporate governance structure, unify the interest-balancing mechanism among the Shareholders, decision-makers and executives of the Company and closely bind the remuneration income of senior management personnel and key personnel of the Company with the performance of Shareholders' value so as to make the behaviour of the Participants consistent with the strategic objectives of the Company, maximise Shareholders' value and preserve or increase the value of state-owned assets;
- (b) to establish and improve the long-term incentive and control system of the Company and, through linking the Company's long-term performance, strengthen the sense of mission and responsibility of the senior management and key personnel in achieving the sustainable and healthy development of the Company, and focus on and carry forward the Company's mid-to-long term strategic orientation to promote the implementation of the long-term development strategies of the Company; and
- (c) to further strengthen cohesion of the Company, enhance the Company's competitive position in the labour market, and attract, retain and incentivise senior management and key personnel of the Company required for achieving the strategic targets of the Company, promote the realisation of the long-term strategic targets of the Company and serve as a driving force for the Company's long-term development.

2. Participants of the Share Option Incentive Scheme

- (a) the senior management who plays a leading role in the mid-to-long term performance development of the Company;
- (b) the middle management who plays an important role in improving the specific business development and internal management efficiency of the Company; and
- (c) core management and key staff in business operations who have direct impact on the operating performance and sustainable development of the Company.

3. Total number of securities available for issue under the Share Option Incentive Scheme

The total number of ordinary shares of the Company (the "Shares") which may be issued upon exercise of all share options to be granted under the Share Option Incentive Scheme approved on 9 April 2020 is 30,660,000, being approximately 2% of the issued share of the Company as at the said date.

As at the date of the Report, a total of 25,240,000 Shares representing approximately 1.65% of the issued share of the Company may be issued upon exercise of all share options which had been granted and yet to be exercised under the Share Option Incentive Scheme.

As at the date of the Report, no further share option could be granted under the Share Option Incentive Scheme.

4. Maximum entitlement of each participant under the Share Option Incentive Scheme

The total number of Shares issued and which may fall to be issued upon exercise of the share options under the Share Option Incentive Scheme and other share option incentive schemes of the Company (including both exercised and outstanding options) to each Participant shall not exceed 1% of the Shares in issue. The number of Share Options to be granted to each Participant shall be determined on the basis that the estimated value of the Share Options granted will not exceed 40% of his/her total annual emoluments when the Share Options are granted (inclusive of the estimated value of the Share Options granted).

The number of Share Options to be granted to each Participant may be adjusted according to the need for corporate management and the performance appraisal result of such Participant. The number of Share Options to be granted to each Participant and their exercise price are subject further to any adjustments so as to comply with the relevant regulations and rules then in force.

5. Period within which the securities must be taken up under an option

The Company granted an aggregate of 23,830,000 share options to certain directors of the Company and employees of the Group to subscribe for a total of 23,830,000 Shares at a price of HK\$2.26 per share on 28 April 2020 under the Share Option Incentive Scheme. Subject to the fulfilment of the relevant conditions, these share options granted are exercisable from 28 April 2022 to 27 April 2026 in batches.

The Company granted an aggregate of 2,460,000 share options to certain employees of the Group to subscribe for a total of 2,460,000 Shares at a price of HK\$2.184 per share on 6 October 2020 under the Share Option Incentive Scheme. Subject to the fulfilment of the relevant conditions, these share options granted are exercisable from 6 October 2022 to 5 October 2026 in batches.

The Company granted an aggregate of 1,370,000 share options to certain employees of the Group to subscribe for a total of 1,370,000 shares of the Company at a price of HK\$2.72 per share on 7 April 2021 under the Share Option Incentive Scheme. Subject to the fulfilment of the relevant conditions, these share options granted are exercisable from 7 April 2023 to 6 April 2027 in batches.

Each batch of the above share options is exercisable within the periods stated as follows: (a) 33.3% of the share options will be exercisable commencing on the first trading day after the expiration of the 24-month period (the second anniversary) from the respective dates of grant and ending on the last trading day of the 36-month period from the respective dates of grant; (b) 33.3% of share options will be exercisable commencing on the first trading day after the expiration of the 36-month period (the third anniversary) from the respective dates of grant and ending on the last trading day of the 48-month period from the respective dates of grant; and (c) 33.4% of the share options will be exercisable commencing on the first trading day after the expiration of the 48-month period (the fourth anniversary) from the respective dates of grant and ending on the last trading day of the 72-month period from the respective dates of grant.

6. Minimum period for which an option must be held before it can be exercised

There is and shall be a minimum period for which an option must be held before it can be exercised, details of which were disclosed in item 5 above.

7. Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

The share option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee. To the extent that the offer is not accepted within specific period of time in the manner aforesaid, it will be deemed to have been irrevocably declined.

Directors' Report

8. Basis of determining the exercise price

The exercise price is determined based on the principle of fair market value. The exercise price shall be the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of Share.

9. Remaining life of the Share Option Incentive Scheme

The Share Option Incentive Scheme shall be valid and effective for a period of 10 years from the date it becomes effective. The period within which the underlying Shares must be taken up under the Share Options is 6 years from the relevant date of grant.

Share Options

Details of the movements of the share options granted under the Share Option Incentive Scheme during the year are set out below:

Category	Exercise price (HK\$)	Outstanding as at 1 January 2021	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2021	Approximate % of total issued Shares	Exercisable period	Notes
Directors									
Mr. Zhu Jianhui	2.26	1,000,000	—	—	—	1,000,000	0.06%	28/04/2022–27/04/2026	1, 4
Mr. Ma Jianhua	2.26	1,000,000	—	—	—	1,000,000	0.06%	28/04/2022–27/04/2026	1, 4
		2,000,000	—	—	—	2,000,000			
Continuous contract employees									
	2.26	21,830,000	—	—	(2,240,000)	19,590,000	1.28%	28/04/2022–27/04/2026	1, 4
	2.184	2,460,000	—	—	(180,000)	2,280,000	0.15%	06/10/2022–05/10/2026	2, 4
	2.72	N/A	1,370,000	—	—	1,370,000	0.09%	07/04/2023–06/04/2027	3, 4
		26,290,000	1,370,000	—	(2,420,000)	25,240,000			

Notes:

- The share options were granted on 28 April 2020 under the Share Option Incentive Scheme at an exercise price of HK\$2.26 per share.
- The share options were granted on 6 October 2020 under the Share Option Incentive Scheme at an exercise price of HK\$2.184 per share.
- The share options were granted on 7 April 2021 under the Share Option Incentive Scheme at an exercise price of HK\$2.72 per share.

Directors' Report

- 4 Pursuant to the Share Option Incentive Scheme, these share options are exercisable subject to the fulfilment of the relevant conditions in batches and each batch of such share options is exercisable within the periods stated as follows: (a) 33.3% of the share options will be exercisable commencing on the first trading day after the expiration of the 24-month period (the second anniversary) from the respective dates of grant and ending on the last trading day of the 36-month period from the respective dates of grant; (b) 33.3% of share options will be exercisable commencing on the first trading day after the expiration of the 36-month period (the third anniversary) from the respective dates of grant and ending on the last trading day of the 48-month period from the respective dates of grant; and (c) 33.4% of the share options will be exercisable commencing on the first trading day after the expiration of the 48-month period (the fourth anniversary) from the respective dates of grant and ending on the last trading day of the 72-month period from the respective dates of grant.
- 5 These share options represent personal interest held by the participants as beneficial owner.
- 6 Save as disclosed above, no share options were exercised, lapsed or cancelled under the Share Option Incentive Scheme during the year.
- 7 The fair values of the share options granted during the year are estimated based on the Binomial option pricing model, and such fair values and significant inputs into the model are as follows:

	Fair value of share options (HK\$)	Share price at date of grant (HK\$)	Exercise price (HK\$)	Standard deviation of expected share price return	Expected life of share options	Expected dividend payout ratio	Risk-free interest rate
Share options granted on 28 April 2020	4,372,286	2.26	2.26	21.0%–23.2%	3–6 years	5.5%	0.38%–0.41%
Share options granted on 6 October 2020	472,891	2.18	2.184	22.3%–24.2%	3–6 years	5.5%	0.19%–0.28%
Share options granted on 7 April 2021	298,722	2.72	2.72	22.5%–24.6%	3–6 years	6.65%	0.34%–0.89%

The volatility measured at the standard deviation of expected share price return is based on the historical share price movement of the Company prior to the relevant date of grant. Changes in the subjective input assumptions could materially affect the fair value estimation. The Group recognises the fair value of share options as expenses in the consolidated income statement over the vesting period. The fair value of the share options is measured at the date of grant.

- 8 The closing prices of the Share immediately before the dates on which the share options were granted on 28 April 2020, 6 October 2020 and 7 April 2021 were HK\$2.26, HK\$2.18 and HK\$2.69 respectively.

Directors' Report

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2021, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

1. Long positions in the underlying shares of equity derivation of the Company

Details are set out in the sub-section headed "Share Options" of "SHARE OPTION INCENTIVE SCHEME" above.

2. Long positions in the shares of associated corporations

Name of Director	Name of associated corporation	Capacity	Nature of interest	Total number of ordinary shares of associated corporation held	Approximate percentage of the relevant class of total issued shares of associated corporation
Mr. Zhu Jianhui	COSCO SHIPPING Holdings Co., Ltd. ("COSCO SHIPPING Holdings")	Interest of spouse	Family	26,000 (A shares)	0.0002%
	China Shipping Container Lines Company Limited (now known as COSCO SHIPPING Development Co., Ltd.)	Interest of spouse	Family	10,000 (A shares)	0.0001%
Mr. Feng Boming	COSCO SHIPPING Development Co. Ltd.	Beneficial owner	Personal	22,100 (A shares)	0.0003%
	COSCO SHIPPING Ports Limited ("COSCO SHIPPING Ports")	Beneficial Owner	Personal	32,379	0.001%
	COSCO SHIPPING Holdings	Interest of spouse	Family	10,000 (A shares)	0.0001%
Mr. Kwong Che Keung, Gordon	COSCO SHIPPING Ports	Beneficial Owner	Personal	250,000	0.0075%

3. Long positions in the underlying shares of equity derivatives of associated corporation *Share options*

Name of Director	Name of associated corporation	Capacity	Nature of Interest	Exercise price (RMB)	Number of share options as at 31 December 2021	Approximate % of total number of issued A shares of the associated corporation	Notes
Mr. Feng Boming	COSCO SHIPPING Holdings Co., Ltd.	Interest of spouse	Family	3.15	461,630	0.004%	1, 3
		Beneficial owner	Personal	2.69	1,216,800	0.010%	2, 3

Notes:

- These share options were granted by COSCO SHIPPING Holdings Co., Ltd. ("COSCO SHIPPING Holdings") on 3 June 2019 pursuant to the A share option incentive scheme adopted by COSCO SHIPPING Holdings on 30 May 2019 and can be exercised during the period from 3 June 2021 to 2 June 2026.
- These share options were granted by COSCO SHIPPING Holdings on 29 May 2020 pursuant to the A share option incentive scheme adopted on 30 May 2019 and revised scheme approved on 18 May 2020 by COSCO SHIPPING Holdings and can be exercised during the period from 30 May 2022 to 28 May 2027.
- These share options will vest after 24 months from the date of grant ("Vesting Period"). Subject to the fulfillment of the relevant conditions, share option will be exercised in three batches after the expiry of the Vesting Period, i.e. (a) 33% of the share options can be exercised during the period from the first trading day after 24 months from the date of grant to the last trading day of the 36-month period from the date of grant.; (b) 33% of the share options can be exercised from the first trading day after 36 months from the date of grant to the last trading day of the 48-month period from the date of grant; and (c) 34% of the share options can be exercised from the first trading day after 48 months from the date of grant to the last trading day of the 84-month period from the date of grant.

Save as disclosed above and in the sub-section headed "Share Options" of "SHARE OPTION INCENTIVE SCHEME", none of the Directors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange as at 31 December 2021.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, the following persons and entities, other than Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Name of Shareholder	Capacity	Nature of interest	Total number of ordinary shares of the Company held (Long positions)	Approximate percentage of total issued shares number of the Company
COSCO SHIPPING	Interest of controlled corporation	Corporate interest	1,051,183,486	68.57%
中國海運集團有限公司 (China Shipping Group Company Limited*) ("China Shipping")	Interest of controlled corporation	Corporate interest	1,051,183,486	68.57%
COSCO SHIPPING (Hong Kong)	Beneficial owner	Beneficial interest	1,051,183,486	68.57%

Note: COSCO SHIPPING (Hong Kong) has beneficial interest in 1,051,183,486 shares of the Company. Since COSCO SHIPPING (Hong Kong) is a wholly-owned subsidiary of China Shipping which is in turn a wholly-owned subsidiary of COSCO SHIPPING, the interests of COSCO SHIPPING (Hong Kong) are deemed to be the interests of China Shipping and in turn the interests of China Shipping are deemed to be the interests of COSCO SHIPPING under the SFO.

* for identification purposes only

Save as disclosed above, as at 31 December 2021, the Company has not been notified by any person or entity who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

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

INDEPENDENT AUDITOR

The financial statements for the year have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment at the 2022 AGM.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

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 31 December 2021, except (a) (i) Mr. Feng Boming and Mr. Chen Dong, both the Non-executive Directors, were unable to attend the annual general meeting of the Company held on 28 May 2021 due to other business engagement; and (ii) Mr. Feng Boming, the Non-executive Director, was unable to attend the special general meeting of the Company held on 26 October 2021 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; and (b) the roles of Chairman and Managing Director are performed by the same individual, Mr. Zhu Jianhui, which deviates from code provision A.2.1 of the CG Code. However, the Board believes that the roles of Chairman of the Board and Managing Director being performed by the same individual will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) all the Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among others, that he acts for the benefit and in the best interests of the Company; (ii) the balance of power and authority is ensured by the operations of the Board; and (iii) the overall strategic and other key business, financial and operational policies of the Company are made collectively after thorough discussion at both the Board and senior management of the Company, there is no other matter deviated from the CG Code. The Company will continue to review its corporate governance policies and compliance with the Listing Rules and will continue to comply with the relevant provisions as set out in the CG Code.

Directors' Report

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 31 December 2021.

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. 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 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 31 December 2021, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Securities Code during the year.

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

On behalf of the Board

Zhu Jianhui

Chairman and Managing Director

Hong Kong, 25 March 2022

Independent Auditor's Report



羅兵咸永道

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

(incorporated in Bermuda with limited liability)

OPINION

What we have audited

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

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

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Independent Auditor's Report

Independence

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

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is related to impairment assessment of trade receivables.

Key Audit Matter

How our audit addressed the Key Audit Matter

Impairment assessment of trade receivables

Refer to notes 2(j), 4(a) and 16 to the consolidated financial statements.

At 31 December 2021, the Group had gross trade receivables of HK\$824.5 million (2020: HK\$753.9 million), against which a provision for impairment of HK\$31.2 million (2020: HK\$30.3 million) was made.

Provision for impairment of trade receivables reflects management's best estimate to determine the expected credit losses. Trade receivables have been grouped based on shared credit risk characteristics and ageing profile. The expected loss rates are based on the historical credit losses experienced in the past. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

This is a Key Audit Matter because of the magnitude of the trade receivables balance and the significant judgement applied in assessing the allowance for expected credit losses.

Our audit procedures in relation to the impairment assessment of trade receivables included:

- Understood, evaluated and tested management's internal controls over credit control process and its basis and methodology of estimation of the amount of impairment provision required for trade receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;
- Assessed the appropriateness of the expected credit loss provisioning methodology;
- Tested, on a sample basis, the key data inputs including the ageing schedule of trade receivables;
- Challenged the assumptions, including both historical and forward-looking information, used to determine the expected credit losses with the involvement of our in-house valuation experts;
- Tested, on a sample basis, the post-year end settlements of trade receivables by agreeing the receivables to the bank receipts as applicable; and
- Assessed the adequacy of the disclosures related to the impairment assessment of trade receivables in the context of HKFRS disclosure requirements.

Based on the procedures performed above, we considered that management's impairment assessment of trade receivables is supportable by available evidence.

Independent Auditor's Report

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Pong Fei Ho.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 March 2022

Consolidated Statement of Financial Position

As at 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
ASSETS			
Non-current assets			
Intangible assets	6	107,664	109,044
Property, plant and equipment	7	255,817	279,908
Right-of-use assets	8	41,412	45,459
Investment properties	9	158,545	144,543
Investments in joint ventures	10	499,999	562,668
Investments in associates	11	237,786	167,403
Financial assets at fair value through other comprehensive income	13	62,621	57,590
Deferred income tax assets	14(a)	42,810	37,931
		1,406,654	1,404,546
Current assets			
Inventories	15	443,548	366,348
Trade and other receivables	16	1,671,666	1,645,823
Current income tax recoverable		615	3,330
Restricted bank deposits	17	6,115	13,600
Current deposits and cash and cash equivalents	17	6,213,626	6,505,047
		8,335,570	8,534,148
Total assets		9,742,224	9,938,694
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	153,296	153,296
Reserves	19	7,907,721	7,959,747
		8,061,017	8,113,043
Non-controlling interests		333,579	314,671
Total equity		8,394,596	8,427,714
LIABILITIES			
Non-current liabilities			
Lease liabilities	8	4,738	6,194
Deferred income tax liabilities	14(b)	63,308	83,233
		68,046	89,427
Current liabilities			
Trade and other payables	20	894,585	951,298
Contract liabilities	20	306,514	358,284
Current income tax liabilities		30,933	18,038
Short-term borrowings	21	42,807	89,111
Lease liabilities	8	4,743	4,822
		1,279,582	1,421,553
Total liabilities		1,347,628	1,510,980
Total equity and liabilities		9,742,224	9,938,694

Zhu Jianhui
Director

Ma Jianhua
Director

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

Consolidated Income Statement

For the year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Revenue	5	4,533,549	3,442,894
Cost of sales		(3,764,176)	(2,814,363)
Gross profit		769,373	628,531
Management fee income	33(a)	77,942	117,328
Other income and gains — net	22	35,163	11,933
Selling, administrative and general expenses	23	(604,933)	(625,292)
Operating profit		277,545	132,500
Finance income	26	47,979	137,635
Finance costs	26	(7,172)	(4,939)
Finance income — net	26	40,807	132,696
Share of profits of joint ventures	10	63,711	108,807
Share of (losses)/profits of associates	11	(40,889)	31,022
Profit before income tax		341,174	405,025
Income tax expenses	27	(37,568)	(57,489)
Profit for the year		303,606	347,536
Profit attributable to:			
Equity holders of the Company		288,341	338,523
Non-controlling interests		15,265	9,013
		303,606	347,536
Earnings per share attributable to equity holders of the Company			
— basic and diluted, HK cents	28	18.81	22.08

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
Profit for the year	303,606	347,536
Other comprehensive income/(losses)		
Items that may be reclassified subsequently to profit or loss:		
Share of currency translation differences of joint ventures	9,483	11,136
Share of currency translation differences of associates	(350)	517
Share of cash flow hedges of an associate, net of tax	(14,166)	14,143
Currency translation differences	46,293	100,139
Items that will not be reclassified to profit or loss:		
Fair value gains/(losses) on financial assets at fair value through other comprehensive income, net	7,388	(18,961)
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties	11,362	5,518
Other comprehensive income for the year	60,010	112,492
Total comprehensive income for the year	363,616	460,028
Total comprehensive income attributable to:		
Equity holders of the Company	338,878	431,911
Non-controlling interests	24,738	28,117
	363,616	460,028

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Note	Attributable to equity holders of the Company				Non-	Total
		Share	Other	Retained	Total	controlling	equity
		capital	reserves	profits		interests	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2021		153,296	840,689	7,119,058	8,113,043	314,671	8,427,714
Profit for the year		—	—	288,341	288,341	15,265	303,606
Other comprehensive income/(losses)							
Share of currency translation differences of:							
— joint ventures	19	—	9,483	—	9,483	—	9,483
— associates	19	—	(350)	—	(350)	—	(350)
Share of cash flow hedges of an associate, net of tax	19	—	(14,166)	—	(14,166)	—	(14,166)
Currency differences on translation of:							
— subsidiaries	19	—	27,417	—	27,417	—	27,417
— joint ventures	19	—	3,626	—	3,626	—	3,626
— associates	19	—	5,777	—	5,777	—	5,777
— non-controlling interests		—	—	—	—	9,473	9,473
Fair value gains on financial assets at fair value through other comprehensive income, net	19	—	7,388	—	7,388	—	7,388
Realised upon disposal of financial assets at fair value through other comprehensive income	19	—	(1,494)	1,494	—	—	—
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties	19	—	11,362	—	11,362	—	11,362
Total comprehensive income for the year ended 31 December 2021		—	49,043	289,835	338,878	24,738	363,616
Transactions with owners							
Transfer between reserves	19	—	3,652	(3,652)	—	—	—
Dividends paid	19	—	—	(390,904)	(390,904)	(5,830)	(396,734)
Total transactions with owners		—	3,652	(394,556)	(390,904)	(5,830)	(396,734)
Balance at 31 December 2021		153,296	893,384	7,014,337	8,061,017	333,579	8,394,596

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Note	Attributable to equity holders of the Company			Total	Non-controlling interests	Total equity
		Share capital	Other reserves	Retained profits			
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2020		153,296	744,581	7,028,528	7,926,405	291,814	8,218,219
Profit for the year		—	—	338,523	338,523	9,013	347,536
Other comprehensive income/(losses)							
Share of currency translation differences of:							
— joint ventures	19	—	11,136	—	11,136	—	11,136
— associates	19	—	517	—	517	—	517
Share of cash flow hedges of an associate, net of tax	19	—	14,143	—	14,143	—	14,143
Currency differences on translation of:							
— subsidiaries	19	—	74,258	—	74,258	—	74,258
— joint ventures	19	—	6,750	—	6,750	—	6,750
— associates	19	—	27	—	27	—	27
— non-controlling interests		—	—	—	—	19,104	19,104
Fair value losses on financial assets at fair value through other comprehensive income, net	19	—	(18,961)	—	(18,961)	—	(18,961)
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties	19	—	5,518	—	5,518	—	5,518
Total comprehensive income for the year ended 31 December 2020		—	93,388	338,523	431,911	28,117	460,028
Transactions with owners							
Transfer between reserves	19	—	2,720	(2,720)	—	—	—
Dividends paid	19	—	—	(245,273)	(245,273)	(5,260)	(250,533)
Total transactions with owners		—	2,720	(247,993)	(245,273)	(5,260)	(250,533)
Balance at 31 December 2020		153,296	840,689	7,119,058	8,113,043	314,671	8,427,714

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Cash flows from operating activities			
Cash generated from operations	30(a)	101,151	307,641
Income tax paid		(47,389)	(35,497)
Net cash from operating activities		53,762	272,144
Cash flows from investing activities			
Decrease in cash deposits with maturity over three months		371,792	283,142
Decrease/(increase) in restricted bank deposits		7,764	(7,249)
Interest received		52,755	159,870
Dividends received from investments		2,635	2,770
Dividends received from joint ventures	10	138,516	1,444
Dividends received from associates	11	21,971	25,999
Net proceeds from disposal of property, plant and equipment		125	193
Net proceeds from disposal of financial assets at fair value through other comprehensive income		2,356	—
Purchases of intangible assets	6	(89)	(3,139)
Purchases of property, plant and equipment	7	(14,330)	(8,046)
Net cash used in acquisition of an associate	11	(141,982)	—
Net cash used in acquisition of a subsidiary		—	(369)
Net cash from investing activities		441,513	454,615
Cash flows from financing activities			
Loans from fellow subsidiaries		126,460	84,338
Repayment of loans from a fellow subsidiary		(174,636)	(61,848)
Principal elements of lease payments		(7,086)	(9,212)
Finance costs paid		(6,838)	(4,596)
Dividends paid to the Company's equity holders	34(a)	(390,904)	(245,273)
Dividends paid to non-controlling interests		(5,830)	(10,055)
Net cash used in financing activities		(458,834)	(246,646)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		1,300,353	805,165
Exchange gains on cash and cash equivalents		13,957	15,075
Cash and cash equivalents at the end of the year	17(g)	1,350,751	1,300,353

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

Notes to the Financial Statements

1 GENERAL INFORMATION

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

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

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

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

These consolidated financial statements have been approved for issue by the board of directors on 25 March 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

The amendments to existing standards that became effective in this accounting period do not have any significant impact on the Group's accounting policies and had no significant impact on the results and the financial position of the Group.

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 1 January 2021 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Annual improvements projects	Annual Improvements to HKFRSs 2018–2020	1 January 2022
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope Amendments	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
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.

(b) Consolidation

(i) *Subsidiaries*

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(i) *Subsidiaries (Continued)*

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

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

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

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

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

(iii) *Disposal of subsidiaries*

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Joint arrangements

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

Under the equity method of accounting, investments in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of joint ventures' post-acquisition profits or losses in the consolidated income statement, and the Group's share of joint ventures' post-acquisition movements in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investments in joint ventures.

Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the joint venture's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the joint venture's profit or loss in the period in which the investment is acquired.

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

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

The carrying amount of investments in joint ventures is tested for impairment in accordance with note 2(h).

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

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

(d) Associates

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

Under the equity method of accounting, investments in associates are initially recognised at cost and adjusted thereafter to recognise the Group's share of associates' post-acquisition profits or losses in the consolidated income statement, and the Group's share of associates' post-acquisition movements in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investments in associates.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates (Continued)

Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

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

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

The carrying amount of investments in associates is tested for impairment in accordance with note 2(h).

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

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

(e) Intangible assets

(i) Goodwill

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(ii) Computer software

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties

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

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

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

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

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

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment

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

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

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

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

No depreciation is provided for construction in progress.

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

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

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(i) Inventories

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

(j) Financial assets

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

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

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

Measurement

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

Equity instruments

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

Impairment

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

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

(k) Derivative financial instruments and hedging activities

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

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash flow hedge that qualify for hedge accounting

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

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

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

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

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

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example through cost of sales).
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Leases

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 without a purchase option. Short-term leases and low-value assets comprise motor vehicles, office furniture and equipment.

(m) Trade and other receivables

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Cash and cash equivalents

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

(o) Trade and other payables

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

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

(p) Provisions

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

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

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

(q) Contingent liabilities

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

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

(r) Current and deferred income tax

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Current and deferred income tax (Continued)

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

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

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

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

(s) Foreign currency translation

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

Foreign exchange gains and losses are presented in the consolidated income statement within "Other income and gains – net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets such as securities classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Foreign currency translation (Continued)

(iii) Group companies

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate at the reporting date of the statement of financial position.

(t) Borrowings and borrowing costs

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

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

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

(u) Employee benefits

(i) Pensions and retirement benefits

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Employee benefits (Continued)

(ii) *Share-based compensation*

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

When the share options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(iii) *Termination benefits*

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

(v) Revenue and income recognition

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

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

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

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue and income recognition (Continued)

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

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

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

(iii) *Rental income*

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

(iv) *Dividend income*

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

(v) *Government subsidy income*

Government subsidy income is recognised at their fair value where there is a reasonable assurance that it will be received and the Group will comply with all attached conditions. Government subsidy income relating to costs is deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(vi) *Interest income*

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

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

(w) Segment reporting

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

(x) Dividend distribution

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Share capital

Ordinary shares are classified as equity.

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

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

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

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

(i) Market risk

(1) Foreign currency risk

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

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

Since US dollars is pegged against Hong Kong dollars, the foreign exchange risk on translation of US dollars-denominated trade and other receivables, deposits and cash and cash equivalents, trade and other payables and contract liabilities is not considered to be significant.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(1) Foreign currency risk (Continued)

(b) Foreign currency risk arising from operations whose functional currency is Renminbi

At 31 December 2021, if Renminbi had weakened/strengthened by 5% against the US dollars with all other variables held constant, post-tax profit for the year would have been HK\$2,044,000 (2020: HK\$2,264,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollars-denominated trade and other receivables, deposits and cash and cash equivalents and foreign exchange losses/gains on translation of US dollars-denominated trade and other payables, contract liabilities and short-term borrowings.

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

(2) Interest rate risk

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

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

With all other variables held constant, if the interest rate had increased/decreased by 50 basis-point, the corresponding increase/decrease in net finance income (representing interest income on the Interest Bearing Assets) will result in a net increase/decrease in the Group’s post-tax profit by HK\$28,430,000 (2020: HK\$29,476,000).

(3) Price risk

The Group’s fuel oil trading business is conducted on an indent basis where the purchase and selling prices of majority of the transactions are fixed in advance and thus the Group’s exposure to fuel oil price risk is not significant. Management manages its exposure by entering into derivative contracts to hedge against the price fluctuation when the need arises. As at 31 December 2021 and 2020, there were no outstanding derivative financial instruments entered into by the Group.

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

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(3) Price risk (Continued)

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

	Increase/decrease in post-tax profit		Increase/decrease in investment revaluation reserve	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
5% increase/decrease in market price	—	—	3,007	2,743

(ii) Credit risk

Credit risk mainly arises from trade and other receivables, balances due from group and related companies and deposits with financial institutions. The Group has limited its credit exposure from bank balances and deposits by restricting its selection of financial institutions with acceptable credit rating, as rated by external credit agencies, and over 93% of the Group's bank balances as at 31 December 2021 were placed with state-owned and listed banks. Management considers these balances are subject to low credit risk.

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

Trade receivables and other receivables

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

For all other receivables, expected credit losses are measured as either 12-month expected loss allowance or lifetime expected loss allowance, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of other receivables has occurred since initial recognition, then impairment is measured as lifetime expected loss allowance.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(ii) Credit risk (Continued)

On that basis, the expected loss allowance as at 31 December 2021 and 31 December 2020 was determined as follows for trade receivables:

	Expected loss rate	Gross carrying amount HK\$'000	Expected loss allowance HK\$'000
Ageing analysis as at 31 December 2021			
Current–90 days	0.2%	521,312	828
91–180 days	1.3%	205,594	2,584
181–365 days	7.0%	71,006	4,975
Over 1 year	85.7%	26,597	22,782
		824,509	31,169
Ageing analysis as at 31 December 2020			
Current–90 days	0.1%	520,424	300
91–180 days	1.3%	160,754	2,141
181–365 days	23.5%	51,647	12,155
Over 1 year	74.6%	21,032	15,697
		753,857	30,293

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

As at 31 December 2021, the Group's provision for impairment of trade receivables amounted to HK\$31,169,000 (2020: HK\$30,293,000). During the year, net provision for impairment of trade receivables amounted to HK\$1,061,000 (2020: HK\$16,270,000).

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

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

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

	Within 1 year HK\$'000	More than 1 year HK\$'000
Group		
At 31 December 2021		
Trade and other payables	894,585	—
Short-term borrowing	43,307	—
Lease liabilities	4,909	4,794
At 31 December 2020		
Trade and other payables	951,298	—
Short-term borrowings	89,111	—
Lease liabilities	5,034	6,048

(b) Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as the Group's total borrowings divided by total assets. The Group's strategy, which was unchanged from prior year, is to maintain a low gearing ratio. The gearing ratios at 31 December 2021 and 2020 were as follows:

	2021 HK\$'000	2020 HK\$'000
Total borrowings	42,807	89,111
Total assets	9,742,224	9,938,694
Gearing ratio	0.4%	0.9%

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation

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

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

The following table presents the Group's financial assets and investment properties that are measured at fair value at 31 December 2021.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at FVOCI				
– equity securities	60,134	—	2,487	62,621
Investment properties				
– commercial — Hong Kong	—	—	30,700	30,700
– commercial — Overseas	—	—	33,180	33,180
– residential — Hong Kong	—	—	32,300	32,300
– residential — PRC	—	—	62,365	62,365
	60,134	—	161,032	221,166

The following table presents the Group's financial assets and investment properties that are measured at fair value at 31 December 2020.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at FVOCI				
– equity securities	54,856	—	2,734	57,590
Investment properties				
– commercial — Hong Kong	—	—	29,800	29,800
– commercial — Overseas	—	—	33,398	33,398
– residential — Hong Kong	—	—	18,100	18,100
– residential — PRC	—	—	63,245	63,245
	54,856	—	147,277	202,133

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

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

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

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

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

There were no Level 2 financial and non-financial assets in 2021 and 2020.

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

At the end of each reporting period, the management updates their assessment of the fair value of each property, taking into account the most recent independent valuations. Valuation techniques adopted is the direct comparison approach and the unobservable inputs being the price per gross floor area. The range of unobservable input at 31 December 2021 was from HK\$3,595 to HK\$20,026 per square foot (2020: from HK\$3,393 to HK\$19,593 per square foot). There is a positive correlation between the fair value price per square foot and the fair value of the investment properties.

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

(f) Valuation process

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

Notes to the Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Provision for impairment of trade receivables

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

(b) Allowances for inventory

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

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

(c) Income taxes

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

Notes to the Financial Statements

5 REVENUE AND SEGMENT INFORMATION

Turnover, representing revenue, recognised at a point in time, during the year is as follows:

	2021 HK\$'000	2020 HK\$'000
Sale of coatings	1,685,183	1,085,028
Sale of marine equipment and spare parts	1,578,889	1,315,925
Commission income from ship trading agency	103,772	90,934
Commission income from insurance brokerage	102,152	92,207
Sale of marine fuel and other products	—	70,404
Sale of asphalt and other products	1,063,553	788,396
	4,533,549	3,442,894

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, namely Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO") and Nasurfar Biomaterial Technology (Changshu) Co., Ltd. ("Nasurfar Changshu")
Marine equipment and spare parts	Trading and supply 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	Holding of investment in an associate, Double Rich Limited, and trading and supply of marine fuel and other related products
General trading	Trading, storage, processing and supply of asphalt and other products, and holding of investments in associates, including Zhejiang Four Brothers Rope Co., Ltd. ("Zhejiang Four Brothers Rope")

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.

Notes to the Financial Statements

5 REVENUE AND SEGMENT INFORMATION (Continued)

	Year ended and as at 31 December 2021									
	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	
Profit or loss items:										
Segment revenue	1,685,183	1,578,889	103,801	103,182	–	3,471,055	1,064,621	–	(2,127)	4,533,549
Inter-segment revenue	–	–	(29)	(1,030)	–	(1,059)	(1,068)	–	2,127	–
Revenue from external customers	1,685,183	1,578,889	103,772	102,152	–	3,469,996	1,063,553	–	–	4,533,549
Segment operating profit/(loss)	34,806	105,101	66,318	68,225	(1,000)	273,450	18,799	2,635	–	294,884
Finance income	682	582	2,649	1,288	221	5,422	671	–	(1,789)	4,304
Finance costs	(1,730)	(1,144)	(23)	(86)	(1)	(2,984)	(5,961)	–	1,789	(7,156)
Share of profits of joint ventures	61,402	1,680	629	–	–	63,711	–	–	–	63,711
Share of profits/(losses) of associates	–	–	121	–	(45,984)	(45,863)	4,974	–	–	(40,889)
Segment profit/(loss) before income tax	95,160	106,219	69,694	69,427	(46,764)	293,736	18,483	2,635	–	314,854
Income tax (expenses)/credit	(8,485)	(18,016)	(18,656)	(12,634)	99	(57,692)	(3,656)	–	–	(61,348)
Segment profit/(loss) after income tax	86,675	88,203	51,038	56,793	(46,665)	236,044	14,827	2,635	–	253,506
Balance sheet items:										
Total segment assets	1,764,578	1,169,156	356,679	327,489	124,391	3,742,293	929,335	60,134	(122,835)	4,608,927
Total segment assets include:										
– Joint ventures	482,374	11,948	5,677	–	–	499,999	–	–	–	499,999
– Associates	–	–	1,547	–	76,725	78,272	159,514	–	–	237,786
Total segment liabilities	477,975	452,889	62,539	132,785	225	1,126,413	220,979	–	(122,835)	1,224,557
Other items:										
Depreciation and amortisation, net of amount capitalised	35,995	7,793	499	184	–	44,471	6,183	–	–	50,654
Reversal of provision for impairment of inventories, net (Reversal of provision)/provision for impairment of trade receivables, net	(3,266)	–	–	–	–	(3,266)	–	–	–	(3,266)
Government subsidy income	(170)	(258)	–	(97)	–	(525)	(527)	–	–	(1,052)
Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets)	6,736	3,924	29	134	–	10,823	8,707	–	–	19,530

Notes to the Financial Statements

5 REVENUE AND SEGMENT INFORMATION (Continued)

	Year ended and as at 31 December 2020									
	Shipping services						General trading	Others	Inter-segment elimination	Total
	Marine equipment and spare parts		Ship trading agency	Insurance brokerage	Marine fuel and other products		Total			
	Coatings									
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	1,085,028	1,315,925	90,976	93,089	70,404	2,655,422	788,396	—	(924)	3,442,894
Inter-segment revenue	—	—	(42)	(882)	—	(924)	—	—	924	—
Revenue from external customers	1,085,028	1,315,925	90,934	92,207	70,404	2,654,498	788,396	—	—	3,442,894
Segment operating profit/(loss)	16,726	73,295	70,397	63,974	(2,004)	222,388	12,258	2,770	—	237,416
Finance income	479	661	1,914	974	128	4,156	268	—	(380)	4,044
Finance costs	(240)	(1,100)	(12)	(92)	(2)	(1,446)	(3,856)	—	380	(4,922)
Share of profits of joint ventures	106,201	1,270	1,336	—	—	108,807	—	—	—	108,807
Share of profits of associates	—	—	71	—	29,329	29,400	1,622	—	—	31,022
Segment profit before income tax	123,166	74,126	73,706	64,856	27,451	363,305	10,292	2,770	—	376,367
Income tax expenses	(8,728)	(11,396)	(22,662)	(11,766)	—	(54,552)	(2,103)	—	—	(56,655)
Segment profit after income tax	114,438	62,730	51,044	53,090	27,451	308,753	8,189	2,770	—	319,712
Balance sheet items:										
Total segment assets	1,701,953	1,381,139	319,196	363,543	204,414	3,970,245	722,454	54,856	(162,960)	4,584,595
Total segment assets include:										
— Joint ventures	546,340	11,434	4,894	—	—	562,668	—	—	—	562,668
— Associates	—	—	2,341	—	156,262	158,603	8,800	—	—	167,403
Total segment liabilities	398,810	623,038	72,038	214,716	309	1,308,911	190,349	—	(162,960)	1,336,300
Other items:										
Depreciation and amortisation, net of amount capitalised	22,496	7,016	280	236	—	30,028	6,287	—	—	36,315
Reversal of provision for impairment of inventories, net	(7,835)	—	—	—	—	(7,835)	—	—	—	(7,835)
Provision for impairment of trade receivables, net	14,153	344	—	—	—	14,497	1,773	—	—	16,270
Government subsidy income	(1,214)	(4,157)	—	(1,078)	—	(6,449)	(230)	—	—	(6,679)
Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets)	1,883	10,053	3,165	49	—	15,150	4,231	—	—	19,381

Notes to the Financial Statements

5 REVENUE AND SEGMENT INFORMATION (Continued)

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

	2021 HK\$'000	2020 HK\$'000
Profit before income tax for reportable segments	312,219	373,597
Profit before income tax for others	2,635	2,770
Profit before income tax for all segments	314,854	376,367
Elimination of segment income from corporate headquarters	(660)	(534)
Corporate finance income	43,675	133,591
Corporate finance costs	(16)	(17)
Corporate net exchange gains/(losses)	31,046	(25,884)
Corporate expenses, net of income	(47,725)	(78,498)
Profit before income tax for the Group	341,174	405,025
Income tax expenses for all segments	(61,348)	(56,655)
Corporate income tax credit/(expenses)	23,780	(834)
Profit after income tax for the Group	303,606	347,536

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

	2021 HK\$'000	2020 HK\$'000
Total assets for reportable segments	4,671,628	4,692,699
Total assets for others	60,134	54,856
Elimination of inter-segment receivables	(122,835)	(162,960)
Total assets for all segments	4,608,927	4,584,595
Corporate assets (mainly deposits and cash and cash equivalents)	5,499,674	5,512,941
Elimination of receivables between corporate headquarters and segments	(366,377)	(158,842)
Total assets for the Group	9,742,224	9,938,694

Notes to the Financial Statements

5 REVENUE AND SEGMENT INFORMATION (Continued)

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

	2021 HK\$'000	2020 HK\$'000
Total liabilities for reportable segments	1,347,392	1,499,260
Elimination of inter-segment payables	(122,835)	(162,960)
Total liabilities for all segments	1,224,557	1,336,300
Corporate liabilities	489,448	333,522
Elimination of payables between corporate headquarters and segments	(366,377)	(158,842)
Total liabilities for the Group	1,347,628	1,510,980

The Company is domiciled in Hong Kong. The Group's revenue from external customers derived from Hong Kong and places other than Hong Kong (principally in the PRC) are HK\$1,043,496,000 (2020: HK\$915,904,000) and HK\$3,490,053,000 (2020: HK\$2,526,990,000) 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\$667,686,000 (2020: HK\$814,109,000) and HK\$633,537,000 (2020: HK\$494,916,000) respectively.

Notes to the Financial Statements

6 INTANGIBLE ASSETS

	Goodwill HK\$'000	Computer software HK\$'000	Total HK\$'000
Cost:			
At 1 January 2020	106,109	17,360	123,469
Currency translation differences	1,238	840	2,078
Additions	—	3,139	3,139
Write-offs	—	(997)	(997)
At 31 December 2020	107,347	20,342	127,689
Currency translation differences	(68)	417	349
Additions	—	89	89
Write-offs	—	(16)	(16)
At 31 December 2021	107,279	20,832	128,111
Accumulated amortisation and impairment:			
At 1 January 2020	5,984	11,868	17,852
Currency translation differences	—	422	422
Amortisation (note 23)	—	1,368	1,368
Write-offs	—	(997)	(997)
At 31 December 2020	5,984	12,661	18,645
Currency translation differences	—	227	227
Amortisation (note 23)	—	1,591	1,591
Write-offs	—	(16)	(16)
At 31 December 2021	5,984	14,463	20,447
Net book amount:			
At 31 December 2021	101,295	6,369	107,664
At 31 December 2020	101,363	7,681	109,044

Impairment tests for goodwill

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

	2021 HK\$'000	2020 HK\$'000
Agency service in respect of shipbuilding, ship trading and bareboat charter business	48,217	47,857
Provision of insurance brokerage services	35,046	35,046
Trading of marine equipment and spare parts	18,032	18,460
	101,295	101,363

The recoverable amounts of the above business units are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Management determined forecast profitability based on past performance and its expectation for market development. Future cash flows are discounted at 10% (2020: 9%) per annum. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. These assumptions have been used for the analysis of each cash generating unit within the operating segment. Management determined the annual growth rate and discount rate for each business unit covering over the five-year forecast period to be key assumptions.

Notes to the Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improve- ment HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
Cost:					
At 1 January 2020	285,075	143,451	18,021	37,150	483,697
Currency translation differences	17,196	8,757	224	2,203	28,380
Acquisition of a subsidiary	336	6,061	—	6	6,403
Additions	35	6,590	694	727	8,046
Disposals	—	(4,632)	—	(2,534)	(7,166)
Transfer to investment properties (note 9)	(393)	—	—	—	(393)
At 31 December 2020	302,249	160,227	18,939	37,552	518,967
Currency translation differences	7,873	4,236	53	1,062	13,224
Additions	384	11,531	565	1,850	14,330
Disposals	(6)	(3,211)	—	(2,167)	(5,384)
Transfer to investment properties (note 9)	(579)	—	—	—	(579)
At 31 December 2021	309,921	172,783	19,557	38,297	540,558
Accumulated depreciation:					
At 1 January 2020	68,821	83,244	17,288	32,794	202,147
Currency translation differences	4,944	5,216	227	2,068	12,455
Depreciation (note 23(a))	13,098	15,937	470	2,333	31,838
Disposals	—	(4,609)	—	(2,532)	(7,141)
Transfer to investment properties (note 9)	(240)	—	—	—	(240)
At 31 December 2020	86,623	99,788	17,985	34,663	239,059
Currency translation differences	2,476	2,945	55	995	6,471
Depreciation (note 23(a))	9,588	33,489	287	1,508	44,872
Disposals	—	(3,118)	—	(2,167)	(5,285)
Transfer to investment properties (note 9)	(376)	—	—	—	(376)
At 31 December 2021	98,311	133,104	18,327	34,999	284,741
Net book amount:					
At 31 December 2021	211,610	39,679	1,230	3,298	255,817
At 31 December 2020	215,626	60,439	954	2,889	279,908

Notes to the Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2021 HK\$'000	2020 HK\$'000
Leasehold properties held in Hong Kong		
– on leases of over 50 years	—	154
– on leases of between 10 and 50 years	—	54
Leasehold properties held outside Hong Kong		
– on leases of between 10 and 50 years	210,709	214,453
– on leases of less than 10 years	901	965
	211,610	215,626

8 LEASES

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

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

	2021 HK\$'000	2020 HK\$'000
Right-of-use assets		
Leasehold land and buildings	9,340	12,880
Machinery, equipment and motor vehicles	327	991
Prepaid premium for land leases	31,745	31,588
	41,412	45,459
Lease liabilities		
Current	4,743	4,822
Non-current	4,738	6,194
	9,481	11,016

During the year, addition to the right-of-use assets was HK\$5,222,000 (2020: HK\$12,569,000). For the year ended 31 December 2020, an addition of HK\$2,230,000 was from the acquisition of a subsidiary.

Notes to the Financial Statements

8 LEASES (Continued)

(ii) Amounts recognised in the consolidated income statement

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

	2021 HK\$'000	2020 HK\$'000
Depreciation of right-of-use assets (note 23(b))		
Leasehold land and buildings	6,613	6,657
Machinery, equipment and motor vehicles	1,040	2,112
Prepaid premium for land leases	761	710
	8,414	9,479
Interest expense (included in finance costs) (note 26)	368	322
Expenses related to short-term leases	37,776	27,784

The total cash outflow for lease liabilities for the year ended 31 December 2021 was HK\$7,086,000 (2020: HK\$9,212,000), which included payments of lease liabilities to fellow subsidiaries of HK\$4,881,000 (2020:HK\$4,029,000). The total cash outflow for short-term leases for the year ended 31 December 2021 was HK\$37,776,000 (2020: HK\$27,784,000).

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

The Group leases various buildings, machinery, equipment and motor vehicles. Rental contracts are typically made for fixed periods of 1 to 10 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.

Notes to the Financial Statements

9 INVESTMENT PROPERTIES

	Completed commercial properties — Hong Kong HK\$'000	Completed commercial properties — Overseas HK\$'000	Completed residential properties — Hong Kong HK\$'000	Completed residential properties — PRC HK\$'000	Total HK\$'000
At 1 January 2020	29,800	32,922	10,500	48,039	121,261
Currency translation differences	—	476	—	3,738	4,214
Transfer from property, plant and equipment (note 7)	—	—	153	—	153
Transfer from right-of-use assets	—	—	1,529	—	1,529
Fair value gains (note 22)	—	—	400	11,468	11,868
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties (note 19)	—	—	5,518	—	5,518
At 31 December 2020	29,800	33,398	18,100	63,245	144,543
Currency translation differences	—	(508)	—	1,818	1,310
Transfer from property, plant and equipment (note 7)	—	—	203	—	203
Transfer from right-of-use assets	—	—	1,815	—	1,815
Fair value gains/(losses) (note 22)	900	290	820	(2,698)	(688)
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties (note 19)	—	—	11,362	—	11,362
At 31 December 2021	30,700	33,180	32,300	62,365	158,545

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

	2021 HK\$'000	2020 HK\$'000
Held in Hong Kong		
— on leases of over 50 years (note)	63,000	47,900
Held outside Hong Kong		
— on leases of between 10 and 50 years	62,365	63,245
— on freehold land	33,180	33,398
	158,545	144,543

Note:

During the year, two residential properties in Hong Kong have been reclassified as investment properties as a result of a change in use. The properties were revalued on the date of the reclassification from property, plant and equipment and right-of-use assets to investment properties. The fair values were determined based on the valuation report prepared by management upon transfer, and were valued separately by an independent qualified valuer at year end.

Notes to the Financial Statements

9 INVESTMENT PROPERTIES (Continued)

Valuation processes of the Group

The Group measures its investment properties at fair value.

The investment properties in Hong Kong and the PRC were revalued by Cushman & Wakefield Limited, an independent qualified valuer not related to the Group, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued, at 31 December 2021 and 2020.

The overseas investment property was revalued by Pioneer Property Consultants LLP, an independent qualified valuer not related to the Group, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued, at 31 December 2021 and 2020.

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

At each financial year end, the finance department:

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

Valuation techniques

Fair value measurements using significant unobservable inputs (Level 3)

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

10 INVESTMENTS IN JOINT VENTURES

	2021 HK\$'000	2020 HK\$'000
At 1 January	562,668	437,419
Currency translation differences (note 19)	3,626	6,750
Share of profits	63,711	108,807
Share of other comprehensive income (note 19)	9,483	11,136
Dividends received	(139,489)	(1,444)
At 31 December	499,999	562,668

Notes to the Financial Statements

10 INVESTMENTS IN JOINT VENTURES (Continued)

Note:

On 6 August 2018, the Company completed its acquisition of 33% of equity interest in Nasurfar Changshu, a company incorporated in the PRC, at a consideration of RMB89,830,000 (approximately HK\$102,971,000). Under the share subscription agreement, the Group has an option to put back the investment to the original shareholder at the original consideration plus interest if Nasurfar Changshu cannot fulfill a predetermined cumulative profit target within 5 financial years from the year of acquisition. Management considers the probability of such option being exercisable is remote and hence the option is of insignificant value.

Particulars of the joint ventures of the Group as at 31 December 2021 are set out in note 36 to the financial statements.

Summarised financial information for a material joint venture of the Group

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

Summarised statement of financial position

	2021 HK\$'000	2020 HK\$'000
Non-current assets	331,295	359,771
Current assets		
Cash and cash equivalents	187,491	232,473
Other current assets	1,269,536	1,126,607
Total current assets	1,457,027	1,359,080
Current liabilities		
Financial liabilities (excluding trade and other payables and provisions)	(283,576)	(147,254)
Other current liabilities	(803,331)	(709,879)
Total current liabilities	(1,086,907)	(857,133)
Non-current liabilities		
Deferred income tax liabilities	(10,173)	(10,141)
Other non-current liabilities	(7,466)	(9,231)
Total non-current liabilities	(17,639)	(19,372)
Net assets	683,776	842,346

Notes to the Financial Statements

10 INVESTMENTS IN JOINT VENTURES (Continued)

Summarised statement of comprehensive income

	2021 HK\$'000	2020 HK\$'000
Revenue	2,593,233	2,480,195
Depreciation and amortisation	55,688	53,630
Interest income	2,027	1,154
Interest expense	6,107	12,189
Profit before income tax	106,816	246,390
Income tax expenses	(11,851)	(47,353)
Profit for the year	94,965	199,037
Other comprehensive income	18,565	22,354
Total comprehensive income	113,530	221,391

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

Reconciliation of summarised financial information

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

	2021 HK\$'000	2020 HK\$'000
Opening net assets at 1 January	842,346	620,955
Profit for the year	94,965	199,037
Dividends	(272,100)	—
Other comprehensive income		
Currency translation differences	18,565	22,354
Closing net assets at 31 December	683,776	842,346
Interest in joint venture (50%)	341,888	421,173
Goodwill	7,097	7,097
Carrying amount	348,985	428,270

The aggregate carrying amounts of individually immaterial joint ventures are HK\$151,014,000 (2020: HK\$134,398,000). The aggregate amounts of the Group's share of these immaterial joint ventures' profits for the year and other comprehensive income are HK\$16,229,000 (2020: HK\$9,289,000) and HK\$200,000 (2020: total comprehensive losses of HK\$41,000) respectively.

Notes to the Financial Statements

11 INVESTMENTS IN ASSOCIATES

	2021 HK\$'000	2020 HK\$'000
At 1 January	167,403	147,693
Currency translation differences (note 19)	5,777	27
Acquisition of an associate	141,982	—
Share of (losses)/profits	(40,889)	31,022
Share of other comprehensive income (note 19)	(14,516)	14,660
Dividends received	(21,971)	(25,999)
At 31 December	237,786	167,403

No summarised financial information for associates has been set out, as there were no individually material associates in 2021 and 2020.

On 31 March 2021, the Group completed the capital injection in Zhejiang Four Brothers Rope, a company incorporated in the PRC, by subscribing 48% equity interest of Zhejiang Four Brothers Rope, at a consideration of RMB120,000,000 (approximately HK\$141,982,000).

Particulars of the associates of the Group as at 31 December 2021 are set out in note 36 to the financial statements.

12 FINANCIAL INSTRUMENTS BY CATEGORY

The Group has categorised its financial instruments as follows:

	Financial assets at amortised cost HK\$'000	Financial assets at FVOCI HK\$'000	Total HK\$'000
Assets as per consolidated statement of financial position			
At 31 December 2021			
Financial assets at FVOCI (note 13)	—	62,621	62,621
Trade and other receivables excluding prepayments (note 16)	1,669,498	—	1,669,498
Restricted bank deposits, deposits and cash and cash equivalents (note 17)	6,219,741	—	6,219,741
Total	7,889,239	62,621	7,951,860
At 31 December 2020			
Financial assets at FVOCI (note 13)	—	57,590	57,590
Trade and other receivables excluding prepayments (note 16)	1,645,136	—	1,645,136
Restricted bank deposits, deposits and cash and cash equivalents (note 17)	6,518,647	—	6,518,647
Total	8,163,783	57,590	8,221,373

Notes to the Financial Statements

12 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Financial liabilities at amortised cost HK\$'000
Liabilities as per consolidated statement of financial position	
At 31 December 2021	
Trade and other payables excluding non-financial liabilities (note 20)	894,585
Contract liabilities (note 20)	306,514
Short-term borrowing (note 21)	42,807
Lease liabilities (note 8)	9,481
Total	1,253,387
At 31 December 2020	
Trade and other payables excluding non-financial liabilities (note 20)	951,298
Contract liabilities (note 20)	358,284
Short-term borrowings (note 21)	89,111
Lease liabilities (note 8)	11,016
Total	1,409,709

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 HK\$'000	2020 HK\$'000
Financial assets at FVOCI		
– Unlisted	2,487	2,734
– Listed	60,134	54,856
	62,621	57,590

Financial assets are denominated in the following currencies:

	2021 HK\$'000	2020 HK\$'000
Financial assets at FVOCI		
– Renminbi	2,487	2,734
– Hong Kong dollars	60,134	54,856
	62,621	57,590

Notes to the Financial Statements

14 DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the reporting date.

The movement on the net deferred income tax liabilities during the year is as follows:

	2021 HK\$'000	2020 HK\$'000
At 1 January	(45,302)	(24,739)
Currency translation differences	(313)	(2,574)
Acquisition of a subsidiary	—	126
Transferred to current income tax liabilities	789	281
Credited/(charged) to the consolidated income statement, net (note 27)	24,328	(18,396)
At 31 December	(20,498)	(45,302)

Deferred income tax assets are recognised for tax losses carried-forward to the extent that realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2021, the Group has unrecognised tax losses of HK\$135,215,000 (2020: HK\$132,263,000) to carry forward against future taxable profits, of which HK\$11,064,000 (2020: HK\$8,111,000) can be carried forward indefinitely. The remaining tax losses have an expiry date of up to 5 years.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances after offsetting where appropriate are as follows:

	2021 HK\$'000	2020 HK\$'000
Deferred income tax assets:		
– to be recovered after more than 12 months	24,974	32,028
– to be recovered within 12 months	17,836	5,903
	42,810	37,931
Deferred income tax liabilities:		
– to be settled after more than 12 months	(63,308)	(58,113)
– to be settled within 12 months	—	(25,120)
	(63,308)	(83,233)
	(20,498)	(45,302)

Notes to the Financial Statements

14 DEFERRED INCOME TAX (Continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

	Accrued liabilities HK\$'000	Impairment losses HK\$'000	Tax losses HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2020	13,610	5,671	23,038	685	43,004
Currency translation differences	606	468	1,255	10	2,339
Acquisition of a subsidiary	—	126	—	—	126
(Charged)/credited to the consolidated income statement	(4,763)	1,685	(4,000)	(460)	(7,538)
At 31 December 2020	9,453	7,950	20,293	235	37,931
Currency translation differences	457	157	410	145	1,169
Credited/(charged) to the consolidated income statement	11,172	(4,479)	(12,043)	9,060	3,710
At 31 December 2021	21,082	3,628	8,660	9,440	42,810

(b) Deferred income tax liabilities

	Accelerated tax depreciation HK\$'000	Fair value gains HK\$'000	Withholding tax HK\$'000	Total HK\$'000
At 1 January 2020	(1,825)	(23,014)	(42,904)	(67,743)
Currency translation differences	(12)	(1,876)	(3,025)	(4,913)
Transfer to current income tax liabilities	—	—	281	281
Charged to the consolidated income statement	—	(6,977)	(3,881)	(10,858)
At 31 December 2020	(1,837)	(31,867)	(49,529)	(83,233)
Currency translation differences	14	(921)	(575)	(1,482)
Transfer to current income tax liabilities	—	252	537	789
Credited to the consolidated income statement	—	791	19,827	20,618
At 31 December 2021	(1,823)	(31,745)	(29,740)	(63,308)

Notes to the Financial Statements

15 INVENTORIES

	2021 HK\$'000	2020 HK\$'000
Raw materials	86,830	65,559
Work in progress	4,233	3,693
Finished goods	352,485	297,096
	443,548	366,348

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$3,764,176,000 (2020: HK\$2,814,363,000).

As at 31 December 2021, inventories of HK\$23,539,000 (2020: HK\$35,573,000) were carried at net realisable value.

16 TRADE AND OTHER RECEIVABLES

	2021 HK\$'000	2020 HK\$'000
Trade receivables		
— third parties	560,563	484,196
— fellow subsidiaries (note (d))	214,515	242,111
— related companies (note (d))	41,102	26,923
— joint ventures (note (d))	7,469	2
— non-controlling interests (note (d))	860	625
	824,509	753,857
Less: provision for impairment (note (b))	(31,169)	(30,293)
Trade receivables — net (note (a))	793,340	723,564
Bills receivable		
— third parties	222,917	186,296
— fellow subsidiaries (note (d))	108,874	163,290
— related companies (note (d))	3,180	19,050
— joint ventures (note (d))	—	5,966
— non-controlling interests (note (d))	61	201
Prepayments	2,168	687
Deposits and other receivables		
— third parties	524,778	537,683
— fellow subsidiaries (note (d))	8,827	3,047
— related companies (note (d))	26	26
— joint ventures (note (d))	894	411
Amounts due from immediate holding company (note (d))	4,635	4,823
Amounts due from fellow subsidiaries (note (d))	1,966	779
	1,671,666	1,645,823

Notes to the Financial Statements

16 TRADE AND OTHER RECEIVABLES (Continued)

Notes:

- (a) As at 31 December, the ageing analysis of trade receivables (net of provision for impairment) based on invoice date is as follows:

	2021 HK\$'000	2020 HK\$'000
Current-90 days	520,484	520,124
91-180 days	203,010	158,613
Over 180 days	69,846	44,827
	793,340	723,564

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

- (b) The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, and it was assessed an amount of HK\$31,169,000 of the receivable balance was impaired as at 31 December 2021 (2020: HK\$30,293,000).

Movements on the provision for impairment of trade receivables are as follows:

	2021 HK\$'000	2020 HK\$'000
At 1 January	30,293	12,863
Currency translation differences	668	1,401
Provision for impairment, net (note 22)	1,061	16,270
Amount written off	(853)	(241)
At 31 December	31,169	30,293

- (c) The carrying amounts of trade and other receivables approximate their fair values and are denominated in the following currencies:

	2021 HK\$'000	2020 HK\$'000
Renminbi	1,180,219	1,099,783
Hong Kong dollars	59,392	62,131
United States dollars	158,845	127,787
Others	273,210	356,122
	1,671,666	1,645,823

- (d) Balances with immediate holding company, fellow subsidiaries, related companies, joint ventures and non-controlling interests are unsecured, interest-free and have no fixed terms of repayment except for the trade related balances and bills receivable, which are repayable according to the respective credit terms.
- (e) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. As at 31 December 2021 and 2020, the Group does not hold any collateral as security.

Notes to the Financial Statements

17 RESTRICTED BANK DEPOSITS, CURRENT DEPOSITS AND CASH AND CASH EQUIVALENTS

	2021 HK\$'000	2020 HK\$'000
Restricted bank deposits (note (a))	6,115	13,600
Current deposits with a fellow subsidiary (note (b))	412,911	353,330
Short-term bank deposits	5,101,843	5,636,168
Cash at bank and on hand	698,872	515,549
Current deposits and cash and cash equivalents	6,213,626	6,505,047
Total deposits and cash and cash equivalents	6,219,741	6,518,647

Notes:

- (a) Restricted bank deposits represent deposits placed to meet statutory requirement for insurance brokerage business in the PRC.
- (b) Deposits with a fellow subsidiary, which is a financial institution in the PRC, bear interest at prevailing market rates.
- (c) As at 31 December 2021, the Group has fiduciary funds of HK\$114,582,000 (2020: HK\$190,949,000) which represent clients' money kept for payment of insurance premiums to the underwriters and settlement of claims to the policyholders of insurance brokerage business. They are not available for general corporate purpose.
- (d) The carrying amounts of total deposits and cash and cash equivalents approximate their fair values and are denominated in the following currencies:

	2021 HK\$'000	2020 HK\$'000
Renminbi	420,335	337,071
Hong Kong dollars	265,118	205,014
United States dollars	5,451,746	5,857,215
Others	82,542	119,347
	6,219,741	6,518,647

- (e) The Group's cash and cash equivalents denominated in Renminbi are mainly deposited with banks and a fellow subsidiary in the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.
- (f) The maximum exposure to credit risk at the reporting date is the carrying amount of the balances mentioned above.
- (g) The Group's cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2021 HK\$'000	2020 HK\$'000
Total deposits and cash and cash equivalents	6,219,741	6,518,647
Less: restricted bank deposits	(6,115)	(13,600)
cash deposits with maturity more than three months from date of placement	(4,862,875)	(5,204,694)
Cash and cash equivalents	1,350,751	1,300,353

Notes to the Financial Statements

18 SHARE CAPITAL

	2021		2020	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Issued and fully paid: At 1 January and 31 December	1,532,955,429	153,296	1,532,955,429	153,296

Share options

On 9 April 2020, a share option incentive scheme (the "Share Option Incentive Scheme") was adopted at the special general meeting of the Company. The purpose of the Share Option Incentive Scheme is to, inter alia, attract, retain and incentivise senior management and key personnel of the Company, promote the realisation of the long-term strategic targets of the Company, and serve as the driving force for the long-term development of the Company.

Particulars and movements of the share options granted by the Company during the year are as follows:

Date of grant	Exercisable year	Exercise price	Year ended 31 December 2021				Outstanding as at 31 December 2021
			Number of share options				
			Outstanding as at 1 January 2021	Granted during the year	Exercised during the year	Lapsed/Cancelled during the year	
28 April 2020	Note (a)	HK\$2.26	23,830,000	—	—	(2,240,000)	21,590,000
6 October 2020	Note (b)	HK\$2.184	2,460,000	—	—	(180,000)	2,280,000
7 April 2021	Note (c)	HK\$2.72	—	1,370,000	—	—	1,370,000
			26,290,000	1,370,000	—	(2,420,000)	25,240,000

Notes:

- On 28 April 2020, the Company granted an aggregate of 23,830,000 share options at an exercise price of HK\$2.26 per share to 71 eligible directors of the Company and employees of the Group to subscribe for a total of 23,830,000 shares of HK\$0.10 each in the capital of the Company under the Share Option Incentive Scheme.
- On 6 October 2020, the Company granted an aggregate of 2,460,000 share options at an exercise price of HK\$2.184 per share to 8 eligible employees of the Group to subscribe for a total of 2,460,000 shares of HK\$0.10 each in the capital of the Company under the Share Option Incentive Scheme.
- On 7 April 2021, the Company granted an aggregate of 1,370,000 share options at an exercise price of HK\$2.72 per share to 5 eligible employees of the Group to subscribe for a total of 1,370,000 shares of HK\$0.10 each in the capital of the Company under the Share Option Incentive Scheme.

Under the Share Option Incentive Scheme, the exercises of the share options of three batches are subject to two-year, three-year and four-year vesting periods respectively during which a participant is not allowed to exercise any share option granted. After the expiration of each vesting period, the participant may exercise the share options in three batches commencing from the third, fourth and fifth year after the date of grant respectively. During the year, none of the share options was exercised.

Notes to the Financial Statements

18 SHARE CAPITAL (Continued)

Share options (Continued)

The fair values of the share options granted during the year are estimated based on the Binomial option pricing model, and such fair values and significant inputs in the model are as follows:

	Fair value of share options (HK\$)	Share price at date of grant (HK\$)	Exercise price (HK\$)	Standard deviation of expected share price return	Expected life of share options	Expected dividend payout ratio	Risk-free interest rate
Share options granted on 28 April 2020	4,372,286	2.26	2.26	21.0%–23.2%	3–6 years	5.5%	0.38%–0.41%
Share options granted on 6 October 2020	472,891	2.18	2.184	22.3%–24.2%	3–6 years	5.5%	0.19%–0.28%
Share options granted on 7 April 2021	298,722	2.72	2.72	22.5%–24.6%	3–6 years	6.65%	0.34%–0.89%

Expected volatility measured at the standard deviation of expected share price is based on the historical share price movement of the Company prior to the date of the grant.

There was no employee share options benefit expenses recognised during the year (2020: Nil).

As at 31 December 2021, 25,240,000 share options of the Company were outstanding (2020: 26,290,000), and no outstanding share options were vested and exercisable. The Company has no legal or constructive obligation to repurchase or settle the share options in cash.

During the year, no share options were exercised (2020: Nil), whereas 2,420,000 share options were lapsed/cancelled (2020: Nil) under the Share Option Incentive Scheme.

Notes to the Financial Statements

19 RESERVES

	Share premium HK\$'000	Statutory reserves (note (b)) HK\$'000	Contributed surplus (note (c)) HK\$'000	Exchange reserve HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2021	167,023	135,297	676,218	102,397	23,580	(277,969)	14,143	7,119,058	7,959,747
Transfer to statutory reserves (note (b))	—	3,652	—	—	—	—	—	(3,652)	—
Share of currency translation differences of joint ventures (note 10)	—	—	—	9,483	—	—	—	—	9,483
Share of currency translation differences of associates (note 11)	—	—	—	(350)	—	—	—	—	(350)
Share of cash flow hedges of an associate, net of tax (note 11)	—	—	—	—	—	—	(14,166)	—	(14,166)
Currency differences on translation of:									
— subsidiaries	—	—	—	27,417	—	—	—	—	27,417
— joint ventures (note 10)	—	—	—	3,626	—	—	—	—	3,626
— associates (note 11)	—	—	—	5,777	—	—	—	—	5,777
Fair value gains on financial assets at FVOCI, net	—	—	—	—	—	7,388	—	—	7,388
Realised upon disposal of financial assets at FVOCI	—	—	—	—	—	(1,494)	—	1,494	—
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties (note 9)	—	—	—	—	11,362	—	—	—	11,362
Profit attributable to equity holders of the Company (note (a))	—	—	—	—	—	—	—	288,341	288,341
Dividends paid	—	—	—	—	—	—	—	(390,904)	(390,904)
Balance at 31 December 2021	167,023	138,949	676,218	148,350	34,942	(272,075)	(23)	7,014,337	7,907,721
Representing:									
Reserves	167,023	138,949	676,218	148,350	34,942	(272,075)	(23)	6,876,371	7,769,755
2021 proposed final dividend	—	—	—	—	—	—	—	137,966	137,966
	167,023	138,949	676,218	148,350	34,942	(272,075)	(23)	7,014,337	7,907,721

Notes to the Financial Statements

19 RESERVES (Continued)

	Share premium HK\$'000	Statutory reserves (note (b)) HK\$'000	Contributed surplus (note (c)) HK\$'000	Exchange reserve HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2020	167,023	132,577	676,218	9,709	18,062	(259,008)	—	7,028,528	7,773,109
Transfer to statutory reserves (note (b))	—	2,720	—	—	—	—	—	(2,720)	—
Share of currency translation differences of joint ventures (note 10)	—	—	—	11,136	—	—	—	—	11,136
Share of currency translation differences of associates (note 11)	—	—	—	517	—	—	—	—	517
Share of cash flow hedges of an associate, net of tax (note 11)	—	—	—	—	—	—	14,143	—	14,143
Currency differences on translation of:									
— subsidiaries	—	—	—	74,258	—	—	—	—	74,258
— joint ventures (note 10)	—	—	—	6,750	—	—	—	—	6,750
— associates (note 11)	—	—	—	27	—	—	—	—	27
Fair value losses on financial assets at FVOCI, net	—	—	—	—	—	(18,961)	—	—	(18,961)
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties (note 9)	—	—	—	—	5,518	—	—	—	5,518
Profit attributable to equity holders of the Company (note (a))	—	—	—	—	—	—	—	338,523	338,523
Dividends paid	—	—	—	—	—	—	—	(245,273)	(245,273)
Balance at 31 December 2020	167,023	135,297	676,218	102,397	23,580	(277,969)	14,143	7,119,058	7,959,747
Representing:									
Reserves	167,023	135,297	676,218	102,397	23,580	(277,969)	14,143	6,881,450	7,722,139
2020 proposed final dividend	—	—	—	—	—	—	—	237,608	237,608
	167,023	135,297	676,218	102,397	23,580	(277,969)	14,143	7,119,058	7,959,747

Notes:

- (a) Profit attributable to equity holders of the Company of HK\$288,341,000 (2020: HK\$338,523,000) includes net profits of HK\$63,711,000 (2020: HK\$108,807,000) attributable to joint ventures and net losses of HK\$40,889,000 (2020: net profit of HK\$31,022,000) attributable to associates.
- (b) Statutory reserves represent the PRC statutory reserves of certain subsidiaries, joint ventures and associates.
- (c) In 2004, part of the amount standing to the credit of the share premium account of the Company was offset against the entire accumulated losses as at 31 December 2003 of HK\$1,680,335,000 and the remaining credit of the share premium account of HK\$676,218,000 was transferred to contributed surplus.

Notes to the Financial Statements

20 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2021 HK\$'000	2020 HK\$'000
Trade payables		
– third parties	349,076	432,060
– fellow subsidiaries (note (b))	63,787	83,805
– joint ventures (note (b))	1,930	293
– non-controlling interests (note (b))	138	1,227
	414,931	517,385
Bills payable		
– third parties	85,289	70,905
Other payables		
– third parties	352,819	322,606
– fellow subsidiaries (note (b))	20,507	7,726
– related companies (note (b))	–	73
– joint ventures (note (b))	8,418	8,369
Accrued liabilities	9,312	24,234
Amounts due to fellow subsidiaries (note (b))	634	–
Dividend payable to non-controlling interests	2,675	–
	894,585	951,298
Contract liabilities — sales of goods (note (d))		
– third parties	108,246	115,789
– fellow subsidiaries (note (b))	157,453	237,820
– related companies (note (b))	40,814	–
– associates (note (b))	–	4,674
– joint ventures (note (b))	1	1
	306,514	358,284
	1,201,099	1,309,582

Notes:

- (a) As at 31 December, the ageing analysis of trade payables based on invoice date is as follows:

	2021 HK\$'000	2020 HK\$'000
Current–90 days	317,566	369,966
91–180 days	35,242	43,798
Over 180 days	62,123	103,621
	414,931	517,385

Notes to the Financial Statements

20 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES (Continued)

Notes: (Continued)

(b) Balances with fellow subsidiaries, related companies, joint ventures, associates and non-controlling interests are unsecured, interest-free and have no fixed terms of repayment except for the trade related balances and bills payable, which are repayable according to the respective credit terms.

(c) The carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

	2021 HK\$'000	2020 HK\$'000
Renminbi	558,803	483,576
Hong Kong dollars	124,631	181,984
United States dollars	153,789	222,132
Others	57,362	63,606
	894,585	951,298

(d) Revenue recognised in the current reporting period related to brought-forward contract liabilities:

	2021 HK\$'000	2020 HK\$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	293,513	338,359

21 SHORT-TERM BORROWINGS

	2021 HK\$'000	2020 HK\$'000
Unsecured loans from fellow subsidiaries	42,807	89,111

Notes:

(a) An unsecured loan of HK\$36,692,000 from a fellow subsidiary bears interest at 2.505% (2020: 2.505%) per annum and is repayable on 18 May 2022 (2020: 18 May 2021). Another unsecured loan of HK\$6,115,000 from a fellow subsidiary, which is a financial institution in the PRC, is interest-bearing at 3.5% per annum and is repayable on 29 September 2022.

(b) The carrying amount of short-term borrowings approximated its fair value and was denominated in Renminbi.

Notes to the Financial Statements

21 SHORT-TERM BORROWINGS (Continued)

Notes: (Continued)

(c) The effective interest rates of short-term borrowings during the years ended 31 December 2021 and 2020 are as follows:

	2021	2020
Renminbi	2.70%	2.51%

(d) Short-term borrowings are subject to the exposure of interest rate changes at contractual repricing dates.

22 OTHER INCOME AND GAINS — NET

	2021 HK\$'000	2020 HK\$'000
Other income/(expenses):		
— Rental income	3,518	3,212
— Direct operating expenses for generating rental income	(66)	(42)
— Dividend income from financial assets at FVOCI	2,635	2,770
Other income — net	6,087	5,940
Other gains/(losses):		
— Net gains on disposal of property, plant and equipment	26	168
— Fair value (losses)/gains on investment properties (note 9)	(688)	11,868
— Provision for impairment of trade receivables, net (note 16(b))	(1,061)	(16,270)
— Reversal of provision for impairment of inventories, net	3,266	7,835
— Net exchange gains/(losses)	24,969	(13,245)
— Government subsidy income [#]	674	12,235
— Others	1,890	3,402
Other gains — net	29,076	5,993
Other income and gains — net	35,163	11,933

[#] During the year ended 31 December 2020, government subsidy income of HK\$9,550,000 was recognised in respect of Employment Support Scheme granted by the Government of the Hong Kong Special Administrative Region.

Notes to the Financial Statements

23 SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	2021 HK\$'000	2020 HK\$'000
Selling expenses	212,010	177,418
Depreciation of property, plant and equipment (note 23(a))	4,675	5,816
Amortisation of intangible assets (note 6)	1,591	1,368
Depreciation of right-of-use assets (note 23(b))	6,876	9,479
Expenses related to short-term leases	31,955	27,784
Employee benefit expenses included in administrative and general expenses (note 24)	282,682	338,423
Auditors' remuneration	3,446	5,535
Others	61,698	59,469
Total selling, administrative and general expenses	604,933	625,292

(a) Depreciation of property, plant and equipment

	2021 HK\$'000	2020 HK\$'000
Charge for the year (note 7)	44,872	31,838
Charged to cost of sales	(35,619)	(19,171)
Charged to selling expenses	(1,724)	(1,366)
Capitalised in inventories	(2,854)	(5,485)
	4,675	5,816

(b) Depreciation of right-of-use assets

	2021 HK\$'000	2020 HK\$'000
Charge for the year (note 8)	8,414	9,479
Charged to cost of sales	(1,327)	—
Charged to selling expenses	(211)	—
	6,876	9,479

Notes to the Financial Statements

24 EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses, which were included in cost of sales, selling, administrative and general expenses, are as follows:

	2021 HK\$'000	2020 HK\$'000
Wages, salaries and other short-term benefits, including directors' emoluments (note 25(a))	389,686	436,746
Retirement benefits costs — defined contribution plans (note)	37,037	18,397
Termination benefits	568	348
	427,291	455,491

Included in:

	2021 HK\$'000	2020 HK\$'000
Cost of sales	58,607	41,199
Selling expenses	86,002	75,869
Administrative and general expenses (note 23)	282,682	338,423
	427,291	455,491

Note:

There were no forfeited contributions (2020: Nil) utilised during the year and no forfeited contributions were available at the year-end to reduce future contributions (2020: Nil). There were no contributions (2020: Nil) payable to the funds at the year-end.

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2020: two) director whose emoluments are reflected in the note 25(a). The emoluments of the remaining four (2020: three) individuals during the year are as follows:

	2021 HK\$'000	2020 HK\$'000
Basic salaries, allowances and benefits-in-kind	7,513	5,371
Discretionary bonuses	—	—
Retirement benefits costs — defined contribution plan	814	514
	8,327	5,885

Notes to the Financial Statements

24 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals (Continued)

The emoluments of the individuals fell within the following bands:

Emolument band	Number of individuals	
	2021	2020
HK\$1,500,001 — HK\$2,000,000	2	2
HK\$2,000,001 — HK\$2,500,000	2	1

(b) Emoluments of senior management

Other than the emoluments of directors disclosed in note 25(a), the emoluments of senior management fell within the following bands:

Emolument band	Number of individuals	
	2021	2020
Below HK\$1,000,000	4	4
HK\$1,000,001 — HK\$1,500,000	—	—
HK\$1,500,001 — HK\$2,000,000	—	—
HK\$2,000,001 — HK\$2,500,000	1	1

25 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

Details of the emoluments of directors of the Company for the year ended 31 December 2021 are as follows. Executive directors were also key management personnel of the Company.

Name of directors	Basic salaries, allowances and benefits-in-kind		Total HK\$'000
	Fees HK\$'000	HK\$'000	
<i>Executive Director:</i>			
Mr. Zhu Jianhui	—	6,200	6,200
<i>Independent Non-executive Directors:</i>			
Mr. Tsui Yiu Wa, Alec	320	—	320
Mr. Jiang, Simon X.	320	—	320
Mr. Kwong Che Keung, Gordon	320	—	320
	960	6,200	7,160

Notes to the Financial Statements

25 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

Details of the emoluments of directors who were also the key management personnel of the Company for the year ended 31 December 2020 are as follows:

Name of directors	Fees HK\$'000	Basic salaries, allowances and benefits-in-kind HK\$'000	Total HK\$'000
<i>Executive Directors:</i>			
Mr. Zhu Jianhui	—	6,200	6,200
Mr. Liu Gang (<i>resigned as Executive Director on 19 May 2020</i>)	—	2,217	2,217
<i>Independent Non-executive Directors:</i>			
Mr. Tsui Yiu Wa, Alec	320	—	320
Mr. Jiang, Simon X.	320	—	320
Mr. Kwong Che Keung, Gordon (<i>appointed as Independent Non-executive Director on 9 July 2020</i>)	160	—	160
Mr. Alexander Reid Hamilton (<i>passed away on 21 April 2020</i>)	320	—	320
	1,120	8,417	9,537

Note:

There were no contributions to pension schemes for directors or past directors of the Company for the year (2020: Nil).

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Notes to the Financial Statements

26 FINANCE INCOME — NET

	2021 HK\$'000	2020 HK\$'000
Interest income from:		
— a fellow subsidiary (note 33(a))	3,056	551
— bank deposits	44,923	137,084
Total finance income	47,979	137,635
Interest expenses on:		
— loans from fellow subsidiaries (note 33(b))	(2,847)	(1,932)
— lease liabilities (note 8)	(368)	(322)
Other finance charges	(3,957)	(2,685)
Total finance costs	(7,172)	(4,939)
Finance income — net	40,807	132,696

27 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profit for the year.

The PRC enterprise income tax has been calculated on the estimated assessable profit derived from the Group's operations in the PRC for the year at 25% (2020: 25%) except for a subsidiary, which was taxed at a reduced rate of 15% (2020: 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% (2020: 17% to 35%) during the year.

	2021 HK\$'000	2020 HK\$'000
Current income tax		
— current year		
— Hong Kong profits tax	19,647	13,206
— PRC enterprise income tax	38,006	22,024
— other overseas taxation	5,364	3,429
— (over-provision)/under-provision in prior years		
— Hong Kong profits tax	(1,055)	17
— PRC enterprise income tax	(66)	2
— other overseas taxation	—	415
Deferred income tax (credit)/charge — net (note 14)	(24,328)	18,396
Income tax expenses	37,568	57,489

Notes to the Financial Statements

27 INCOME TAX EXPENSES (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Company operates and the difference is set out below:

	2021 HK\$'000	2020 HK\$'000
Profit before income tax (excluding share of profits of joint ventures and associates)	318,352	265,196
Calculated at a tax rate of 16.5% (2020: 16.5%)	52,528	43,757
Effect of different tax rates in the PRC and other overseas countries	12,306	8,575
Income not subject to income tax	(15,763)	(23,858)
Expenses not deductible for tax purposes	8,386	15,856
Tax losses not recognised	467	2,615
Utilisation of previously unrecognised tax losses	—	(851)
(Over-provision)/under-provision/in prior years, net	(1,121)	550
Reversal of prior year tax loss recognised	1,584	1,101
Withholding tax		
— interest income	469	89
— dividend income	122	3
— others	(20,399)	3,913
Land appreciation tax on the PRC investment properties	(769)	5,827
Special tax credit	(242)	(88)
Income tax expenses	37,568	57,489

For the year ended 31 December 2021, the Group's share of taxation of joint ventures of HK\$8,300,000 (2020: HK\$27,867,000) and taxation of associates of HK\$1,214,000 (2020: HK\$3,024,000), are included in the consolidated income statement as share of profits of joint ventures and share of (losses)/profits of associates respectively.

28 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity holders of the Company of HK\$288,341,000 (2020: HK\$338,523,000) and the 1,532,955,429 shares in issue during the year (2020: 1,532,955,429 shares).

There were no potential dilutive ordinary shares in existence for both years.

Notes to the Financial Statements

29 DIVIDENDS

	2021 HK\$'000	2020 HK\$'000
Interim dividend paid of HK\$0.10 (2020: HK\$0.065) per ordinary share	153,296	99,642
Final dividend proposed of HK\$0.09 (2020: HK\$0.155) per ordinary share	137,966	237,608
	291,262	337,250

At the board meeting held on 25 March 2022, the directors of the Company proposed a final dividend of HK\$0.09 per ordinary share for the year ended 31 December 2021. These proposed dividends have not been recognised as a liability in the financial statements for the year ended 31 December 2021, but will be reflected as an appropriation of retained profits for the year ending 31 December 2022.

30 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to cash generated from operations

	2021 HK\$'000	2020 HK\$'000
Operating profit	277,545	132,500
Amortisation of intangible assets	1,591	1,368
Depreciation of property, plant and equipment, net of amount capitalised	42,018	26,353
Net gains on disposal of property, plant and equipment	(26)	(168)
Depreciation of right-of-use assets	8,414	9,479
Fair value losses/(gains) on investment properties	688	(11,868)
Reversal of provision for impairment of inventories, net	(3,266)	(7,835)
Negative goodwill arising from acquisition of a subsidiary	—	(1,538)
Provision for impairment of trade receivables, net	1,061	16,270
Dividend income	(2,635)	(2,770)
Operating profit before working capital changes	325,390	161,791
Increase in inventories	(59,392)	(25,192)
Increase in trade and other receivables	(5,299)	(140,201)
Decrease in amount due from immediate holding company	188	11,200
(Increase)/decrease in amounts due from fellow subsidiaries	(1,187)	9,862
(Decrease)/increase in trade and other payables	(107,460)	299,093
Decrease in contract liabilities	(51,772)	(8,558)
Decrease/(increase) in amounts due to fellow subsidiaries	683	(354)
Cash generated from operations	101,151	307,641

Notes to the Financial Statements

30 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) The reconciliation of liabilities arising from financing activities is as follows:

	Short-term borrowings HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
At 1 January 2020	61,399	8,317	69,716
Currency translation differences	5,222	(980)	4,242
Drawdown of loan from a fellow subsidiary	84,338	—	84,338
Repayment of loan from a fellow subsidiary	(61,848)	—	(61,848)
Principal elements of lease payments	—	(9,212)	(9,212)
Additions of lease	—	12,569	12,569
Finance cost on lease liabilities	—	322	322
At 31 December 2020	89,111	11,016	100,127
Currency translation differences	1,872	(39)	1,833
Drawdown of loans from fellow subsidiaries	126,460	—	126,460
Repayment of loan from a fellow subsidiary	(174,636)	—	(174,636)
Principal elements of lease payments	—	(7,086)	(7,086)
Additions of lease	—	5,222	5,222
Finance cost on lease liabilities	—	368	368
At 31 December 2021	42,807	9,481	52,288

31 CAPITAL COMMITMENTS

(a) The Group had capital commitments for capital expenditure as follows:

	2021 HK\$'000	2020 HK\$'000
Contracted but not provided	3,954	23,038

(b) The Group's share of capital commitments of a joint venture in respect of fixed assets investment is as follows:

	2021 HK\$'000	2020 HK\$'000
Contracted but not provided	905	311

Notes to the Financial Statements

32 LEASE COMMITMENTS

- (a) The aggregate future minimum lease payments under non-cancellable short-term leases in respect of land and buildings and equipment are HK\$8,804,000 (2020: HK\$1,730,000).
- (b) The aggregate future minimum rental receivables under non-cancellable operating leases are as follows:

	2021 HK\$'000	2020 HK\$'000
Within 1 year	2,882	1,864
Between 1 and 2 years	1,890	834
Between 2 and 3 years	724	352
Between 3 and 4 years	87	352
Between 4 and 5 years	—	88
	5,583	3,490

The Group's operating leases were for terms ranging from one to five years.

33 MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by COSCO SHIPPING (Hong Kong) Co., Limited ("COSCO SHIPPING (Hong Kong)"), a company incorporated in Hong Kong, which owns 68.57% of the Company's shares as at 31 December 2021. The remaining 31.43% of the Company's shares is widely held. The ultimate holding company of COSCO SHIPPING (Hong Kong) is COSCO SHIPPING.

COSCO SHIPPING itself is a state-owned enterprise established and controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24 (Revised), government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include COSCO SHIPPING, its subsidiaries (other than the Group) and associates, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, and other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and COSCO SHIPPING as well as their close family members.

For the years 2021 and 2020, the Group's significant transactions with entities that are controlled, jointly controlled or significantly influenced by the PRC government mainly include most of its bank deposits and the corresponding interest income and part of sales and purchases of goods and services. The price and other terms of such transactions are set out in the agreements governing these transactions or as mutually agreed.

Apart from the above-mentioned transactions with the government-related entities and the related party information shown elsewhere in the financial statements, the following is a summary of the significant related party transactions carried out in the normal course of the Group's business during the year:

Notes to the Financial Statements

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Sale of goods and provision of services to holding companies, fellow subsidiaries, related companies and other related parties

	Note	2021 HK\$'000	2020 HK\$'000
Sale of coatings to:	(i)		
– fellow subsidiaries		603,940	415,650
– related companies		161,577	109,642
– non-controlling interests		4,371	2,977
Sale of marine equipment and spare parts to:	(ii)		
– fellow subsidiaries		1,277,577	998,250
– related companies		26,307	29,921
– joint ventures		538	1,238
Commission income in relation to the provision of ship trading agency services to:	(iii)		
– fellow subsidiaries		83,371	69,071
– a joint venture		15,980	14,280
Commission income in relation to the provision of insurance brokerage services to:	(iv)		
– fellow subsidiaries		67,147	67,218
– related companies		2,672	1,712
– holding companies		991	1,551
– a joint venture		66	5
– an associate		4	55
Sale of marine fuel to:	(v)		
– fellow subsidiaries		—	70,404
Sale of ship supplies and other products to:	(vi)		
– fellow subsidiaries		2,767	1,529
– related companies		1	141
Interest income from a fellow subsidiary (note 26)	(vii)	3,056	551
Management fee income in relation to the provision of management services to:	(viii)		
– fellow subsidiaries		15,047	23,530
– a holding company		62,895	93,798

Notes:

- (i) Sale of coatings to fellow subsidiaries, related companies and non-controlling interests was conducted on terms as set out in the agreements governing these transactions.
- (ii) Sale of marine equipment and spare parts to fellow subsidiaries, related companies and joint ventures was conducted on terms as set out in the agreements governing these transactions.

Notes to the Financial Statements

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Sale of goods and provision of services to fellow subsidiaries, related companies and other related parties (Continued)

Notes: (Continued)

- (iii) Certain subsidiaries of the Company acted as agent of fellow subsidiaries and a joint venture relating to (a) sale and purchase of new and second hand vessels; (b) bareboat charter businesses; and (c) sale and purchase of marine equipment for new shipbuilding projects. According to the terms of the relevant engagement/commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above. The commissions were charged based on terms as set out in the agreements governing these transactions.
- (iv) Commission income in relation to the provision of insurance brokerage services to fellow subsidiaries, related companies, holding companies, a joint venture and an associate was calculated on terms as set out in the agreements governing these transactions.
- (v) Sale of marine fuel to fellow subsidiaries was conducted on terms as set out in the agreements governing these transactions.
- (vi) Sale of ship supplies and other products to fellow subsidiaries and related companies was conducted on terms as set out in the agreements governing these transactions.
- (vii) Interest income was received from cash deposits placed with a fellow subsidiary and was calculated at prevailing market rates.
- (viii) Management fee income is derived from provision of management services to fellow subsidiaries and a holding company and was conducted on terms as set out in the agreements governing these transactions.

(b) Purchase of goods and services from fellow subsidiaries, related companies and other related parties

	Note	2021 HK\$'000	2020 HK\$'000
Expenses related to short-term leases to fellow subsidiaries in relation to lease contracts for land and buildings	(i)	23,471	22,841
Commission expenses in relation to the sale of coatings paid to fellow subsidiaries	(ii)	11,899	11,105
Commission expenses in relation to the sale of marine equipment paid to a related company	(iii)	1,865	1,601
Purchase of marine equipment from related companies	(iii)	499	26,375
Purchase of raw materials from non-controlling interests	(iv)	6,389	11,755
Transportation costs paid to fellow subsidiaries	(v)	1,883	8,090
Technology usage fee paid to non-controlling interests	(vi)	2,649	1,906
Service fees paid to fellow subsidiaries	(vii)	8,583	8,364
Interest expenses to fellow subsidiaries (note 26)	(viii)	2,847	1,932

Notes to the Financial Statements

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Purchase of goods and services from fellow subsidiaries, related companies and other related parties (Continued)

Notes:

- (i) During the year, the Group leased certain office premises and other properties in Hong Kong, the PRC and other overseas countries from fellow subsidiaries on terms as set out in the agreements governing these transactions.
- (ii) Commission paid to fellow subsidiaries was based on a certain percentage of sales amounts in accordance with terms as set out in the agreements governing these transactions.
- (iii) A related company was appointed as agent to provide agency services in relation to the sale of marine equipment in the PRC and to purchase marine equipment from suppliers. Commission paid was based on a certain percentage of sales procured by the related company.
- (iv) Purchase of raw materials from non-controlling interests was conducted on terms as set out in the agreements governing these transactions.
- (v) Transportation costs paid to fellow subsidiaries were based on terms as set out in the agreements governing these transactions.
- (vi) Technology usage fee paid to non-controlling interests was made based on a certain percentage of the net sales amount in accordance with terms as set out in the agreements governing these transactions.
- (vii) Service fees were paid to fellow subsidiaries in relation to their provision of administrative services, manpower resources, technical support and other ancillary support to the Group and sharing of office premises by the Group and were conducted on terms as set out in the agreements governing these transactions.
- (viii) Interest expenses were paid for loans from fellow subsidiaries at fixed interest rates of 2.505% and 3.5% per annum.

Notes to the Financial Statements

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Note	2021 HK\$'000	2020 HK\$'000
ASSETS			
Non-current assets			
Intangible assets		126	252
Property, plant and equipment		3,561	4,717
Investments in subsidiaries		1,234,038	1,234,038
Investments in joint ventures		249,248	249,248
Investment in an associate		2,090	2,090
		1,489,063	1,490,345
Current assets			
Amounts due from immediate holding company		4,635	4,823
Amounts due from subsidiaries		603,504	484,461
Other receivables		9,750	12,972
Current deposits and cash and cash equivalents		5,470,497	5,459,369
		6,088,386	5,961,625
Total assets		7,577,449	7,451,970
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		153,296	153,296
Other reserves	(a)	843,241	843,241
Retained earnings	(a)	6,041,915	6,097,679
Total equity		7,038,452	7,094,216
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		434,679	219,998
Other payables		104,318	137,756
Total liabilities		538,997	357,754
Total equity and liabilities		7,577,449	7,451,970

The statement of financial position of the Company was approved by the Board of Directors on 25 March 2022 and was signed on its behalf.

Zhu Jianhui
Director

Ma Jianhua
Director

Notes to the Financial Statements

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Statement of financial position of the Company (Continued)

Note:

(a) Reserve movement of the Company

	Other reserves HK\$'000	Retained earnings HK\$'000
At 1 January 2020	843,241	6,797,399
Loss for the year	—	(454,447)
Dividends paid	—	(245,273)
At 31 December 2020	843,241	6,097,679
Profit for the year	—	335,140
Dividends paid	—	(390,904)
At 31 December 2021	843,241	6,041,915

Notes to the Financial Statements

35 PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries of the Group as at 31 December 2021 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held	
				2021	2020
Beijing COSCO SHIPPING Ship Trading Co., Ltd. [#]	PRC, wholly foreign-owned enterprise	US\$1,300,000	Provision of agency services in ship trading business	100%	100%
COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd. [#]	PRC, Sino-foreign equity joint venture enterprise	US\$7,000,000	Sale of coatings	63.07%	63.07%
COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. [#]	PRC, Sino-foreign equity joint venture enterprise	US\$5,000,000	Production and sale of coatings	63.07%	63.07%
COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd. [#]	PRC, foreign equity joint venture enterprise	US\$10,000,000	Production and sale of coatings	64.71%	64.71%
COSCO Kansai Paint (Shanghai) Co., Ltd. [#]	PRC, foreign equity joint venture enterprise	US\$25,600,000	Production and sale of coatings	63.07%	63.07%
COSCO SHIPPING (Hong Kong) Insurance Brokers Limited [#]	Hong Kong, limited liability company	HK\$5,000,000 ordinary share capital	Provision of insurance brokerages and related services	100%	100%
Graceful Nice Limited [#]	British Virgin Islands, limited liability company	1 ordinary share of US\$1	Investment holding	100%	100%
Raycle Match Development Ltd. [#]	British Virgin Islands, limited liability company	1 ordinary share of US\$1	Investment holding	100%	100%
YUAN XIANG (HONG KONG) CO., LIMITED [#]	Hong Kong, limited liability company	HK\$500,000 ordinary share capital	Provision of agency services in ship trading business	100%	100%
Yuantong Marine Service Co. Limited [#]	Hong Kong, limited liability company	HK\$208,352,000 ordinary share capital	Trading of marine equipment and spare parts	100%	100%
COSCO (Beijing) Marine Electronic Equipment Limited	PRC, wholly foreign-owned enterprise	RMB680,000	Trading of marine equipment and spare parts	100%	100%
COSCO SHIPPING International Trading Company Limited	PRC, wholly foreign-owned enterprise	RMB480,633,044.22	Trading of asphalt, ship equipment and accessories	100%	100%
Hanyuan Technical Service Center GmbH	Germany, limited liability company	EUR102,259	Trading of marine equipment and spare parts	100%	100%
Jingzhou Federal Reserve Logistics Trading Co., Ltd.	PRC, wholly foreign-owned enterprise	RMB500,000	Storage and handling of asphalt and processing of modified asphalt.	100%	100%
Shenzhen COSCO Insurance Brokers Limited	PRC, Sino-foreign equity joint venture enterprise	RMB50,000,000	Provision of professional services of insurance brokerages	55%	55%
Shin Chung Lin Corporation	Japan, limited liability company	600 ordinary shares of JPY50,000 each	Trading of marine equipment and spare parts	100%	100%
Sinfeng Marine Services Pte. Ltd.	Singapore, limited liability company	7,000,000 ordinary shares of US\$1 each	Trading of marine fuel and other related products	100%	100%
Xing Yuan (Singapore) Pte. Ltd.	Singapore, limited liability company	100,000 ordinary shares of S\$1 each	Trading of marine equipment and spare parts	100%	100%
Yuan Hua Technical & Supply Corporation	United States of America, limited liability company	US\$400,000	Material and spare parts supply and service support for vessels	51%	51%
Yuantong Marine Trade (Shanghai) Co., Ltd.	PRC, wholly foreign-owned enterprise	US\$500,000	Trading of marine equipment and spare parts	100%	100%

[#] shares held directly by the Company

Notes to the Financial Statements

36 JOINT VENTURES AND ASSOCIATES

Particulars of joint ventures and associates of the Group as at 31 December 2021 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held	
				2021	2020
(a) Joint ventures					
Cosbulk International Trading Co. Ltd. (Tianjin) [#]	PRC, Sino-foreign equity joint venture enterprise	RMB1,500,000	Vessel and equipment trade consultant	49%	49%
Jotun COSCO Marine Coatings (HK) Limited [#]	Hong Kong/PRC, limited liability company	HK\$2,400 ordinary share capital	Investment holding and sale of coatings	50%	50%
Nasurfar Biomaterial Technology (Changshu) Co., Ltd. [#]	PRC, Sino-foreign equity joint venture enterprise	RMB182,907,725	Research and development, production and sales of biochemical products	33%	33%
COSCO SHIPPING (Dalian) Electronic Technology Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	RMB1,000,000	Provision of marine electronic engineering services	40%	40%
Shanghai Ocean Radio Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US\$250,000	Trading of marine equipment and provision of repair and maintenance	25%	25%
Tianjin Marine Electronic Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US\$200,000	Provision of marine electronic engineering services	25%	25%
(b) Associates					
COSCOSHIP (QINGDAO) CO., LTD. [#]	PRC, Sino-foreign equity joint venture enterprise	RMB3,000,000	Vessel engineering and technical support	20%	20%
COSCO SHIPPING SUPPLY (GUANGZHOU) CO., LTD.	PRC, limited liability company	RMB30,442,100	Supply and storage of related materials of cargo transportation	20%	20%
Double Rich Limited	Hong Kong, limited liability company	HK\$88,000,000 ordinary share capital	Trading of oil products and investment holding	18%	18%
German Lashing (Nanjing) Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US\$663,000	Manufacture, sale and provision of after-sale service of container software and related products	20%	20%
Zhejiang Four Brothers Rope Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	RMB63,076,923	Manufacturing of synthetic ropes (for marine and fishing)	48%	—

[#] shares held directly by the Company

List of Major Properties

As at 31 December 2021

Description	Existing use	Approximate area	Lease term	% of interest attributable to the Group
Properties held for own use				
(1) Economic Zone, Gaolan Port, Zhuhai, the PRC	Industrial	Site area 67,882.00 sq.m.	From 18th April 2006 to 17th April 2056	64.71
(2) No. 2, Industry Park, Jinshan District, Shanghai, the PRC	Industrial	Site area 61,097.30 sq.m.	From 5th July 2013 to 4th July 2063	63.07
(3) No. 9 Basement 1, No. 188 Tongzhou Road, Shanghai, the PRC	Carparking	1 car parking space	From 28th June 1998 to 27th June 2068	100
(4) Room 201, No. 8 Building, No. 188 Tongzhou Road, Shanghai, the PRC	Residential	Gross floor area 228.29 sq.m.	From 28th June 1998 to 27th June 2068	100
Property held for investment				
(1) 19th Floor, Nan Dao Commercial Building, 359-361 Queen's Road Central, Hong Kong	Commercial	Gross floor area 320.51 sq.m.	999 years from 7th February 1852	100
(2) 207 Henderson Road, #01-03/#03-03 Henderson Industrial Park Singapore 159550	Commercial	Saleable area 782 sq.m.	Freehold	100

Five-Year Financial Summary

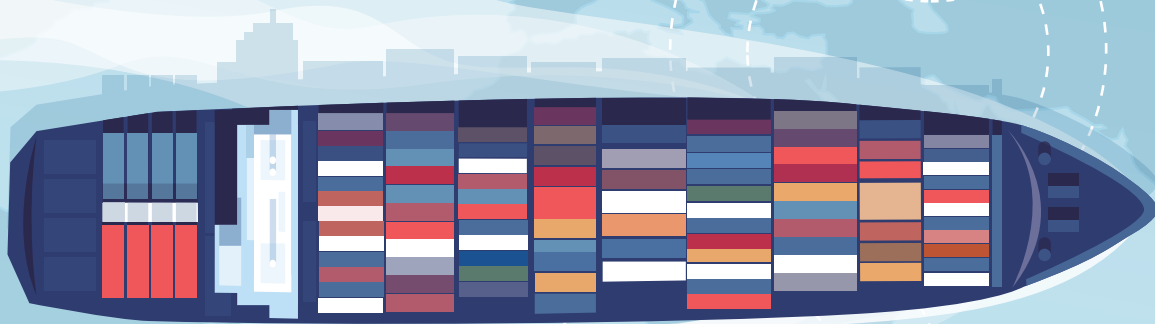
CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December				
	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	4,533,549	3,442,894	3,265,745	9,521,575	8,786,094
Operating profit	277,545	132,500	84,662	181,593	218,792
Finance income — net	40,807	132,696	203,857	158,704	119,704
Share of profits of joint ventures	63,711	108,807	48,798	9,925	64,730
Share of (losses)/profits of associates	(40,889)	31,022	48,431	(13,561)	12,336
Profit before income tax	341,174	405,025	385,748	336,661	415,562
Income tax expenses	(37,568)	(57,489)	(52,440)	(45,916)	(54,948)
Profit for the year	303,606	347,536	333,308	290,745	360,614
Profit attributable to:					
Equity holders of the Company	288,341	338,523	330,607	286,140	356,627
Non-controlling interests	15,265	9,013	2,701	4,605	3,987
	303,606	347,536	333,308	290,745	360,614

Five-Year Financial Summary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
ASSETS					
Non-current assets					
Intangible assets	107,664	109,044	105,617	103,448	104,287
Property, plant and equipment	255,817	279,908	281,550	303,523	331,038
Right-of-use assets	41,412	45,459	39,577	—	—
Prepaid premium for land leases	—	—	—	29,429	31,549
Investment properties	158,545	144,543	121,261	107,014	97,468
Investments in joint ventures	499,999	562,668	437,419	396,709	298,190
Investments in associates	237,786	167,403	147,693	96,651	122,644
Financial assets at fair value through other comprehensive income	62,621	57,590	76,551	78,003	—
Available-for-sale financial assets	—	—	—	—	60,613
Deferred income tax assets	42,810	37,931	43,004	52,936	54,156
Non-current deposits	—	—	—	—	1,563
	1,406,654	1,404,546	1,252,672	1,167,713	1,101,508
Current assets	8,335,570	8,534,148	8,124,274	8,089,012	8,509,192
Total assets	9,742,224	9,938,694	9,376,946	9,256,725	9,610,700
CAPITAL AND RESERVES					
Share capital	153,296	153,296	153,296	153,296	153,296
Reserves	7,907,721	7,959,747	7,773,109	7,700,639	7,760,833
Total shareholders' equity	8,061,017	8,113,043	7,926,405	7,853,935	7,914,129
Non-controlling interests	333,579	314,671	291,814	300,765	299,471
Total equity	8,394,596	8,427,714	8,218,219	8,154,700	8,213,600
LIABILITIES					
Non-current liabilities					
Lease liabilities	4,738	6,194	1,934	—	—
Deferred income tax liabilities	63,308	83,233	67,743	64,269	64,829
	68,046	89,427	69,677	64,269	64,829
Current liabilities					
Short-term borrowings	42,807	89,111	61,399	45,652	—
Other current liabilities	1,236,775	1,332,442	1,027,651	992,104	1,332,271
	1,279,582	1,421,553	1,089,050	1,037,756	1,332,271
Total liabilities	1,347,628	1,510,980	1,158,727	1,102,025	1,397,100
Total equity and liabilities	9,742,224	9,938,694	9,376,946	9,256,725	9,610,700





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