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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)

2020 INTERIM RESULTS

RESULTS AND OPERATION HIGHLIGHTS

- Profit attributable to equity holders decreased by 12% to HK\$131,625,000 which was mainly attributable to the decrease in interest income and the impact on certain business segments by the COVID-19 epidemic.
- Revenue decreased by 9% to HK\$1,482,759,000 which was mainly attributable to the decrease in revenues of coatings, ship trading agency and general trading segments.
- Gross profit decreased by 3% to HK\$266,284,000. Gross profit margin increased to 18% which was mainly attributable to the increase in gross profit margin of coatings segment and the decline in revenue from the low-gross-profit-margin general trading segment.
- Profit before income tax from core shipping services business increased by 26% to HK\$136,598,000.
- Basic and diluted earnings per share was 8.59 HK cents (2019: 9.79 HK cents), decreased by 12%.
- The Board has declared an interim dividend of 6.5 HK cents (2019: 7 HK cents) per share.
- The Group had net cash (represented total restricted bank deposits and current deposits and cash and cash equivalents, less short-term borrowings) of HK\$6,113,351,000 as at 30th June 2020.

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 2020. 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 12 as presented below are extracted from the Group's unaudited condensed consolidated interim financial information for the six months ended 30th June 2020 (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 2020

		Unaudited	
		Six months ended 30th June	
		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	1,482,759	1,625,976
Cost of sales		<u>(1,216,475)</u>	<u>(1,351,812)</u>
Gross profit		266,284	274,164
Management fee income		36,106	35,334
Other income and (losses) — net	4	(22,069)	(8,500)
Selling, administrative and general expenses		<u>(242,752)</u>	<u>(241,056)</u>
Operating profit	5	37,569	59,942
Finance income	6	75,348	107,372
Finance costs	6	(1,895)	(1,599)
Finance income — net	6	73,453	105,773
Share of profits of joint ventures		35,295	22,751
Share of profits/(losses) of associates		<u>10,436</u>	<u>(5,959)</u>
Profit before income tax		156,753	182,507
Income tax expenses	7	<u>(22,201)</u>	<u>(31,893)</u>
Profit for the period		<u>134,552</u>	<u>150,614</u>
Profit attributable to:			
Equity holders of the Company		131,625	150,025
Non-controlling interests		<u>2,927</u>	<u>589</u>
		<u>134,552</u>	<u>150,614</u>
Earnings per share attributable to equity holders of the Company during the period			
— basic and diluted, HK cents	8	<u>8.59</u>	<u>9.79</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2020

	Unaudited	
	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
Profit for the period	<u>134,552</u>	<u>150,614</u>
Other comprehensive (losses)/income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	(32,750)	(5,153)
Share of currency translation differences of joint ventures	(4,314)	(137)
Share of currency translation differences of associates	(14)	(15)
Items that will not be reclassified to profit or loss:		
Fair value (losses)/gains on financial assets at fair value through other comprehensive income, net	(21,123)	457
Gain on revaluation upon reclassification of property, plant and equipment and right-of-use assets to investment properties	<u>5,518</u>	<u>7,428</u>
Other comprehensive (losses)/income for the period	<u>(52,683)</u>	<u>2,580</u>
Total comprehensive income for the period	<u>81,869</u>	<u>153,194</u>
Total comprehensive income/(losses) attributable to:		
Equity holders of the Company	84,655	153,726
Non-controlling interests	<u>(2,786)</u>	<u>(532)</u>
	<u>81,869</u>	<u>153,194</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2020

	<i>Note</i>	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
ASSETS			
Non-current assets			
Intangible assets		104,633	105,617
Property, plant and equipment		269,721	281,550
Right-of-use assets		38,810	39,577
Investment properties		127,015	121,261
Investments in joint ventures		464,985	437,419
Investments in associates		157,328	147,693
Financial assets at fair value through other comprehensive income		55,428	76,551
Deferred income tax assets		40,135	43,004
		<u>1,258,055</u>	<u>1,252,672</u>
Current assets			
Inventories		346,056	305,997
Trade and other receivables	10	1,839,702	1,494,814
Current income tax recoverable		4,925	3,722
Restricted bank deposits		5,474	5,582
Current deposits and cash and cash equivalents		6,189,984	6,314,159
		<u>8,386,141</u>	<u>8,124,274</u>
Total assets		<u>9,644,196</u>	<u>9,376,946</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		153,296	153,296
Reserves		7,712,133	7,773,109
		<u>7,865,429</u>	<u>7,926,405</u>
Non-controlling interests		<u>289,028</u>	<u>291,814</u>
Total equity		<u>8,154,457</u>	<u>8,218,219</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities	11	1,130	1,934
Deferred income tax liabilities		67,921	67,743
		<u>69,051</u>	<u>69,677</u>
Current liabilities			
Trade and other payables	11	925,845	645,594
Contract liabilities	11	386,723	361,896
Current income tax liabilities		20,435	13,778
Short-term borrowings		82,107	61,399
Lease liabilities	11	5,578	6,383
		<u>1,420,688</u>	<u>1,089,050</u>
Total liabilities		<u>1,489,739</u>	<u>1,158,727</u>
Total equity and liabilities		<u>9,644,196</u>	<u>9,376,946</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 “Stock Exchange”). 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 for issue on 20th August 2020.

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 (the “Listing Rules”).

The Unaudited Condensed Consolidated Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31st December 2019, 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 2019 except that the Group has adopted the following amendments to existing standards issued by the HKICPA, which are relevant to its operations and are effective for accounting periods beginning on or after 1st January 2020.

		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

The adoption of the above amendments to existing standards 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 2020 and have not been early adopted by the Group.

**Effective for
accounting periods
beginning on or after**

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
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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 REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30th June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of coatings	404,067	507,564
Sale of marine equipment and spare parts	714,393	640,083
Commission income from ship trading agency	32,072	49,447
Commission income from insurance brokerage	42,946	35,554
Sale of marine fuel and other products	56,737	23,427
Sale of asphalt and other products	232,544	369,901
	<u>1,482,759</u>	<u>1,625,976</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, namely 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 2020										
Profit or loss items:										
Segment revenue	404,067	714,393	32,072	43,412	56,737	1,250,681	232,544	—	(466)	1,482,759
Inter-segment revenue	—	—	—	(466)	—	(466)	—	—	466	—
Revenue from external customers	<u>404,067</u>	<u>714,393</u>	<u>32,072</u>	<u>42,946</u>	<u>56,737</u>	<u>1,250,215</u>	<u>232,544</u>	<u>—</u>	<u>—</u>	<u>1,482,759</u>
Timing of revenue recognition:										
At a point in time	404,067	714,393	—	—	56,737	1,175,197	232,544	—	—	1,407,741
Over time	—	—	32,072	42,946	—	75,018	—	—	—	75,018
	<u>404,067</u>	<u>714,393</u>	<u>32,072</u>	<u>42,946</u>	<u>56,737</u>	<u>1,250,215</u>	<u>232,544</u>	<u>—</u>	<u>—</u>	<u>1,482,759</u>
Segment operating profit/(loss)	2,235	41,036	19,206	29,986	(1,462)	91,001	2,115	2,754	—	95,870
Finance income	80	532	1,090	369	101	2,172	94	—	(194)	2,072
Finance costs	(83)	(585)	(8)	(50)	(2)	(728)	(1,351)	—	194	(1,885)
Share of profits of joint ventures	34,179	868	248	—	—	35,295	—	—	—	35,295
Share of profits of associates	—	—	36	—	8,822	8,858	1,578	—	—	10,436
Segment profit before income tax	36,411	41,851	20,572	30,305	7,459	136,598	2,436	2,754	—	141,788
Income tax expenses	(1,822)	(9,324)	(5,123)	(5,596)	—	(21,865)	(200)	—	—	(22,065)
Segment profit after income tax	<u>34,589</u>	<u>32,527</u>	<u>15,449</u>	<u>24,709</u>	<u>7,459</u>	<u>114,733</u>	<u>2,236</u>	<u>2,754</u>	<u>—</u>	<u>119,723</u>
Assets and liabilities items:										
Total segment assets	1,366,342	1,329,862	256,889	596,466	194,797	3,744,356	706,379	53,278	(174,969)	4,329,044
Total segment assets include:										
— Joint ventures	451,372	10,159	3,454	—	—	464,985	—	—	—	464,985
— Associates	—	—	2,124	—	146,245	148,369	8,959	—	—	157,328
Total segment liabilities	<u>225,852</u>	<u>612,517</u>	<u>50,273</u>	<u>438,308</u>	<u>206</u>	<u>1,327,156</u>	<u>221,855</u>	<u>—</u>	<u>(174,969)</u>	<u>1,374,042</u>
Other items:										
Depreciation and amortisation, net of amount capitalised	9,110	3,448	53	104	—	12,715	2,375	—	—	15,090
Reversal of provision for impairment of inventories, net	(343)	—	—	—	—	(343)	—	—	—	(343)
Provision for impairment of trade receivables, net	2,818	—	—	—	—	2,818	—	—	—	2,818
Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets)	362	148	—	31	—	541	108	—	—	649
	<u>9,110</u>	<u>3,448</u>	<u>53</u>	<u>104</u>	<u>—</u>	<u>12,715</u>	<u>2,375</u>	<u>—</u>	<u>—</u>	<u>15,090</u>
	<u>(343)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(343)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(343)</u>
	<u>2,818</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,818</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,818</u>
	<u>362</u>	<u>148</u>	<u>—</u>	<u>31</u>	<u>—</u>	<u>541</u>	<u>108</u>	<u>—</u>	<u>—</u>	<u>649</u>
Year ended and as at 31st December 2019										
Assets and liabilities items:										
Total segment assets	1,369,790	1,268,441	249,308	294,956	188,549	3,371,044	657,157	74,121	(174,646)	3,927,676
Total segment assets include:										
— Joint ventures	424,665	9,482	3,272	—	—	437,419	—	—	—	437,419
— Associates	—	—	2,129	—	138,024	140,153	7,540	—	—	147,693
Total segment liabilities	<u>242,697</u>	<u>583,640</u>	<u>55,847</u>	<u>157,988</u>	<u>579</u>	<u>1,040,751</u>	<u>165,341</u>	<u>—</u>	<u>(174,646)</u>	<u>1,031,446</u>
Other items:										
Additions to non-current assets (other than financial assets at FVOCI and deferred income tax assets)	11,758	3,071	—	287	—	15,116	3,995	—	—	19,111
	<u>11,758</u>	<u>3,071</u>	<u>—</u>	<u>287</u>	<u>—</u>	<u>15,116</u>	<u>3,995</u>	<u>—</u>	<u>—</u>	<u>19,111</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	HK\$'000	HK\$'000	HK\$'000	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	<u>264,840</u>	<u>552,058</u>	<u>60,398</u>	<u>124,657</u>	<u>95,078</u>	<u>1,097,031</u>	<u>395,385</u>	<u>—</u>	<u>(245,482)</u>	<u>1,246,934</u>
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>

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	
	2020	2019
	HK\$'000	HK\$'000
Profit before income tax for reportable segments	139,034	115,167
Profit before income tax for others	2,754	2,590
Profit before income tax for all segments	141,788	117,757
Elimination of segment income from corporate headquarters	(331)	(442)
Elimination of segment finance costs to corporate headquarters	—	2,392
Corporate finance income	73,276	103,658
Corporate finance costs	(10)	(14)
Corporate net exchange losses	(25,979)	(14,013)
Corporate expenses, net of income	(31,991)	(26,831)
Profit before income tax for the Group	156,753	182,507
Income tax expenses for all segments	(22,065)	(31,495)
Corporate income tax expenses	(136)	(398)
Profit after income tax for the Group	134,552	150,614

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
	2020	2019	2019
	HK\$'000	HK\$'000	HK\$'000
Total assets for reportable segments	4,450,735	4,028,201	3,864,286
Total assets for others	53,278	74,121	75,599
Elimination of inter-segment receivables	(174,969)	(174,646)	(183,630)
	4,329,044	3,927,676	3,756,255
Corporate assets (mainly deposits and cash and cash equivalents)	5,471,116	5,603,750	5,872,934
Elimination of corporate headquarters' receivables from segments	(155,964)	(154,480)	(345,072)
Total assets for the Group	9,644,196	9,376,946	9,284,117

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

	30th June 2020 HK\$'000	31st December 2019 HK\$'000	30th June 2019 HK\$'000
Total liabilities for reportable segments	1,549,011	1,206,092	1,384,979
Elimination of inter-segment payables	<u>(174,969)</u>	<u>(174,646)</u>	<u>(183,630)</u>
	1,374,042	1,031,446	1,201,349
Corporate liabilities	271,661	281,761	263,064
Elimination of segment payables to corporate headquarters	<u>(155,964)</u>	<u>(154,480)</u>	<u>(345,072)</u>
Total liabilities for the Group	<u>1,489,739</u>	<u>1,158,727</u>	<u>1,119,341</u>

4 OTHER INCOME AND (LOSSES) — NET

	Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000
Other income/(expenses) — net		
— Rental income	1,677	1,525
— Direct operating expenses for generating rental income	(14)	(19)
— Dividend income from listed investments	<u>2,754</u>	<u>2,590</u>
	<u>4,417</u>	<u>4,096</u>
Other gains/(losses) — net		
— Net gains on disposal of property, plant and equipment	3	67
— (Provision)/reversal of provision for impairment of trade receivables, net (<i>note 10(b)</i>)	(2,818)	788
— Reversal of provision for impairment of inventories, net	343	—
— Government subsidy income	1,308	137
— Net exchange losses	(28,035)	(14,091)
— Others	<u>2,713</u>	<u>503</u>
	<u>(26,486)</u>	<u>(12,596)</u>
	<u>(22,069)</u>	<u>(8,500)</u>

5 OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
Employee benefit expenses, including directors' emoluments and provident funds	170,377	167,992
Expenses related to short-term leases	15,581	12,112
Depreciation and amortisation, net of amount capitalised in inventories totalling HK\$2,063,000 (2019: HK\$2,049,000)	<u>16,044</u>	<u>15,035</u>

6 FINANCE INCOME — NET

	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
Interest income from:		
— a fellow subsidiary	—	2,247
— a joint venture	—	47
— bank deposits	<u>75,348</u>	<u>105,078</u>
Total finance income	<u>75,348</u>	<u>107,372</u>
Interest expenses on:		
— loans from a fellow subsidiary	(831)	(617)
— lease liabilities	(187)	(257)
— a bank loan	—	(123)
Other finance charges	<u>(877)</u>	<u>(602)</u>
Total finance costs	<u>(1,895)</u>	<u>(1,599)</u>
Finance income — net	<u>73,453</u>	<u>105,773</u>

7 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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% (2019: 25%) except for a subsidiary, which was taxed at a reduced rate of 15% (2019: 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 35% (2019: 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	
	2020	2019
	HK\$'000	HK\$'000
Current income tax		
— current period		
— Hong Kong profits tax	7,894	7,465
— PRC enterprise income tax	6,103	13,297
— other overseas taxation	4,432	1,725
— under-provision/(over-provision) in prior years		
— other overseas taxation	141	—
— PRC enterprise income tax	—	(328)
Deferred income tax charge, net	<u>3,631</u>	<u>9,734</u>
Income tax expenses	<u><u>22,201</u></u>	<u><u>31,893</u></u>

8 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\$131,625,000 (2019: HK\$150,025,000) and the number of shares in issue during the period of 1,532,955,429 shares (2019: 1,532,955,429 shares).

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

9 DIVIDEND

	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
Interim dividend, declared, of HK\$0.065 (2019: HK\$0.07) per ordinary share	<u><u>99,642</u></u>	<u><u>107,307</u></u>

At the board meeting held on 20th August 2020, the directors of the Company declared an interim dividend of HK\$0.065 per ordinary share for the six months ended 30th June 2020. 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 2020.

A final dividend of HK\$145,631,000 relating to the year ended 31st December 2019 (2018: HK\$137,966,000) was paid in June 2020.

10 TRADE AND OTHER RECEIVABLES

	30th June 2020 HK\$'000	31st December 2019 HK\$'000
Trade receivables	905,140	702,489
Less: provision for impairment (<i>note (b)</i>)	<u>(15,472)</u>	<u>(12,863)</u>
Trade receivables, net (<i>note (a)</i>)	889,668	689,626
Bills receivable, prepayments, deposits, other receivables and amounts due from related parties, net of provision for impairment	<u>950,034</u>	<u>805,188</u>
	<u>1,839,702</u>	<u>1,494,814</u>

Notes:

- (a) 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 2020 HK\$'000	31st December 2019 HK\$'000
Current – 90 days	630,098	397,894
91–180 days	141,828	148,786
Over 180 days	<u>117,742</u>	<u>142,946</u>
	<u>889,668</u>	<u>689,626</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 120 days. Other than those with credit terms, all invoices are payable upon presentation.

- (b) Movements on the provision for impairment of trade receivables are as follows:

	Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000
At 1st January	12,863	14,566
Currency translation differences	(209)	(13)
Provision/(reversal of provision) for impairment, net (<i>note 4</i>)	<u>2,818</u>	<u>(788)</u>
At 30th June	<u>15,472</u>	<u>13,765</u>

11 TRADE AND OTHER PAYABLES, CONTRACT LIABILITIES, LEASE LIABILITIES

	30th June 2020 HK\$'000	31st December 2019 HK\$'000
Trade payables (<i>note (a)</i>)	595,077	336,949
Bills payable, accrued liabilities, other payables, amounts due to related parties and dividend payable to non-controlling interests	<u>330,768</u>	<u>308,645</u>
Contract liabilities (<i>note (b)</i>)	925,845	645,594
Lease liabilities (<i>note (c)</i>)	386,723	361,896
	<u>6,708</u>	<u>8,317</u>
	<u>1,319,276</u>	<u>1,015,807</u>

Notes:

- (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 2020 HK\$'000	31st December 2019 HK\$'000
Current – 90 days	533,215	310,649
91–180 days	34,642	25,493
Over 180 days	<u>27,220</u>	<u>807</u>
	<u>595,077</u>	<u>336,949</u>

- (b) Revenue recognised in the current reporting period related to brought-forward contract liabilities:

	Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	<u>244,037</u>	<u>244,499</u>

(c) Maturity analysis of lease liabilities is as below:

	30th June 2020 HK\$'000	31st December 2019 HK\$'000
Within one year	5,578	6,383
In the second to fifth years inclusive	<u>1,130</u>	<u>1,934</u>
	<u>6,708</u>	<u>8,317</u>

12 FINANCIAL GUARANTEE CONTRACTS

As at 30th June 2020, 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 are as follows:

	30th June 2020 HK\$'000	31st December 2019 HK\$'000
Year of maturity		
General banking facilities of an associate	2021 <u>166,633</u>	<u>167,439</u>

As at 30th June 2020, 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 Unaudited Condensed Consolidated Interim Financial Information.

FINANCIAL REVIEW

During the first half of 2020, the Group recorded a year-on-year decline in performance, mainly attributable to the decrease in interest income and the impact on certain business segments by the novel coronavirus pneumonia (“COVID-19”) epidemic. During the period, profit attributable to equity holders of the Company was HK\$131,625,000 (2019: HK\$150,025,000), representing a decrease of 12% as compared to the same period of 2019. The basic and diluted earnings per share was 8.59 HK cents (2019: 9.79 HK cents), representing a decrease of 12% as compared to the same period of 2019.

Revenue

For the six months ended 30th June 2020, the Group’s revenue decreased by 9% to HK\$1,482,759,000 (2019: HK\$1,625,976,000) as compared to the same period of 2019. Revenue from the core shipping services business decreased slightly to HK\$1,250,215,000 (2019: HK\$1,256,075,000) and accounted for 84% (2019: 77%) of the Group’s revenue. The wide spread of COVID-19 had caused suspension of production of certain plants in the PRC, resulting in the decrease of revenues from coatings and ship trading agency segments. Revenue from general trading segment decreased by 37% to HK\$232,544,000 (2019: HK\$369,901,000) and accounted for 16% (2019: 23%) of the Group’s revenue.

Gross Profit and Gross Profit Margin

The Group’s gross profit for the period was HK\$266,284,000 (2019: HK\$274,164,000), decreasing by 3% as compared to the same period of 2019. The decrease in gross profit was mainly attributable to the decrease in revenue from ship trading agency segment. During the period, gross profit margin was 18.0% (2019: 16.9%), increased by 1.1 percentage point as compared to the same period of last year. The overall increase in gross profit margin was mainly attributable to the increase in gross profit margin of coatings segment and the decline in revenue from the low-gross-profit-margin general trading segment.

Management Fee Income

During the period, there was a management fee income of HK\$36,106,000 (2019: HK\$35,334,000) 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.).

Other Income and (Losses) — Net

During the period, other income and (losses) — net loss of HK\$22,069,000 (2019: HK\$8,500,000) mainly included net exchange losses of HK\$28,035,000 (2019: HK\$14,091,000).

Selling, Administrative and General Expenses

During the period, selling, administrative and general expenses increased by 1% to HK\$242,752,000 (2019: HK\$241,056,000), which was mainly due to increase in selling expenses as compared to the same period of 2019.

Finance Income

Finance income, which primarily represented interest income on the Group's bank deposits, decreased by 30% to HK\$75,348,000 (2019: HK\$107,372,000) as a result of the decrease in interest rate of cash deposit as compared to the same period of 2019.

Finance Costs

Finance costs, which mainly represented interest expenses on short-term borrowings and other financial charges, increased by 19% to HK\$1,895,000 (2019: HK\$1,599,000).

Share of Profits of Joint Ventures

The Group's share of profits of joint ventures was HK\$35,295,000 (2019: HK\$22,751,000). This item primarily represented the share of profits of Jotun COSCO of HK\$32,576,000 (2019: HK\$19,209,000) and Nasurfar Changshu of HK\$1,603,000 (2019: HK\$2,737,000) which were included in the coatings segment.

Share of Profits/(Losses) of Associates

The Group's share of profits of associates was HK\$10,436,000 (2019: share of losses of HK\$5,959,000). This item primarily represented the share of profit of Double Rich of HK\$8,822,000 (2019: share of loss of HK\$6,870,000) 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 12% to HK\$131,625,000 (2019: HK\$150,025,000).

FINANCIAL RESOURCES AND LIQUIDITY

As at 30th June 2020, capital and reserves attributable to the Company's equity holders decreased by 0.8% to HK\$7,865,429,000 (as at 31st December 2019: HK\$7,926,405,000). As at 30th June 2020, total cash and deposits (including restricted bank deposits of HK\$5,474,000) of the Group was HK\$6,195,458,000 (as at 31st December 2019: HK\$6,319,741,000, including restricted bank deposits of HK\$5,582,000). During the period, the Group had net drawdown of short-term borrowings in the amount of HK\$22,089,000 (2019: HK\$17,334,000). As at 30th June 2020, total banking facilities available to the Group amounted to HK\$479,669,000 (as at 31st December 2019: HK\$453,958,000), of which HK\$84,413,000 (as at 31st December 2019: HK\$44,293,000) had been utilised. The gearing ratio, which represented total borrowings over total assets, was 0.9% (as at 31st December 2019: 0.7%). As at 30th June 2020, the Group had net cash (represented total cash and deposits net of short-term borrowings) of HK\$6,113,351,000 (as at 31st December 2019: HK\$6,258,342,000). 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 2.41% on the Group's cash was achieved during the period, representing 211 basis points above 3-month US Dollar London Interbank Offered Rate as at the end of June 2020. As at 30th June 2020, borrowings of the Group were unsecured debt denominated in Renminbi which carried interest 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, the PRC and overseas, 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 the PRC is subject to the rules and regulations of foreign exchange controls promulgated by the government of the PRC.

EMPLOYEE

As at 30th June 2020, excluding joint ventures and associates, the Group had 883 (as at 31st December 2019: 901) employees, of which 170 (as at 31st December 2019: 168) were Hong Kong employees. During the period, total employee benefit expenses, including directors' emoluments and provident funds, were HK\$170,377,000 (2019: HK\$167,992,000). 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.

The share option incentive scheme of the Company has been adopted by the shareholders of the Company (the “Shareholders”) at the special general meeting on 9th April 2020 (the “Share Option Incentive Scheme”). The Company granted an aggregate of 23,830,000 share options to certain Directors and employees of the Group to subscribe for a total of 23,830,000 shares of the Company (the “Share(s)”) at a price of HK\$2.26 per Share on 28th April 2020 (the “Date of Grant”) under the Share Option Incentive Scheme. Subject to the fulfilment of the relevant conditions, these share options are exercisable from 28th April 2022 to 27th April 2026 in batches and each batch of such share options is exercisable within the periods stated as following: (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 Date of Grant and ending on the last trading day of the 36-month period from the Date 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 Date of Grant and ending on the last trading day of the 48-month period from the Date 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 Date of Grant and ending on the last trading day of the 72-month period from the Date of Grant.

INTERIM DIVIDEND

The Board has declared an interim dividend of 6.5 HK cents (2019: 7 HK cents) per share for the six months ended 30th June 2020 which will be payable on 28th September 2020 to the Shareholders whose names appear on the register of members of the Company (the “Register of Members”) on 18th September 2020.

For the purpose of ascertaining the Shareholders’ entitlement to the interim dividend, the Register of Members will be closed from 16th September 2020 to 18th September 2020, both days inclusive, during which no transfer of Shares will be registered. In order to qualify for the interim dividend for the six months ended 30th June 2020, 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 15th September 2020.

REVIEW OF BUSINESS OPERATIONS

In the first half of 2020, the global economy was gravely impacted by the outbreak of COVID-19. The entire production chain of the economy, from raw materials, production, logistics and transportation to sales and services had been subjected to disruptions or even suspension of operation to varying degrees. Market expected the global economy to record a double-digit year-on-year contraction in the first half of the year. Fortunately, China recovered quickly from the epidemic as Gross Domestic

Product grew by 3.2% year-on-year and 11.5% quarter-on-quarter in the second quarter, indicating clear signs of recovery and demonstrating the exceptionally strong resilience of China's economy, which served as the best support for the Group to remain robust in adversity.

In view of the severe market conditions amid the COVID-19, the Group had been responding promptly. In response to the changes in the epidemic, we had taken comprehensive measures to ensure the safety of personnel and hygiene of the working environment, striving the best in anti-epidemic works.

In the first half of the year, the Group's overall profit before income tax dropped by 14% as compared to the same period of last year, which was less severe than expected. In particular, the marine coatings business continued to recover with further strengthened profitability and stability. Double Rich, an associate of the Company, recorded year-on-year profit increment, spurring the marine fuel business to grow.

1. Core Business — Shipping Services

The Group's 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 period, revenue from the Group's shipping services was HK\$1,250,215,000 (2019: HK\$1,256,075,000), representing a slight decrease as compared to the same period of 2019. Profit before income tax from shipping services was HK\$136,598,000 (2019: HK\$108,231,000), representing an increase of 26% as compared to the same period of 2019.

1.1 *Ship Trading Agency Services*

During the period, revenue from the ship trading agency segment of the Group decreased by 35% to HK\$32,072,000 (2019: HK\$49,447,000) as compared to the same period of last year. Segment profit before income tax was HK\$20,572,000 (2019: HK\$32,164,000), representing a decrease of 36% as compared to the same period of last year. The weak performance in ship trading agency business was mainly attributable to the delayed shipbuilding schedules of the major shipbuilders under the impact of COVID-19 epidemic, resulting in a decrease in commission income from new build vessels. Even though the number of new build vessels delivered recorded year-on-year growth in the first half of the year, the majority of them were small size vessels, which caused a decrease in commission income. During the period, the Group's aggregate number of new build vessels delivery was 20 (2019: 8), aggregating 836,900 dead weight tonnages (2019: 1,333,000 dead weight tonnages). A total number of 12 (2019: 11) new build vessels have been ordered through the Group, aggregating 623,600 dead weight tonnages (2019: 1,558,000 dead weight tonnages). In addition, the sale and purchase of a total of 16 (2019: 11) second-hand vessels through the Group were recorded, aggregating 211,700 dead weight tonnages (2019: 196,000 dead weight tonnages).

1.2 Insurance Brokerage Services

During the period, revenue from insurance brokerage segment of the Group was HK\$42,946,000 (2019: HK\$35,554,000), representing an increase of 21% as compared to the same period of last year. Segment profit before income tax was HK\$30,305,000 (2019: HK\$23,159,000), representing an increase of 31% as compared to the same period of last year, which was attributed to the increase in premium rate of war insurance since the end of last year.

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\$714,393,000 (2019: HK\$640,083,000), representing an increase of 12% as compared to the same period of last year, which was mainly attributable to increases in the number of and share of business volume from customers within COSCO SHIPPING Group as compared to the same period of last year. Segment profit before income tax increased by 16% to HK\$41,851,000 (2019: HK\$36,114,000) 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\$404,067,000 (2019: HK\$507,564,000), representing a decrease of 20% as compared to the same period of last year. Segment profit before income tax was HK\$36,411,000 (2019: HK\$25,833,000), representing an increase of 41% as compared to the same period of last year, resulting from the increase in the share of profit from Jotun COSCO as compared to the same period of last year.

For container coatings, the sales volume decreased by 17% to 9,643 tonnes (2019: 11,684 tonnes) as compared to the same period of last year.

For heavy-duty anti-corrosion coatings, the sales volume of industrial heavy-duty anti-corrosion coatings together with workshop primer amounted to 8,171 tonnes (2019: 9,426 tonnes), representing a decrease of 13% as compared to the same period of last year.

For marine coatings, during the period, the Group's share of profit from Jotun COSCO was HK\$32,576,000 (2019: HK\$19,209,000). The sales volume of Jotun COSCO's coatings for new build vessels amounted to 21,094,000 litres (2019: 22,122,000 litres), representing a decrease of 5% as compared to the same period of last year. Sales volume of coatings for repair and maintenance was 13,616,000 litres (2019: 11,631,000 litres), representing an increase of 17% as compared to the same period of last year. The sales volume of Jotun COSCO's marine coatings was 34,710,000 litres (equivalent to approximately 46,859 tonnes) (2019: 33,753,000 litres (equivalent to approximately 45,567 tonnes)), representing an increase of 3% as compared to the same period of last year. As at 30th June 2020, Jotun

COSCO had coating contracts on hand for new build vessels amounting to 21,316,209 dead weight tonnages pending delivery. The coatings were scheduled to be delivered in the coming two years.

During the period, the Group's share of profit from Nasurfar Changshu was HK\$1,603,000 (2019: HK\$2,737,000).

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\$56,737,000 (2019: HK\$23,427,000), and total sales volume of marine fuel products was 19,285 tonnes (2019: 6,277 tonnes), representing an increase of 207% as compared to the same period of last year. However, 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 2020 after taking into account of professional opinion of Sinfeng's legal adviser in respect of the aforesaid matters.

In addition, the Group's share of profit from Double Rich was HK\$8,822,000 during the period (2019: share of loss of HK\$6,870,000), which was mainly attributable to the higher gross profit resulting from the excess demand of low-sulphur fuel over supply at the beginning of this year and the lower resource costs than the market level with long-term contracts signed with suppliers.

During the period, profit before income tax from marine fuel and other products segment was HK\$7,459,000 (2019: loss before income tax of HK\$9,039,000).

2. General Trading

During the period, the sales volume of asphalt decreased by 6% to 65,801 tonnes (2019: 69,690 tonnes) as compared to the same period of last year, in addition, due to the decline in asphalt price as compared to the same period of last year, revenue from general trading segment of the Group decreased by 37% to HK\$232,544,000 (2019: HK\$369,901,000) as compared to the same period of last year. Segment profit before income tax was HK\$2,436,000 (2019: HK\$6,936,000), representing a decrease of 65% as compared to the same period of last year, mainly due to the drop in both sales volume and settlement price of asphalt.

PROSPECTS

Looking forward to the second half of the year, the COVID-19 epidemic will remain the major uncertainty to the global economy. While the pandemic outside China remains unstable, the recovery of overall economic activities will be slower than previously expected. As a result of the quantitative easing monetary policy by central banks, the recent rebound in financial markets has diverged from fundamental economic outlook, which may escalate market turmoil in the future. According to the projection of International Monetary Fund's World Economic Forecast published in June, the global economy will contract by 4.9% year-on-year in 2020. At the same time, the outlook of the shipping industry remains gloomy by adverse factors including economic slowdown, geopolitical issues and overcapacity.

As China has taken the lead in economic recovery, COSCO SHIPPING International is expected to maintain a stable prospect in its business performance, given our merits in strong operational resilience, business diversification and solid financial foundation. In the second half of the year, we will continue to strengthen the prevention and control measures with respect to COVID-19 in order to ensure the safety of our employees. Meanwhile, we will also optimise our business processes to adapt to the challenging macroeconomic environment with high-quality development.

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 directions 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 enterprise value, and create long-term and stable returns for shareholders.

For the ship trading agency services, the Group will seek continuous improvements in implementing innovative business model and strive for breakthroughs by proactively enriching services scopes, expanding geographical coverage of business, improving service quality and technical content and strengthening market research and the construction of information systems.

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

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

For container coatings, the Group will insist on innovation, continue to optimise the product formula for water-based coatings, accelerate market expansion, strive to gain market share and put efforts in enhancing the profitability and gross profit margin of container coatings through optimisation of processes. For industrial heavy-duty anti-corrosion coatings, the Group built a research and development system for water-based industrial coatings to support the market development of water-based industrial coatings. It will also continue to explore a well-diversified supplier chain while maintaining a steady gross profit level. For marine coatings, the annual supply for marine coatings in 2020 is estimated to be lower than that in 2019 due to slump of new build vessels delivery in the market. The Group will make efforts to achieve balance between project profitability and market share, allocate resources for new business development, strive to upgrade our products and develop more advanced and eco-friendly marine coatings with improved performance, thus further consolidating our market position.

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

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 2020.

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 contained in Appendix 14 to the Listing Rules (the "CG Code") during the six months ended 30th June 2020 except that (a) (i) Mr. Feng Boming, the Non-executive Director, was unable to attend the annual general meeting held on 29th May 2020 due to other business engagement, (ii) Mr. Feng Boming and Mr. Chen Dong, both the Non-Executive Directors, were unable to attend the special general meeting of the Company held on 9th April 2020 (the "SGM") due to other business engagement, and (iii) Mr. Alexander Reid Hamilton, the ex-Independent Non-Executive Director, was unable to attend the SGM due to illness, 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; and (b) Mr. Zhu Jianhui, the Managing Director, has been re-designated from the Vice Chairman to the Chairman on 4th March 2020 and the roles of Chairman and Managing Director are taken by the same individual 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 taken 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 levels. The Company will continue to review its corporate governance policies and compliance with the Listing Rules and will continue to adhere to the relevant principles as set out in the CG Code.

Mr. Alexander Reid Hamilton, the Independent Non-executive Director since 9th June 2011, passed away on 21st April 2020. The Board is saddened and grateful for his services and contribution during his tenure of office. To comply with the requirement of the Listing Rules, Mr. Kwong Che Kwong, Gordon was appointed as Independent Non-executive Director on 9th July 2020.

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 financial reporting, 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 2020.

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 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 2020, 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
Chairman and Managing Director

20th August 2020

As at the date of this announcement, the Board comprises seven directors with Mr. Zhu Jianhui¹ (Chairman and Managing Director), Mr. Ma Jianhua¹, Mr. Feng Boming², Mr. Chen Dong², Mr. Tsui Yiu Wa, Alec³, Mr. Jiang, Simon X³, and Mr. Kwong Che Keung, Gordon³.

¹ *Executive Director*

² *Non-executive Director*

³ *Independent Non-executive Director*

* *for identification purposes only*