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中遠海運國際(香港)有限公司

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 00517)

2019 INTERIM RESULTS

RESULTS AND OPERATION HIGHLIGHTS

- Profit attributable to equity holders decreased by 18% to HK\$150,025,000 as compared to the same period of 2018 which was mainly attributable to absence of the non-recurring incomes recorded in same period of last year.
- Revenue decreased by 66% to HK\$1,625,976,000 as compared to the same period of 2018 which was mainly attributable to the decrease in revenue of marine fuel and other products segment.
- Gross profit decreased by 10% to HK\$274,164,000 as compared to the same period of 2018. Gross profit margin increased to 16.9% which was mainly attributable to the decrease in revenue from the low-gross-profit-margin marine fuel and other products segment.
- Profit before tax from core shipping services business decreased by 15% as compared to the same period of 2018 to HK\$108,231,000.
- Basic and diluted earnings per share was 9.79 HK cents (2018: 12.01 HK cents), decreased by 18% as compared to the same period of 2018.
- The Board has declared an interim dividend of 7 HK cents (2018: 5 HK cents) per share.
- The Group had net cash (represented total deposits and cash and cash equivalents less short-term borrowings) of HK\$6,103,915,000 as at 30th June 2019.

The board of directors (the “Board” or the “Director(s)”) of COSCO SHIPPING International (Hong Kong) Co., Ltd. (the “Company” or “COSCO SHIPPING International”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30th June 2019. The unaudited condensed consolidated results have been reviewed by the audit committee of the Company (the “Audit Committee”).

The Group's unaudited condensed consolidated income statement, unaudited condensed consolidated statement of comprehensive income, unaudited condensed consolidated statement of financial position and explanatory notes 1 to 13 as presented below are extracted from the Group's unaudited condensed consolidated interim financial information for the six months ended 30th June 2019 (the "Unaudited Condensed Consolidated Interim Financial Information"), which has been reviewed by the Company's independent auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2019

| | Note | Unaudited | |
|---|------|---------------------------------|-----------------------|
| | | Six months ended 30th June 2019 | 2018 |
| | | HK\$'000 | HK\$'000 |
| Revenue | 4 | 1,625,976 | 4,787,645 |
| Cost of sales | | <u>(1,351,812)</u> | <u>(4,482,009)</u> |
| Gross profit | | 274,164 | 305,636 |
| Management fee income | | 35,334 | 20,909 |
| Other income and (losses)/gains — net | 5 | (8,500) | 75,171 |
| Selling, administrative and general expenses | | <u>(241,056)</u> | <u>(256,809)</u> |
| Operating profit | 6 | 59,942 | 144,907 |
| Finance income | 7 | 107,372 | 76,150 |
| Finance costs | 7 | (1,599) | (1,238) |
| Finance income — net | 7 | 105,773 | 74,912 |
| Share of profits/(losses) of joint ventures | | 22,751 | (7,492) |
| Share of (losses)/profits of associates | | <u>(5,959)</u> | <u>5,142</u> |
| Profit before income tax | | 182,507 | 217,469 |
| Income tax expenses | 8 | <u>(31,893)</u> | <u>(29,026)</u> |
| Profit for the period | | <u>150,614</u> | <u>188,443</u> |
| Profit attributable to: | | | |
| Equity holders of the Company | | 150,025 | 184,034 |
| Non-controlling interests | | <u>589</u> | <u>4,409</u> |
| | | <u>150,614</u> | <u>188,443</u> |
| Earnings per share attributable to equity holders of the Company during the period | | | |
| — basic and diluted, HK cents | 9 | <u>9.79</u> | <u>12.01</u> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2019

| | Unaudited | |
|---|----------------------------|------------------------|
| | Six months ended 30th June | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Profit for the period | <u>150,614</u> | <u>188,443</u> |
| Other comprehensive income/(losses) | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Currency translation differences | (5,153) | (18,978) |
| Share of currency translation differences of joint ventures | (137) | (8,360) |
| Share of currency translation differences of associates | (15) | (2) |
| 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 | 457 | (17,873) |
| Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties | <u>7,428</u> | <u>—</u> |
| Other comprehensive income/(losses) for the period | <u>2,580</u> | <u>(45,213)</u> |
| Total comprehensive income for the period | <u>153,194</u> | <u>143,230</u> |
| Total comprehensive income attributable to: | | |
| Equity holders of the Company | 153,726 | 141,513 |
| Non-controlling interests | <u>(532)</u> | <u>1,717</u> |
| | <u>153,194</u> | <u>143,230</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2019

| | Note | Unaudited 30th June 2019 HK\$'000 | Audited 31st December 2018 HK\$'000 |
|--|------|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | | 106,012 | 103,448 |
| Property, plant and equipment | | 284,827 | 303,523 |
| Right-of-use assets | | 47,219 | — |
| Prepaid premium for land leases | | — | 29,429 |
| Investment properties | | 115,267 | 107,014 |
| Investments in joint ventures | | 417,767 | 396,709 |
| Investments in associates | | 90,504 | 96,651 |
| Financial assets at fair value through other comprehensive income | | 78,460 | 78,003 |
| Deferred income tax assets | | 44,799 | 52,936 |
| | | <u>1,184,855</u> | <u>1,167,713</u> |
| Current assets | | | |
| Inventories | | 317,001 | 337,187 |
| Trade and other receivables | 11 | 1,613,970 | 1,368,805 |
| Current income tax recoverable | | 1,852 | 7,358 |
| Restricted bank deposits | | 5,684 | 5,706 |
| Current deposits and cash and cash equivalents | | 6,160,755 | 6,369,956 |
| | | <u>8,099,262</u> | <u>8,089,012</u> |
| Total assets | | <u>9,284,117</u> | <u>9,256,725</u> |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | | 153,296 | 153,296 |
| Reserves | | 7,716,399 | 7,700,639 |
| | | <u>7,869,695</u> | <u>7,853,935</u> |
| Non-controlling interests | | <u>295,081</u> | <u>300,765</u> |
| Total equity | | <u>8,164,776</u> | <u>8,154,700</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Lease liabilities | 12 | 4,449 | — |
| Deferred income tax liabilities | | 65,401 | 64,269 |
| | | <u>69,850</u> | <u>64,269</u> |
| Current liabilities | | | |
| Trade and other payables | 12 | 730,675 | 635,588 |
| Contract liabilities | 12 | 232,239 | 337,128 |
| Current income tax liabilities | | 18,796 | 19,388 |
| Short-term borrowings | | 62,524 | 45,652 |
| Lease liabilities | 12 | 5,257 | — |
| | | <u>1,049,491</u> | <u>1,037,756</u> |
| Total liabilities | | <u>1,119,341</u> | <u>1,102,025</u> |
| Total equity and liabilities | | <u>9,284,117</u> | <u>9,256,725</u> |

NOTES:

1 GENERAL INFORMATION

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

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

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

The Unaudited Condensed Consolidated Interim Financial Information is presented in Hong Kong dollars, unless otherwise stated.

The Unaudited Condensed Consolidated Interim Financial Information was approved by the board of directors for issue on 20th August 2019.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Unaudited Condensed Consolidated Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the HKICPA and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Unaudited Condensed Consolidated Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31st December 2018, which were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

The accounting policies and methods used in the preparation of the Unaudited Condensed Consolidated Interim Financial Information are consistent with those set out in the annual financial statements for the year ended 31st December 2018 except that the Group has adopted the following new accounting standard, amendments and new interpretations issued by the HKICPA, which are relevant to its operations and are effective for accounting periods beginning on or after 1st January 2019.

Effective for accounting periods beginning on or after

| | | |
|--|--|------------------|
| HKFRS 16 | Leases | 1st January 2019 |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures | 1st January 2019 |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments | 1st January 2019 |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation | 1st January 2019 |
| Annual improvements to HKFRS Standards 2015–2017 cycle | HKFRS 3 and HKFRS 11 and HKAS 12 and HKAS 23 | 1st January 2019 |

The impact of the adoption of HKFRS 16 and the relevant new accounting policies are disclosed in note 3. The adoption of other amendments and new interpretations did not result in any substantial changes to the Group's accounting policies and had no material financial impact on the Unaudited Condensed Consolidated Interim Financial Information.

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

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

The Group has already commenced an assessment of the related impact of adopting the above amendments to existing standards, but it is not yet in a position to state whether it will have a significant impact on its result of operations and financial position.

3 CHANGES IN ACCOUNTING POLICIES

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

The Group has adopted the modified retrospective approach to which the adjustments and reclassifications resulting from the adoption of HKFRS 16 are recognised on the date of initial application, i.e. as at 1st January 2019. The comparative figures as at 31st December 2018 and for the six months ended 30th June 2018 have not been restated.

(a) Impact on the financial statements

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

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

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

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

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

| | 30th June 2019 HK\$'000 | 1st January 2019 HK\$'000 |
|---|--|---------------------------------|
| Leasehold land and buildings | 12,943 | 16,250 |
| Machinery, equipment and motor vehicles | 5,297 | 5,820 |
| Prepaid premium for land leases | <u>28,979</u> | <u>29,429</u> |
| Total right-of-use assets | <u>47,219</u> | <u>51,499</u> |

The change in accounting policy affected the following items in the balance sheet on 1st January 2019:

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

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

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

Adjusted EBITDA, segment assets and segment liabilities for 30th June 2019 all increased as a result of the change in accounting policy, with lease liabilities now included in segment liabilities.

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

| | Adjusted EBITDA HK\$'000 | Segment assets HK\$'000 | Segment liabilities HK\$'000 |
|----------------------------------|-----------------------------|----------------------------|---------------------------------|
| Coatings | 896 | 2,518 | 2,625 |
| Marine equipment and spare parts | <u>2,129</u> | <u>7,216</u> | <u>7,081</u> |
| | <u><u>3,025</u></u> | <u><u>9,734</u></u> | <u><u>9,706</u></u> |

The impact on earnings per share for the six months ended 30th June 2019 as a result of the adoption of HKFRS 16 was immaterial.

(ii) *Practical expedients applied*

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

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

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

(b) Accounting policies applied from 1st January 2019

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

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

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

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

- 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 profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise motor vehicles and office furniture.

4 REVENUE AND SEGMENT INFORMATION

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

| | Six months ended 30th June | |
|--|-----------------------------------|------------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Sale of coatings | 507,564 | 515,916 |
| Sale of marine equipment and spare parts | 640,083 | 555,936 |
| Commission income from ship trading agency | 49,447 | 61,794 |
| Commission income from insurance brokerage | 35,554 | 36,158 |
| Sale of marine fuel and other products | 23,427 | 3,309,419 |
| Sale of asphalt and other products | 369,901 | 308,422 |
| | <u>1,625,976</u> | <u>4,787,645</u> |

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

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

Others mainly comprise the Group's financial assets at fair value through other comprehensive income (“FVOCI”).

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

| | Shipping services | | | | | General trading | Others | Inter-segment elimination | Total | |
|---|----------------------|--|---------------------------------|---------------------------------|--|------------------|----------------|---------------------------|------------------|-------------------|
| | Coatings HK\$'000 | Marine equipment and spare parts HK\$'000 | Ship trading agency HK\$'000 | Insurance brokerage HK\$'000 | Marine fuel and other products HK\$'000 | | | | | Total HK\$'000 |
| Six months ended and as at 30th June 2019 | | | | | | | | | | |
| Profit or loss items: | | | | | | | | | | |
| Segment revenue | 507,564 | 640,353 | 49,447 | 36,124 | 23,427 | 1,256,915 | 373,307 | — | (4,246) | 1,625,976 |
| Inter-segment revenue | — | (270) | — | (570) | — | (840) | (3,406) | — | 4,246 | — |
| Revenue from external customers | <u>507,564</u> | <u>640,083</u> | <u>49,447</u> | <u>35,554</u> | <u>23,427</u> | <u>1,256,075</u> | <u>369,901</u> | <u>—</u> | <u>—</u> | <u>1,625,976</u> |
| Timing of revenue recognition: | | | | | | | | | | |
| At a point in time | 507,564 | 640,083 | — | — | 23,427 | 1,171,074 | 369,901 | — | — | 1,540,975 |
| Over time | — | — | 49,447 | 35,554 | — | 85,001 | — | — | — | 85,001 |
| | <u>507,564</u> | <u>640,083</u> | <u>49,447</u> | <u>35,554</u> | <u>23,427</u> | <u>1,256,075</u> | <u>369,901</u> | <u>—</u> | <u>—</u> | <u>1,625,976</u> |
| Segment operating profit/(loss) | 3,358 | 35,876 | 30,966 | 21,822 | (1,616) | 90,406 | 8,232 | 2,590 | — | 101,228 |
| Finance income | 625 | 282 | 955 | 1,399 | 31 | 3,292 | 642 | — | (220) | 3,714 |
| Finance costs | (96) | (633) | (16) | (62) | (584) | (1,391) | (2,806) | — | 220 | (3,977) |
| Share of profits of joint ventures | 21,946 | 589 | 216 | — | — | 22,751 | — | — | — | 22,751 |
| Share of profits/(losses) of associates | — | — | 43 | — | (6,870) | (6,827) | 868 | — | — | (5,959) |
| Segment profit/(loss) before income tax | 25,833 | 36,114 | 32,164 | 23,159 | (9,039) | 108,231 | 6,936 | 2,590 | — | 117,757 |
| Income tax expenses | (9,516) | (6,746) | (9,358) | (4,319) | — | (29,939) | (1,556) | — | — | (31,495) |
| Segment profit/(loss) after income tax | <u>16,317</u> | <u>29,368</u> | <u>22,806</u> | <u>18,840</u> | <u>(9,039)</u> | <u>78,292</u> | <u>5,380</u> | <u>2,590</u> | <u>—</u> | <u>86,262</u> |
| Assets and liabilities items: | | | | | | | | | | |
| Total segment assets | 1,396,081 | 1,186,509 | 248,523 | 338,716 | 145,333 | 3,315,162 | 549,124 | 75,599 | (183,630) | 3,756,255 |
| Total segment assets include: | | | | | | | | | | |
| — Joint ventures | 404,014 | 10,901 | 2,852 | — | — | 417,767 | — | — | — | 417,767 |
| — Associates | — | — | 2,198 | — | 80,532 | 82,730 | 7,774 | — | — | 90,504 |
| Total segment liabilities | <u>273,578</u> | <u>525,387</u> | <u>68,352</u> | <u>196,256</u> | <u>12,257</u> | <u>1,075,830</u> | <u>309,149</u> | <u>—</u> | <u>(183,630)</u> | <u>1,201,349</u> |
| Other items: | | | | | | | | | | |
| Depreciation and amortisation, net of amount capitalised | 9,501 | 3,639 | 109 | 114 | — | 13,363 | 1,236 | — | — | 14,599 |
| Reversal of provision for impairment of trade receivables, net | (788) | — | — | — | — | (788) | — | — | — | (788) |
| Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets) | <u>3,539</u> | <u>901</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>4,440</u> | <u>3,101</u> | <u>—</u> | <u>—</u> | <u>7,541</u> |
| Year ended and as at 31st December 2018 | | | | | | | | | | |
| Assets and liabilities items: | | | | | | | | | | |
| Total segment assets | 1,375,325 | 1,174,468 | 190,335 | 259,157 | 240,923 | 3,240,208 | 630,994 | 75,263 | (245,482) | 3,700,983 |
| Total segment assets include: | | | | | | | | | | |
| — Joint ventures | 383,696 | 10,362 | 2,651 | — | — | 396,709 | — | — | — | 396,709 |
| — Associates | — | — | 2,164 | — | 87,540 | 89,704 | 6,947 | — | — | 96,651 |
| Total segment liabilities | 264,840 | 552,058 | 60,398 | 124,657 | 95,078 | 1,097,031 | 395,385 | — | (245,482) | 1,246,934 |
| Other items: | | | | | | | | | | |
| Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets) | <u>11,214</u> | <u>455</u> | <u>35</u> | <u>210</u> | <u>—</u> | <u>11,914</u> | <u>131</u> | <u>—</u> | <u>—</u> | <u>12,045</u> |

| | Shipping services | | | | | General trading | Others | Inter-segment elimination | Total | |
|---|----------------------|--|---------------------------------|---------------------------------|--|------------------|----------------|---------------------------|------------------|-------------------|
| | Coatings HK\$'000 | Marine equipment and spare parts HK\$'000 | Ship trading agency HK\$'000 | Insurance brokerage HK\$'000 | Marine fuel and other products HK\$'000 | | | | | Total HK\$'000 |
| Six months ended and as at 30th June 2018 | | | | | | | | | | |
| Profit or loss items: | | | | | | | | | | |
| Segment revenue | 515,916 | 562,885 | 61,939 | 36,201 | 3,364,682 | 4,541,623 | 315,593 | — | (69,571) | 4,787,645 |
| Inter-segment revenue | — | (6,949) | (145) | (43) | (55,263) | (62,400) | (7,171) | — | 69,571 | — |
| Revenue from external customers | <u>515,916</u> | <u>555,936</u> | <u>61,794</u> | <u>36,158</u> | <u>3,309,419</u> | <u>4,479,223</u> | <u>308,422</u> | <u>—</u> | <u>—</u> | <u>4,787,645</u> |
| Timing of revenue recognition: | | | | | | | | | | |
| At a point in time | 515,916 | 555,936 | — | — | 3,309,419 | 4,381,271 | 308,422 | — | — | 4,689,693 |
| Over time | — | — | 61,794 | 36,158 | — | 97,952 | — | — | — | 97,952 |
| | <u>515,916</u> | <u>555,936</u> | <u>61,794</u> | <u>36,158</u> | <u>3,309,419</u> | <u>4,479,223</u> | <u>308,422</u> | <u>—</u> | <u>—</u> | <u>4,787,645</u> |
| Segment operating profit | 9,248 | 37,566 | 56,076 | 23,248 | 3,493 | 129,631 | 21,241 | 3,016 | — | 153,888 |
| Finance income | 511 | 351 | 1,120 | 770 | 405 | 3,157 | 407 | — | (429) | 3,135 |
| Finance costs | (451) | (545) | (47) | (58) | (1,351) | (2,452) | (2,313) | — | 429 | (4,336) |
| Share of (losses)/profits of joint ventures | (8,476) | 190 | 794 | — | — | (7,492) | — | — | — | (7,492) |
| Share of profits of associates | — | — | 62 | — | 5,072 | 5,134 | 8 | — | — | 5,142 |
| Segment profit before income tax | 832 | 37,562 | 58,005 | 23,960 | 7,619 | 127,978 | 19,343 | 3,016 | — | 150,337 |
| Income tax expenses | (4,911) | (5,629) | (7,145) | (4,463) | (433) | (22,581) | (5,107) | — | — | (27,688) |
| Segment (loss)/profit after income tax | <u>(4,079)</u> | <u>31,933</u> | <u>50,860</u> | <u>19,497</u> | <u>7,186</u> | <u>105,397</u> | <u>14,236</u> | <u>3,016</u> | <u>—</u> | <u>122,649</u> |
| Assets and liabilities items: | | | | | | | | | | |
| Total segment assets | 1,365,227 | 1,093,794 | 189,333 | 396,212 | 329,613 | 3,374,179 | 680,992 | 80,691 | (247,358) | 3,888,504 |
| Total segment assets include: | | | | | | | | | | |
| — Joint ventures | 266,490 | 12,238 | 3,465 | — | — | 282,193 | — | — | — | 282,193 |
| — Associates | — | — | 2,234 | — | 118,735 | 120,969 | 7,123 | — | — | 128,092 |
| Total segment liabilities | <u>334,786</u> | <u>485,825</u> | <u>69,247</u> | <u>260,601</u> | <u>149,196</u> | <u>1,299,655</u> | <u>434,817</u> | <u>—</u> | <u>(247,358)</u> | <u>1,487,114</u> |
| Other items: | | | | | | | | | | |
| Depreciation and amortisation, net of amount capitalised | 8,483 | 1,757 | 170 | 153 | — | 10,563 | 1,226 | — | — | 11,789 |
| Provision for impairment of inventories, net | 6,304 | — | — | — | — | 6,304 | — | — | — | 6,304 |
| Reversal of provision for impairment of trade receivables, net | (2,331) | — | — | — | — | (2,331) | — | — | — | (2,331) |
| Reversal of provision for impairment of other receivables | — | — | — | — | — | — | (17,815) | — | — | (17,815) |
| Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets) | <u>3,340</u> | <u>281</u> | <u>—</u> | <u>55</u> | <u>—</u> | <u>3,676</u> | <u>67</u> | <u>—</u> | <u>—</u> | <u>3,743</u> |

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

| | Six months ended 30th June | |
|--|-----------------------------------|----------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Profit before income tax for reportable segments | 115,167 | 147,321 |
| Profit before income tax for others | 2,590 | 3,016 |
| Profit before income tax for all segments | 117,757 | 150,337 |
| Elimination of segment income from corporate headquarters quarters | (442) | (23) |
| Elimination of segment finance costs to corporate headquarters | 2,392 | 3,105 |
| Corporate finance income | 103,658 | 73,015 |
| Corporate finance costs | (14) | (7) |
| Corporate expenses, net of income | (40,844) | (8,958) |
| Profit before income tax for the Group | 182,507 | 217,469 |
| Income tax expenses for all segments | (31,495) | (27,688) |
| Corporate income tax expenses | (398) | (1,338) |
| Profit after income tax for the Group | 150,614 | 188,443 |

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

| | 30th June | 31st December | 30th June |
|--|------------------|---------------|-----------|
| | 2019 | 2018 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Total assets for reportable segments | 3,864,286 | 3,871,202 | 4,055,171 |
| Total assets for others | 75,599 | 75,263 | 80,691 |
| Elimination of inter-segment receivables | (183,630) | (245,482) | (247,358) |
| Corporate assets (mainly deposits and cash and cash equivalents) | 3,756,255 | 3,700,983 | 3,888,504 |
| Elimination of corporate headquarters' receivables from segments | 5,872,934 | 5,965,619 | 5,850,166 |
| | (345,072) | (409,877) | (171,795) |
| Total assets for the Group | 9,284,117 | 9,256,725 | 9,566,875 |

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

| | 30th June 2019 HK\$'000 | 31st December 2018 HK\$'000 | 30th June 2018 HK\$'000 |
|---|--|-----------------------------------|-------------------------------|
| Total liabilities for reportable segments | 1,384,979 | 1,492,416 | 1,734,472 |
| Elimination of inter-segment payables | <u>(183,630)</u> | <u>(245,482)</u> | <u>(247,358)</u> |
| | 1,201,349 | 1,246,934 | 1,487,114 |
| Corporate liabilities | 263,064 | 264,968 | 78,681 |
| Elimination of segment payables to corporate headquarters | <u>(345,072)</u> | <u>(409,877)</u> | <u>(171,795)</u> |
| Total liabilities for the Group | <u>1,119,341</u> | <u>1,102,025</u> | <u>1,394,000</u> |

5 OTHER INCOME AND (LOSSES)/GAINS — NET

| | Six months ended 30th June | |
|---|-----------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Other income/(expenses) — net | | |
| — Rental income | 1,525 | 1,508 |
| — Direct operating expenses for generating rental income | (19) | (23) |
| — Dividend income from listed investments | <u>2,590</u> | <u>3,016</u> |
| | <u>4,096</u> | <u>4,501</u> |
| Other (losses)/gains — net | | |
| — Net gains/(losses) on disposal of property, plant and equipment | 67 | (44) |
| — Reversal of provision for impairment of trade receivables, net | 788 | 2,331 |
| — Provision for impairment of inventories, net | — | (6,304) |
| — Reversal of provision for impairment of other receivables | — | 17,815 |
| — Written-off of inventories | — | (21) |
| — Government subsidy income [#] | 137 | 16,240 |
| — Net exchange (losses)/gains | (14,091) | 39,651 |
| — Others | <u>503</u> | <u>1,002</u> |
| | <u>(12,596)</u> | <u>70,670</u> |
| | <u>(8,500)</u> | <u>75,171</u> |

[#] Government subsidy income of HK\$12,229,000 was recognised during the six months period ended 30th June 2018 in respect of a special subsidy granted by the Shanghai Baoshan District Government. Such subsidy was to compensate for the relevant costs and expenses incurred by 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*) in relocating the production plant and settling the impacted staff. The remaining amount for six months ended 30th June 2019 and 2018 represented other government subsidy income.

6 OPERATING PROFIT

Operating profit is stated after charging the following:

| | Six months ended 30th June | |
|---|----------------------------|---------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Expenses related to short-term leases under HKFRS 16 | 12,112 | — |
| Depreciation and amortisation, net of amount capitalised in inventories totalling HK\$2,049,000 (2018: HK\$2,384,000) | <u>15,035</u> | <u>12,188</u> |

7 FINANCE INCOME — NET

| | Six months ended 30th June | |
|----------------------------------|----------------------------|----------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Interest income from: | | |
| — a fellow subsidiary | 2,247 | 1,584 |
| — a joint venture | 47 | 403 |
| — bank deposits | <u>105,078</u> | <u>74,163</u> |
| Total finance income | <u>107,372</u> | <u>76,150</u> |
| Interest expenses on: | | |
| — loans from a fellow subsidiary | (617) | (150) |
| — a bank loan | (123) | (420) |
| — lease liabilities | (257) | — |
| Other finance charges | <u>(602)</u> | <u>(668)</u> |
| Total finance costs | <u>(1,599)</u> | <u>(1,238)</u> |
| Finance income — net | <u>105,773</u> | <u>74,912</u> |

8 INCOME TAX EXPENSES

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

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

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

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

The amount of income tax charged for the period to the condensed consolidated income statement is as follows:

| | Six months ended 30th June | |
|---------------------------------|-----------------------------------|----------------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current income tax | | |
| — current period | | |
| — Hong Kong profits tax | 7,465 | 12,859 |
| — PRC enterprise income tax | 13,297 | 10,944 |
| — other overseas taxation | 1,725 | 1,437 |
| — over-provision in prior years | | |
| — PRC enterprise income tax | (328) | (615) |
| Deferred income tax charge, net | <u>9,734</u> | <u>4,401</u> |
| Income tax expenses | <u><u>31,893</u></u> | <u><u>29,026</u></u> |

9 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity holders of the Company of HK\$150,025,000 (2018: HK\$184,034,000) and the number of shares in issue during the period of 1,532,955,429 shares (2018: 1,532,955,429 shares).

There was no potential dilutive ordinary share in existence during both periods.

10 DIVIDEND

| | Six months ended 30th June | |
|--|-----------------------------------|----------------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interim dividend, declared, of HK\$0.07 (2018: HK\$0.05) per ordinary share | <u><u>107,307</u></u> | <u><u>76,648</u></u> |

At the board meeting held on 20th August 2019, the directors of the Company declared an interim dividend of HK\$0.07 per ordinary share for the six months ended 30th June 2019. This dividend has not been recognised as a liability in the Unaudited Condensed Consolidated Interim Financial Information, but will be recognised in shareholders' equity in the year ending 31st December 2019.

A final dividend of HK\$137,966,000 relating to the year ended 31st December 2018 (2017: HK\$183,955,000) was paid in June 2019.

11 TRADE AND OTHER RECEIVABLES

| | 30th June 2019 HK\$'000 | 31st December 2018 HK\$'000 |
|---|--|-----------------------------------|
| Trade receivables, net of provision for impairment | 934,773 | 618,560 |
| Bills receivable, prepayments, deposits, other receivables, amounts due from related parties and loan to a joint venture, net of provision for impairment | <u>679,197</u> | <u>750,245</u> |
| | <u>1,613,970</u> | <u>1,368,805</u> |

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

| | 30th June 2019 HK\$'000 | 31st December 2018 HK\$'000 |
|-------------------|--|-----------------------------------|
| Current – 90 days | 583,038 | 357,476 |
| 91–180 days | 251,927 | 179,739 |
| Over 180 days | <u>99,808</u> | <u>81,345</u> |
| | <u>934,773</u> | <u>618,560</u> |

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 90 days. Other than those with credit terms, all invoices are payable upon presentation.

12 TRADE PAYABLES, CONTRACT LIABILITIES, LEASE LIABILITIES AND OTHER PAYABLES

| | 30th June 2019 HK\$'000 | 31st December 2018 HK\$'000 |
|--|--|-----------------------------------|
| Trade payables (<i>note (a)</i>) | 439,092 | 277,859 |
| Bills payable, accrued liabilities, other payables, amounts due to related parties and dividend payable to non-controlling interests | <u>291,583</u> | <u>357,729</u> |
| | 730,675 | 635,588 |
| Contract liabilities (<i>note (b)</i>) | 232,239 | 337,128 |
| Lease liabilities (<i>note (c)</i>) | <u>9,706</u> | <u>—</u> |
| | <u>972,620</u> | <u>972,716</u> |

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

| | 30th June 2019 | 31st December 2018 |
|-------------------|---------------------------|-----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current – 90 days | 357,650 | 220,065 |
| 91–180 days | 54,074 | 44,567 |
| Over 180 days | <u>27,368</u> | <u>13,227</u> |
| | <u>439,092</u> | <u>277,859</u> |

- (b) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

| | Six months ended 30th June | |
|---|-----------------------------------|-----------------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue recognised that was included in the contract liability balance at the beginning of the period | <u>244,499</u> | <u>298,519</u> |

- (c) Maturity analysis of lease liabilities as at 30th June 2019 is as below:

| | <i>HK\$'000</i> |
|-----------------------------------|---------------------|
| Within 1 year | 5,257 |
| In the 2nd to 4th years inclusive | <u>4,449</u> |
| | <u>9,706</u> |

13 FINANCIAL GUARANTEE CONTRACTS

As at 30th June 2019, the Group had financial guarantees issued in favour of a bank as security for general banking facilities granted to an associate.

Terms and face values of the liabilities guaranteed were as follows:

| | 30th June 2019 | 31st December 2018 |
|--|-----------------------------------|-----------------------|
| Year of maturity | <i>HK\$'000</i> | <i>HK\$'000</i> |
| General banking facilities of an associate | 2020 <u>168,026</u> | <u>168,408</u> |

As at 30th June 2019, the credit risk and liquidity risk exposure relating to the above financial guarantee contract are considered as low.

The fair value of the guarantee contract is not material and has not been recognised in the financial statements.

FINANCIAL REVIEW

During the period, the Group recorded a year-on-year decline in performance, mainly caused by the absence of the non-recurring incomes recorded in the same period of last year. During the period, profit attributable to equity holders of the Company was HK\$150,025,000 (2018: HK\$184,034,000), representing a decrease of 18% as compared to the same period of 2018. The basic and diluted earnings per share was 9.79 HK cents (2018: 12.01 HK cents), representing a decrease of 18% as compared to the same period of 2018.

Revenue

For the six months ended 30th June 2019, the Group's revenue decreased by 66% to HK\$1,625,976,000 (2018: HK\$4,787,645,000) as compared to the same period of 2018. Revenue from the core shipping services business decreased by 72% to HK\$1,256,075,000 (2018: HK\$4,479,223,000) and accounted for 77% (2018: 94%) of the Group's revenue. In considering the risk factor, the Group had deliberately trimmed down the marine fuel trading business, resulting in the decrease of segment revenue from marine fuel and other products. Revenue from general trading segment increased by 20% to HK\$369,901,000 (2018: HK\$308,422,000) and accounted for 23% (2018: 6%) of the Group's revenue.

Gross Profit and Gross Profit Margin

The Group's gross profit for the period was HK\$274,164,000 (2018: HK\$305,636,000), decreasing by 10% as compared to the same period of 2018. The decrease in gross profit was mainly attributable to the decrease in segment revenues from coatings and ship trading agency. During the period, gross profit margin was 16.9% (2018: 6.4%), increasing by 10.5 percentage points as compared to the same period of last year. The overall increase in gross profit margin was mainly attributable to the decrease in revenue from the low-gross-profit-margin marine fuel and other products segment.

Management Fee Income

During the period, there was a management fee income of HK\$35,334,000 (2018: HK\$20,909,000) arising from the provision of management services by the Company in relation to the day-to-day business operations and management of COSCO SHIPPING (Hong Kong) Co., Limited and its subsidiaries (other than those relating to the Group and Piraeus Port Authority S.A.) according to the management services master agreement dated 7th February 2018.

Other Income and (Losses)/Gains — Net

Other income and (losses)/gains — net loss for the period of HK\$8,500,000 (2018: net gain of HK\$75,171,000) mainly included net exchange losses of HK\$14,091,000 (2018: net exchange gains of HK\$39,651,000). In addition, during the period, there were no reversal of provision for impairment of other receivables of HK\$17,815,000 and government subsidy income of HK\$12,229,000 granted by the Shanghai Baoshan District Government to 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*) for compensation for the relevant costs and expenses for relocating the production plant and resettling the affected staff, as were incurred in the same period of last year.

Selling, Administrative and General Expenses

During the period, selling, administrative and general expenses decreased by 6% to HK\$241,056,000 (2018: HK\$256,809,000), which was mainly due to decrease in the segment revenue from coating as compared to the same period of 2018 and resulting in decrease in selling expenses.

Finance Income

Finance income, which primarily represented interest income on the Group's bank deposits, increased by 41% to HK\$107,372,000 (2018: HK\$76,150,000) as a result of the increase in interest rate of cash deposit as compared to the same period of 2018.

Finance Costs

Finance costs, which mainly represented interest expenses on short-term borrowings and other financial charges, increased by 29% to HK\$1,599,000 (2018: HK\$1,238,000).

Share of Profits/(Losses) of Joint Ventures

The Group's share of profits of joint ventures was HK\$22,751,000 (2018: share of losses of HK\$7,492,000). This item primarily represented the share of profits of Jotun COSCO of HK\$19,209,000 (2018: share of loss of HK\$8,476,000) and Nasurfar Changshu of HK\$2,737,000 (2018: Nil) which were included in the coatings segment.

Share of (Losses)/Profits of Associates

The Group's share of losses of associates was HK\$5,959,000 (2018: share of profits of HK\$5,142,000). This item primarily represented the share of loss of Double Rich of HK\$6,870,000 (2018: share of profit of HK\$5,072,000) which was included in the marine fuel and other products segment.

Profit Attributable to Equity Holders

Profit attributable to equity holders of the Company during the period decreased by 18% to HK\$150,025,000 (2018: HK\$184,034,000).

FINANCIAL RESOURCES AND LIQUIDITY

As at 30th June 2019, capital and reserves attributable to the Company's equity holders increased by 0.2% to HK\$7,869,695,000 (as at 31st December 2018: HK\$7,853,935,000). As at 30th June 2019, total cash and deposits (including restricted bank deposits of HK\$5,684,000) of the Group was HK\$6,166,439,000 (as at 31st December 2018: HK\$6,375,662,000, including restricted bank deposits of HK\$5,706,000). During the period, the Group has net drawdown of short-term borrowings in the amount of HK\$17,334,000 (2018: HK\$83,027,000). As at 30th June 2019, total banking facilities available to the Group amounted to HK\$551,612,000 (as at 31st December 2018: HK\$845,566,000), of which HK\$13,181,000 (as at 31st December 2018: HK\$132,185,000) had been utilised. The gearing ratio, which represented total borrowings over total assets, was 0.7% (as at 31st December 2018: 0.5%). As at 30th June 2019, the Group had net cash (represented total cash and deposits net of short-term borrowings) of HK\$6,103,915,000 (as at 31st December 2018: HK\$6,330,010,000). To enhance the Group's finance income and to ensure availability of cash at appropriate times to meet the Group's commitments and needs, the Group, on the basis of balancing risk, return and liquidity, invested in a mixture of stable and conservative financial products, including overnight deposits, term deposits and offshore fixed deposits. Return of 3.42% on the Group's cash was achieved during the period, representing 110 basis points above 3-month US Dollar London Interbank Offered Rate as at the end of June 2019. As at 30th June 2019, borrowings of the Group were unsecured debt denominated in Renminbi which carried interest at rates calculated with reference to the base rates announced by the People's Bank of China and repayable within one year. The Group had no financial instruments for interest rate hedging purposes.

FINANCIAL RISK MANAGEMENT

The Group principally operates in Hong Kong, Singapore and Mainland China, and is exposed to foreign exchange risk arising from foreign currencies held, mainly US dollars and Renminbi. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities. The Group manages its foreign exchange exposure by regularly reviewing the foreign currency exposure of its operating subsidiaries and will consider hedging exposure by foreign exchange forward contracts when the need arises. The marine fuel business is subject to fluctuation in oil prices. The Group exercises stringent control over the use of derivative financial instrument when necessary, for hedging against the price risks of marine fuel and other products. In addition, the conversion of Renminbi into foreign currencies in Mainland is subject to the rules and regulations of foreign exchange controls promulgated by the government of the PRC.

EMPLOYEES

As at 30th June 2019, excluding joint ventures and associates, the Group had 900 (as at 31st December 2018: 876) employees, of which 188 (as at 31st December 2018: 196) were Hong Kong employees. During the period, total employee benefit expenses, including directors' emoluments and provident funds, were HK\$167,992,000 (2018: HK\$171,543,000). 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 period, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme or recognised occupational retirement scheme. No share option scheme is in operation and no share options of the Company are outstanding.

INTERIM DIVIDEND

The Board has declared an interim dividend of 7 HK cents (2018: 5 HK cents) per share for the six months ended 30th June 2019 which will be payable on 27th September 2019 to the shareholders of the Company (the “Shareholders”) whose name appear on the register of members of the Company (the “Register of Members”) on 19th September 2019.

For the purpose of ascertaining the Shareholders’ entitlement to the interim dividend, the Register of Members will be closed from 17th September 2019 to 19th September 2019, both days inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for the interim dividend for the six months ended 30th June 2019, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on 16th September 2019.

REVIEW OF BUSINESS OPERATIONS

In the first half of 2019, increasing uncertainty in global economic growth was constituted by China-US economic and trade frictions, resumption of sanctions against Iran by the United States etc., and which has hindered the recovery of shipping industry. Some major institutions have lowered their estimations of demand growth while the shipping supply and demand contradiction has intensified.

In view of the overall unfavourable market environment, the absence of non-recurring incomes recorded in the same period of last year and the impact from net exchange loss, the overall profit of COSCO SHIPPING International decreased as compared to the same period of last year. However, COSCO SHIPPING International has proactively examined and optimised its business strategies, and some of its business segments have achieved significant improvement in operational efficiency. In particular, the marine coatings business achieved turnaround profit during the period and Nasurfar Changshu achieved satisfactory performance, the Group’s share of profit from Nasurfar Changshu amounted to HK\$2,737,000 in the first half of 2019.

1. Core Business — Shipping Services

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

During the period, revenue from the Group's shipping services was HK\$1,256,075,000 (2018: HK\$4,479,223,000), representing a decrease of 72% as compared to the same period of 2018. The decrease in revenue was mainly as a result of purposely trimmed down marine fuel business by the Group after taking into account the risk factors. Besides, the decrease in the number of new build vessels delivery also led to the decline in revenue in ship trading agency business. Profit before income tax from shipping services was HK\$108,231,000 (2018: HK\$127,978,000), representing a decrease of 15% as compared to the same period of 2018.

1.1 *Ship Trading Agency Services*

During the period, revenue from the ship trading agency segment of the Group decreased by 20% to HK\$49,447,000 (2018: HK\$61,794,000) as compared to the same period of last year. Segment profit before income tax was HK\$32,164,000 (2018: HK\$58,005,000), representing a decrease of 45% as compared to the same period of 2018. The weak performance in ship trading agency was mainly attributable to fewer delivery arrangements of new build vessels in the first half of the year and also a decline in trading volume of second-hand vessels, resulting in a decrease in commission incomes. In addition, the decline in exchange gains also led to a decrease in the segment profit before income tax.

During the period, the number of delivered new build vessels ordered through COSCO SHIPPING (Hong Kong) Ship Trading Company Limited and 北京中遠海運船舶貿易有限公司 (Beijing COSCO SHIPPING Ship Trading Company Limited*), the wholly-owned subsidiaries of the Company (collectively, "COSCO SHIPPING Ship Trading") was 8 (2018: 18), aggregating 1,333,000 dead weight tonnages (2018: 3,060,000 dead weight tonnages). The number of new build vessels ordered through COSCO SHIPPING Ship Trading was 11 (2018: 8), aggregating 1,558,000 dead weight tonnages (2018: 1,927,000 dead weight tonnages). For second-hand vessels, the sale and purchase of a total of 11 (2018: 14) second-hand vessels through COSCO SHIPPING Ship Trading were recorded, aggregating 196,000 dead weight tonnages (2018: 560,000 dead weight tonnages).

1.2 *Marine Insurance Brokerage Services*

During the period, revenue from insurance brokerage segment of the Group was HK\$35,554,000 (2018: HK\$36,158,000), representing a decrease of 2% as compared to the same period of last year. Segment profit before income tax was HK\$23,159,000 (2018: HK\$23,960,000), down 3% as compared to the same period of last year, which was mainly attributed to a slight decline in commission income as a result of pressure on the insurance premium rate under persistent fierce competition in the marine insurance market and falling vessel prices.

1.3 Supply of Marine Equipment and Spare Parts

During the period, revenue from marine equipment and spare parts segment of the Group was HK\$640,083,000 (2018: HK\$555,936,000), increasing by 15% as compared to the same period of 2018, which was mainly attributable to the fact that the Group increased its efforts on exploitation of external customers beyond COSCO SHIPPING Group, resulting in larger customer base and higher business volume from such customers as compared to the same period of last year. However, exchange losses of HK\$884,000 were recorded in the first half of 2019, as compared to exchange gains of HK\$3,301,000 in the same period of 2018, resulting in segment profit before income tax decreased by 4% to HK\$36,114,000 (2018: HK\$37,562,000) as compared to the same period of last year.

1.4 Production and Sale of Coatings

During the period, revenue from coatings segment of the Group was HK\$507,564,000 (2018: HK\$515,916,000), decreasing by 2% as compared to the same period of 2018. Segment profit before income tax was HK\$25,833,000 (2018: HK\$832,000), representing an increase of 30 times as compared to the same period of 2018, resulting from the turnaround profit in marine coatings business.

For container coatings, the Group has allocated more resources in technical development and was committed to improving the research & development and performance of its water-based container coatings, and achieved remarkable results in focusing on developing new markets to gain market share. During the period, the sales volume of container coatings increased by 17% to 11,684 tonnes (2018: 9,983 tonnes) as compared to the same period of last year. However, due to fierce industry competition, the sales price of container coatings was under pressure, dragging down the gross profit margin of the related businesses.

For heavy-duty anti-corrosion coatings, the Group focused on the development and enhancement of the product series for waterborne heavy-duty anti-corrosion coatings, and achieved breakthroughs in port facilities, bridges and other businesses, along with the successful delivery of the coatings for the immersed tube tunnel of Shenzhen-Zhongshan Link, driving up the overall business volume. During the period, the sales volume of industrial heavy-duty anti-corrosion coatings together with workshop primer amounted to 9,426 tonnes (2018: 9,117 tonnes), representing an increase of 3% as compared to the same period of last year.

For marine coatings, the sales volume of Jotun COSCO's coatings for new build vessels amounted to 22,122,000 litres (2018: 22,711,000 litres), representing a decrease of 3% as compared to the same period of 2018. Sales volume of coatings for repair and maintenance was 11,631,000 litres (2018: 10,450,000 litres), increasing by 11% as compared to the same period of 2018. The sales volume of Jotun COSCO's marine coatings amounted to 33,753,000 litres (equivalent to approximately 45,567 tonnes) (2018: 33,161,000 litres (equivalent to approximately 44,768 tonnes)), up 2% as compared to the same period of last year. During the

period, the Group's share of profit from Jotun COSCO was HK\$19,209,000 (2018: share of loss of HK\$8,476,000). It was mainly attributable to the improvement in gross profit margin as compared to the same period of last year. Jotun COSCO reinforced the management on procurement of raw materials, which effectively strengthened the overall profitability and stability.

As at 30th June 2019, Jotun COSCO had coating contracts on hand for new build vessels amounting to 27,810,000 dead weight tonnages pending delivery. The coatings were scheduled to be delivered in the coming two years.

Nasurfar Changshu, in which the Company completed the subscription of 33% equity interest in the third quarter of 2018, is principally engaged in the research and development, production and sales of biochemical products, which is beneficial to extend the industry chain of coatings and related products. During the period, the Group's share of profit from Nasurfar Changshu was HK\$2,737,000 (2018: Nil).

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

During the period, revenue from marine fuel and other products segment of the Group was HK\$23,427,000 (2018: HK\$3,309,419,000), and total sales volume of marine fuel products was 6,277 tonnes (2018: 1,047,818 tonnes), representing a decrease of 99% as compared to the same period of last year. In view of the liquidation filed by Coastal Oil Singapore Pte Ltd, a major supplier of Sinfeng Marine Services Pte. Ltd. ("Sinfeng"), at the end of 2018 ("Coastal Oil's Liquidation"), the Group purposely trimmed down Sinfeng's business in order to further prevent and control risks, which resulted in an impact on the business. For details of information in relation to Coastal Oil's Liquidation and the matters arising subsequent to Coastal Oil's Liquidation, please refer to the announcement of the Company dated 4th January 2019. Management is of the view that this event would not have a material impact to the Group's financial information for the period ended 30th June 2019 after taking into account of professional opinion of Sinfeng's legal adviser in respect of the aforesaid matters.

During the period, the Group's share of loss from Double Rich was HK\$6,870,000 (2018: share of profit of HK\$5,072,000), which was mainly attributable to factors including weak demand for fuel oil and oil price fluctuation.

During the period, loss before income tax from marine fuel and other products segment was HK\$9,039,000 (2018: profit before income tax of HK\$7,619,000).

2. General Trading

During the period, the sales volume of asphalt decreased by 10% to 69,690 tonnes (2018: 77,197 tonnes) as compared to the same period of last year, however, due to the rise in asphalt price as compared to the same period of last year, revenue from general trading segment of the Group increased by 20% to HK\$369,901,000 (2018: HK\$308,422,000) as compared to the same period of last year. Segment profit before income tax was HK\$6,936,000 (2018: HK\$19,343,000), representing a decrease of 64% as compared to the same period of last year, mainly due to absence of reversal of provision for impairment of other receivables of approximately HK\$17,815,000 recorded in the same period of 2018.

PROSPECTS

Looking forward to the second half of the year, global companies are losing confidence in the economic outlook and becoming more cautious in investment as global economic growth is decelerating. The International Monetary Fund (“IMF”) has further reduced its global economic growth estimation to 3.2% in the latest “World Economic Outlook” report while forecasting that economic growth in most of the world’s economies will decline. The shipping industry will face the double pressure from economic slowdown and global capacity growth in excess of demand growth. Nevertheless, given the excellent resilience and huge potential of China’s economic performance, the risk coping and sustainable development capacities of the shipping industry will be further enhanced accompanied with good opportunities. In the second half of the year, responding to challenges from the macro-economic environment with high quality development will be one of the major tasks of COSCO SHIPPING International. With the strong support from COSCO SHIPPING Group and an aim of becoming a world class and the leading shipping services company in China, COSCO SHIPPING International will continue to implement the established development strategies, and will adhere to the two strategic direction for development, namely “unified operational platform for shipping services industrial cluster” and the “non-financial business investment platform”, in order to accomplish sustainable business development, maximise its enterprise value, and create long-term and stable returns for shareholders.

For ship trading agency services, in order to cope with the changes in the shipping industry, the Group will proactively explore new business models, further offer ship owners with diversified value-added services. At the same time, the Group will further enhance our external marketing efforts, bring our advantages in the upstream of the shipping industry into full play, strive to become the leader with good use of the Group’s synergy effect.

For marine insurance brokerage services, with the major projects at hand, the Group will strive for business growth by putting good effort in the traditional marine insurance business as well as the development of non-marine insurance businesses and the customers base outside COSCO SHIPPING Group.

For supply of marine equipment and spare parts, the Group will continue to deepen the reformation of our business platform, make use of our advantages in the internal business collaboration and scale, strive to explore new vessels equipment agency business, further nurture and develop the agency channel and enhance the profitability, maximising the platform interest.

For container coatings, the Group will further highlight our technological leadership, edge up the product development effort, and satisfy the customers' demand with enhanced value. At the same time, the Group will proactively lower the production cost, capture more market shares, and improve the profitability level. For industrial heavy-duty anti-corrosion coatings, the Group will continue to expand the marketing, enhance the transformation and innovation of our waterborne heavy-duty anti-corrosion series products and further enlarge the use of products. For marine coatings, with the aim to balance the market shares, the Group will strive to increase the market share of the coatings for repair and maintenance by securing high-quality orders for new build vessels, meanwhile pursuing a sound credit control policy as well as implementing strict control on cost budget controls.

For trading and supply of marine fuel and related products, the Group will further strengthen the risk prevention and control to maintain low risk and high stability as major tasks, and will also carefully examine the medium to long-term strategic positioning of relevant businesses to enhance capital efficiency with a pragmatic attitude.

For general trading, COSCO SHIPPING International Trading will keep track on the successful tendered projects.

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 six months ended 30th June 2019.

CORPORATE GOVERNANCE

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

The Board believed that the Company has complied with the code provisions of Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30th June 2019 except that (i) Mr. Wang Yuhang, the chairman of the Board, was unable to attend the annual general meeting of the Company held on 31st May 2019 ("2019 AGM") due to other business engagement, a deviation from the code provision E.1.2 of the CG Code which provides that chairman of the board should attend the annual general meeting; and (ii) Mr. Feng Boming, the Non-executive Director, was unable to attend the 2019 AGM due to other business engagement, a deviation from the code provision of A.6.7 of the CG Code which provides that independent non-executive directors and other non-executive directors should attend general meetings.

The Audit Committee consists of three Independent Non-executive Directors and the chairman of which is a certified public accountant. The main duties of 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. The Audit Committee and the independent external auditor have reviewed the Unaudited Condensed Consolidated Interim Financial Information of the Group for the six months ended 30th June 2019.

The Company has adopted a code of conduct regarding securities transactions of Directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. In order to ensure the Directors' dealings in the securities of the Company are conducted in accordance with the Model Code and the Securities Code, a committee currently comprising the Chairman, the Managing Director and a Director was set up to deal with such transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Securities Code during the six months ended 30th June 2019, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Securities Code during the period.

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

Hong Kong, 20th August 2019

As at the date of this announcement, the Board comprises nine directors with Mr. Wang Yuhang¹ (Chairman), Mr. Zhu Jianhui¹ (Vice Chairman and Managing Director), Mr. Ma Jianhua², Mr. Feng Boming², Mr. Chen Dong², Mr. Liu Gang¹, Mr. Tsui Yiu Wa, Alec³, Mr. Jiang, Simon X.³, and Mr. Alexander Reid Hamilton³.

¹ *Executive Director*

² *Non-executive Director*

³ *Independent Non-executive Director*

* *for identification purposes only*