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COSCO SHIPPING ENERGY TRANSPORTATION CO., LTD.*
中遠海運能源運輸股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1138)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- Revenue of the continuing operations of the Group for 2017 was approximately RMB9.505 billion, representing a decrease of approximately 3.10% as compared to 2016
- Profit for the year attributable to owners of the Company for 2017 was approximately RMB1.775 billion, representing a decrease of approximately 8.17% as compared to 2016
- The basic and diluted earnings per share for 2017 were RMB44.01 cents
- The Board recommends the payment of a final dividend of RMB5 cents per share for 2017

The board (the "**Board**") of directors (the "**Directors**") of COSCO SHIPPING Energy Transportation Co., Ltd.* (the "**Company**") is pleased to announce the annual results of the Company and its subsidiaries (together referred to as the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2016. The Group's annual results have been audited by Baker Tilly Hong Kong Limited (天職香港會計師事務所有限公司) (Certified Public Accountants in Hong Kong), the Company's international auditor.

I. PRINCIPAL FINANCIAL DATA AND STATISTICS HIGHLIGHTS

The annual results of the Group for the Reporting Period as audited by Baker Tilly Hong Kong Limited and compared with those for the year ended 31 December 2016 are set out as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Note	**2017** *RMB'000*	**2016** **(Restated)** *RMB'000*
Continuing operations			
Revenue	5	9,504,935	9,808,889
Operating costs		(7,251,227)	(7,059,385)
Gross profit		2,253,708	2,749,504
Other income and net gains	6	842,251	14,727
Marketing expenses		(29,206)	(14,697)
Administrative expenses		(630,586)	(707,835)
Other expenses		(53,781)	(65,858)
Share of profits of associates		266,902	268,099
Share of profits of joint ventures		151,591	163,807
Finance costs	7	(745,867)	(874,374)
Profit before tax		2,055,012	1,533,373
Income tax	8	(161,644)	(323,047)
Profit for the year from continuing operations		1,893,368	1,210,326
Discontinued operation			
Profit for the year from discontinued operation, net of tax		—	760,501
Profit for the year		1,893,368	1,970,827

	Note	2017	2016 (Restated)
		RMB'000	RMB'000
Other comprehensive (expense)/income			
Item that will not be reclassified subsequently to profit or loss, net of nil tax:			
Remeasurement of defined benefit plan payable		5,670	(160)
Items that may be reclassified subsequently to profit or loss, net of tax:			
Exchange realignment		(455,439)	443,949
Fair value gain/(loss) on available-for-sale investments		87,051	(4,488)
Net loss on cash flow hedges		(16,600)	(30,641)
Reclassification adjustments for amounts transferred to profit or loss		44,553	—
Release upon disposal of discontinued operation		—	362,032
Share of other comprehensive expense of associates		(8,476)	(23,590)
Share of other comprehensive (expense)/income of joint ventures		(91,988)	71,113
Other comprehensive (expense)/income for the year		(435,229)	818,215
Total comprehensive income for the year		1,458,139	2,789,042
Profit for the year attributable to owners of the Company:			
- Continuing operations		1,774,647	1,190,001
- Discontinued operation		—	742,523
		1,774,647	1,932,524
Profit for the year attributable to non-controlling interests:			
- Continuing operations		118,721	20,325
- Discontinued operation		—	17,978
		118,721	38,303
Profit for the year		1,893,368	1,970,827

	Note	2017	2016 (Restated)
		RMB'000	*RMB'000*
Total comprehensive income for the year attributable to:			
Owners of the Company		1,272,514	2,785,502
Non-controlling interests		185,625	3,540
		1,458,139	2,789,042
Earnings per share	10		
			(Restated)
		RMB cents	*RMB cents*
From continuing and discontinued operations			
- Basic and diluted		44.01	47.93
From continuing operations			
- Basic and diluted		44.01	29.51

Details of the dividends for the Reporting Period are disclosed in note 9.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	31 December 2017	31 December 2016 (Restated)	1 January 2016 (Restated)
	RMB'000	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS			
Investment properties	1,136,626	1,104,907	1,097,975
Property, plant and equipment	44,890,681	42,260,749	63,573,789
Prepaid land lease payments	77,221	79,599	81,978
Goodwill	58,168	58,168	—
Investments in associates	2,217,731	1,994,902	2,040,968
Investments in joint ventures	2,216,503	2,005,062	6,027,017
Loan receivables	2,092,689	1,453,585	2,119,286
Available-for-sale investments	395,717	279,761	125,863
Deferred tax assets	49,906	52,258	486,993
	53,135,242	49,288,991	75,553,869
CURRENT ASSETS			
Current portion of loan receivables	27,077	18,899	—
Inventories	656,220	456,984	721,964
Trade and bills receivables	954,369	1,216,147	2,810,470
Prepayments, deposits and other receivables	593,533	919,252	1,914,105
Tax recoverable	10,536	—	—
Pledged bank deposits	100	24,134	45,731
Cash and cash equivalents	5,007,654	6,385,069	4,879,309
	7,249,489	9,020,485	10,371,579

	31 December 2017	31 December 2016 (Restated)	1 January 2016 (Restated)
	RMB'000	*RMB'000*	*RMB'000*
CURRENT LIABILITIES			
Trade and bills payables	1,046,561	1,353,797	1,485,484
Other payables and accruals	798,368	1,198,165	1,221,558
Current portion of provision and other liabilities	54,621	302,551	181,308
Current portion of derivative financial instruments	—	—	4,258
Current portion of interest-bearing bank and other borrowings	6,878,518	4,624,633	11,072,327
Current portion of other loans	73,615	2,251	—
Current portion of obligations under finance leases	—	—	48,751
Current portion of employee benefits payable	12,080	12,620	13,130
Tax payable	10,880	122,473	138,604
	8,874,643	7,616,490	14,165,420
NET CURRENT (LIABILITIES)/ASSETS	(1,625,154)	1,403,995	(3,793,841)
TOTAL ASSETS LESS CURRENT LIABILITIES	51,510,088	50,692,986	71,760,028

	31 December 2017	31 December 2016 (Restated)	1 January 2016 (Restated)
	RMB'000	*RMB'000*	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Issued capital	4,032,033	4,032,033	4,032,033
Reserves	23,887,607	23,381,056	27,675,185
	27,919,640	27,413,089	31,707,218
Non-controlling interests	342,249	174,960	1,023,653
TOTAL EQUITY	28,261,889	27,588,049	32,730,871
NON-CURRENT LIABILITIES			
Provision and other liabilities	15,318	208,068	174,553
Derivative financial instruments	422,575	474,988	411,385
Interest-bearing bank and other borrowings	17,272,227	16,953,209	32,520,423
Other loans	1,068,853	1,049,820	1,199,539
Obligations under finance leases	—	—	354,003
Bonds payable	3,985,777	3,982,045	3,978,488
Employee benefits payable	130,300	140,890	145,380
Deferred tax liabilities	353,149	295,917	245,386
	23,248,199	23,104,937	39,029,157
TOTAL EQUITY AND NON-CURRENT LIABILITIES	51,510,088	50,692,986	71,760,028

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	2017	2016 (Restated)
	RMB'000	*RMB'000*
NET CASH GENERATED FROM OPERATING ACTIVITIES	3,452,994	12,120,295
INVESTING ACTIVITIES		
Interest received	78,702	205,982
Payments for construction in progress	(6,062,909)	(4,228,891)
Purchases of property, plant and equipment	(93,628)	(49,570)
Proceeds from disposal of property, plant and equipment	293	56,164
Loans to associates	—	(18,231)
Loans to joint ventures	(779,592)	(454,600)
Repayment from associates	49,984	1,238,884
Repayment from fellow subsidiaries	—	10,566,129
Dividends received from associates	187,906	200,000
Dividends received from joint ventures	38,977	504,938
Dividends received from available-for-sale investments	8,824	9,640
Acquisition of a subsidiary from business combination involving entities under common control	—	(6,629,409)
Acquisition of a subsidiary, net of cash paid	—	(206,024)
Compensation to a fellow subsidiary for the decrease in equity under the transition period in respect of disposal of discontinued operation	(339,143)	—
Net cash inflow from disposal of discontinued operation	—	4,131,313
Investments in associates	(150,000)	—
Investments in joint ventures	(60,011)	(133,320)
Decrease in pledged bank deposits	24,034	21,597
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(7,096,563)	5,214,602

	2017	2016
		(Restated)
	RMB'000	*RMB'000*
FINANCING ACTIVITIES		
Interest paid	(904,224)	(1,136,661)
Subsidy received from government	195,000	—
Dividends paid	(766,086)	(403,203)
Dividends paid to non-controlling interests of subsidiaries	(19,638)	(11,850)
Increase in other loans	111,340	214,980
Repayment of other loans	(6,212)	(5,031)
Increase in interest-bearing bank and other borrowings	8,761,102	4,310,640
Repayment of interest-bearing bank and other borrowings	(5,021,311)	(18,853,356)
Capital element of finance leases rental paid	—	(38,330)
Contribution from non-controlling interests of a subsidiary	1,425	—
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	2,351,396	(15,922,811)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,292,173)	1,412,086
CASH AND CASH EQUIVALENTS AT 1 JANUARY	6,385,069	4,879,309
Effect of foreign exchange rate changes, net	(85,242)	93,674
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5,007,654	6,385,069

Notes:

1. CORPORATE INFORMATION

The Company is a joint stock company with limited liability established in the People's Republic of China (the "**PRC**"). The registered office of the Company is Room A-1015, No.188 Ye Sheng Road, China (Shanghai) Pilot Free Trade Zone, the PRC and the principal place of business is 18th Floor, 118 Yuanshen Road, Pudong New District, Shanghai, the PRC.

During the Reporting Period, the Group were involved in the following principal activities:

(a) investment holding; and/or

(b) oil shipment along the PRC coast and international shipment; and/or

(c) vessel chartering.

As at 31 December 2017, in the opinion of the Directors, China Shipping Group Company Limited (formerly known as China Shipping (Group) Company) ("**China Shipping**") and China COSCO Shipping Corporation Limited ("**COSCO Shipping**"), both established in the PRC, were the Company's immediate holding company and ultimate holding company respectively.

The H-Shares and A-Shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange respectively.

These consolidated financial statements are presented in Renminbi ("**RMB**"), which is the functional currency of the Company, and all values are rounded to the nearest thousand except where otherwise indicated.

These consolidated financial statements have been approved for issue by the Board on 28 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations and Accounting Guidelines issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The consolidated financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior periods reflected in the consolidated financial statements.

2.2 Basis of preparation

In accordance with the asset transfer agreement entered into between the Company and a fellow subsidiary on 15 December 2016, the Company acquired 80% equity interest in COSCO SHIPPING Tanker (USA) Inc. ("**USA Tanker**") by way of capital contribution of USD320,000 (equivalent to RMB2,195,000). The acquisition of USA Tanker was completed on 22 February 2017 and has been accounted for as combination of businesses under common control since the Directors consider that the Company and the fellow subsidiary are under common control of COSCO Shipping both before and after the above mentioned acquisition.

Since 1 July 2017, the Group recognised Huahai Petrol Transportation & Trading Co., Limited ("**Huahai Petrol**") as its subsidiary by virtue of dominant voting interest obtained from the Company and, therefore, it has control over the operating, financing and investing activities of Huahai Petrol. The consolidation of Huahai Petrol has been accounted for as combination of businesses under common control since the Directors consider that the Company and Huahai Petrol are under common control of China Shipping both before and after the above mentioned acquisition.

The aforementioned acquisition of USA Tanker and consolidation of Huahai Petrol have been accounted for using the principles of merger accounting, as prescribed in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The financial information of USA Tanker and Huahai Petrol have been incorporated into these consolidated financial statements. As a result, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the prior years have been restated to include the operating results and cash flows of USA Tanker and Huahai Petrol. The consolidated statements of financial position

as at 31 December 2016 and 1 January 2016 have been restated to include the assets and liabilities of USA Tanker and Huahai Petrol. Respective notes to the consolidated financial statements have also been restated. All significant intragroup transactions, balances, income and expenses are eliminated on combination.

These consolidated financial statements have been prepared on the historical cost basis, except that the following assets and liabilities are measured at fair values:

- investment properties;
- certain available-for-sale investments that are measured at fair value; and
- derivative financial instruments.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HKFRSs AND CHANGES IN ACCOUNTING POLICIES

Impact of new and amendments to HKFRSs adopted by the Group

In the current year, the Group has adopted the following amendments to HKFRSs issued by the HKICPA that are first effective and relevant to the Group's financial year beginning on 1 January 2017:

Amendments to HKFRSs Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12 "Disclosure of Interests in Other Entities"
Amendments to HKAS 7	Statement of Cash Flows "Disclosure Initiative"
Amendments to HKFRS 12	Income Taxes "Recognition of Deferred Tax Assets for Unrealised Losses"

Except for the new disclosure requirements introduced by the amendments to HKAS 7 "Statement of cash flows: Disclosure initiative" which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, the adoption of the amendments to HKFRSs in the current year has had no material impact on the consolidated financial statements for the current or prior years.

Impact of new and amendments to HKFRSs and interpretations issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and interpretations that have been issued and relevant to the Group but are not yet effective for the financial year beginning on 1 January 2017:

		Effective for annual periods beginning on or after
Amendments to HKFRSs Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28 "Investments in Associates and Joint Ventures"	1 January 2018
Amendments to HKAS 40	Investment Property "Transfers of Investment Property"	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 15	Clarification to HKFRS 15 "Revenue from Contracts with Customers"	1 January 2018
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined

The Group is in the process of making an assessment of what the impact of these new and revised standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9 "Financial Instruments"

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, "Financial instruments: Recognition and measurement". HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) ***Classification and measurement***

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("**FVTPL**") and (3) fair value through other comprehensive income ("**FVTOCI**"):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets related to investments in equity securities that are currently classified as "available-for-sale", the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group plans to elect this designation option for investments in equity securities held on 1 January 2018 which is consistent with the Group's current accounting policy as set out in the consolidated financial statements. Hence, this new requirement will not have significant impact to the Group on adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) ***Impairment***

HKFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It will apply to financial assets measured at amortised cost and debt securities measured at FVOCI. The Group has assessed how its impairment provisions would be affected by the new model. So far it has concluded that there would be no material impact for the application of the new impairment requirements.

(c) ***Hedge accounting***

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group has assessed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15 "Revenue from Contracts with Customers" and amendments to HKFRS 15 "Clarification to HKFRS 15"

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18 "Revenue", which covers revenue arising from sale of goods and rendering of services. The Group is currently assessing the impacts of adopting HKFRS 15 on its consolidated financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

Timing of revenue recognition

Currently, the Group's revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies three situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

This new standard is mandatory for financial years commencing on or after 1 January 2018. The Directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16 "Leases"

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee. HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for property, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As at 31 December 2017, the majority of Group's future minimum lease payments under non-cancellable operating leases are payable either within 1 year, between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be

recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group is in the process of making an assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leases will now change as HKFRS 16 replaces the straightline operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

4. CHANGE IN ACCOUNTING ESTIMATES

Material judgment is required in determining provision for onerous contracts with principal assumptions of shipping market statistics and information. Such assumptions should be determined based on current information available at the end of the Reporting Period. During the Reporting Period, the Group has changed the above assumptions based on the latest shipping market statistics and information available for estimating the expected economic benefits to be received from those operating leases with lease terms expiring in the next 12 months based on management's best estimates. As a result of the change in accounting estimates, the operating costs of the Group for the Reporting Period were reduced by RMB360,969,000, and it is impracticable to estimate the impact for the future periods due to the volatile future freight rates.

5. REVENUE AND SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's business segments are categorised as follows:

(i) oil shipment

- oil shipment
- vessel chartering

(ii) others

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of other business segments.

The operation of the dry bulk shipment segment was discontinued on 30 June 2016.

Business segments

There is seasonality for the Group's revenue but the effect is small. An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the Reporting Period is set out as follows:

	2017		**2016**	
	Revenue	**Contribution**	**Revenue (Restated)**	**Contribution (Restated)**
	RMB'000	RMB'000	RMB'000	RMB'000
By principal activity :				
Continuing operations				
Oil shipment				
- Oil shipment	7,257,758	1,416,349	7,423,048	2,079,787
- Vessel chartering	1,486,470	491,844	2,264,478	741,200
	8,744,228	1,908,193	9,687,526	2,820,987
Others	760,707	345,515	121,363	(71,483)
	9,504,935	2,253,708	9,808,889	2,749,504
Discontinued operation				
Dry bulk shipment				
- Coal shipment	—	—	729,618	(10,058)
- Iron ore shipment	—	—	1,075,647	234,534
- Other dry bulk shipment	—	—	390,046	(64,254)
- Vessel chartering	—	—	666,480	(73,190)
	—	—	2,861,791	87,032
	9,504,935	2,253,708	12,670,680	2,836,536
Other income and net gains		842,251		14,727
Marketing expenses		(29,206)		(14,697)
Administrative expenses		(630,586)		(707,835)
Other expenses		(53,781)		(65,858)
Share of profits of associates		266,902		268,099
Share of profits of joint ventures		151,591		163,807
Finance costs		(745,867)		(874,374)
Elimination of discontinued operation		—		(87,032)
Profit before tax		2,055,012		1,533,373

	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Total segment assets		
Oil shipment	42,609,650	42,157,400
Others	17,775,081	16,152,076
	60,384,731	58,309,476
Total segment liabilities		
Oil shipment	17,605,966	17,824,265
Others	14,516,876	12,897,162
	32,122,842	30,721,427

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the consolidated financial statements. Segment contribution represents the gross profit incurred by each segment without allocation of central administration costs (including emoluments of directors, supervisors and senior management), marketing expenses, other expenses, share of profits of associates, share of profits of joint ventures, other income and net gains and finance costs. This is the measure reported to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment.

As at 31 December 2017, the total net carrying amount of the Group's oil tankers, liquefied natural gas ("**LNG**") vessels and liquefied petroleum gas ("**LPG**") vessels were RMB34,189,840,000 (2016: RMB31,037,488,000), RMB6,007,601,000 (2016: RMB1,616,907,000) and RMB119,179,000 (2016: RMB75,724,000) respectively.

Geographical segments

	2017		2016	
	Revenue	**Contribution**	**Revenue (Restated)**	**Contribution (Restated)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
By geographical area :				
Continuing operations				
Domestic	2,889,790	1,024,133	2,743,636	1,145,505
International	6,615,145	1,229,575	7,065,253	1,603,999
	9,504,935	2,253,708	9,808,889	2,749,504
Discontinued operation				
Domestic	—	—	1,248,307	61,954
International	—	—	1,613,484	25,078
	—	—	2,861,791	87,032
	9,504,935	2,253,708	12,670,680	2,836,536
Other income and net gains		842,251		14,727
Marketing expenses		(29,206)		(14,697)
Administrative expenses		(630,586)		(707,835)
Other expenses		(53,781)		(65,858)
Share of profits of associates		266,902		268,099
Share of profits of joint ventures		151,591		163,807
Finance costs		(745,867)		(874,374)
Elimination of discontinued operation		—		(87,032)
Profit before tax		2,055,012		1,533,373

During the Reporting Period and year ended 31 December 2016, total segment revenue represents total consolidated revenue as there were no inter-segment transactions between the business segments.

Other information

	Oil shipment	Dry bulk shipment (discontinued)	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Reporting Period				
Additions to non-current assets	4,996,828	—	1,077,408	6,074,236
Depreciation and amortisation	1,759,632	—	150,431	1,910,063
Provision for onerous contracts	98,809	—	60,794	159,603
Gain/(loss) on disposal of property, plant and equipment, net	156	—	(13)	143
Interest income	28,686	—	124,005	152,691
Year ended 31 December 2016 (restated)				
Additions to non-current assets	2,468,143	25,299	1,704,313	4,197,755
Depreciation and amortisation	1,668,403	552,828	29,327	2,250,558
Provision for onerous contracts	288,763	9,557	115,557	413,877
Loss on disposal of property, plant and equipment, net	(315,637)	(2,133)	(8)	(317,778)
Interest income	29,469	2,074	56,868	88,411

The principal assets employed by the Group are located in the PRC and, accordingly, no geographical segment analysis of assets and expenditures has been prepared for the Reporting Period and year ended 31 December 2016.

Major customers

During the Reporting Period, management recognised the following 2 (2016: 2) customers as the Group's major customers. Revenue arising from the provision of oil transportation services to the major customers were set out as follows:

	2017	2016
	RMB'000	*RMB'000*
Customer A	2,167,284	2,537,047
Customer B	1,437,019	1,288,920

6. OTHER INCOME AND NET GAINS

	2017	2016 (Restated)
	RMB'000	*RMB'000*
Continuing operations		
Other income		
Government subsidies (note)	472,396	238,753
Interest income from loan receivables	58,688	45,348
Bank interest income	94,003	40,989
Dividends received from available-for-sale investments	7,599	9,640
Rental income from investment properties	19,971	16,085
Others	113,673	43,314
	766,330	394,129
Other gains/(losses)		
Gain on revaluation of investment properties, net	33,219	1,212
Exchange gains/(losses), net	42,559	(72,255)
Fair value gain on step acquisition of a subsidiary	—	6,603
Gain/(loss) on disposal of property, plant and equipment, net	143	(315,645)
Others	—	683
	75,921	(379,402)
	842,251	14,727

Note: The government subsidies mainly represent the subsidies granted for early retirement of vessels, business development purpose and refund of value-added tax. There were no unfulfilled conditions or contingencies relating to these subsidies.

7. FINANCE COSTS

	2017	2016 (Restated)
	RMB'000	*RMB'000*
Continuing operations		
Total finance costs		
Interest expenses on:		
- bank loans and other loans and borrowings (note)	653,053	884,662
- corporate bonds	206,282	207,350
- interest rate swaps: cash flow hedges, reclassified from equity	44,553	—
	903,888	1,092,012
Less: interest capitalised	(158,021)	(217,638)
	745,867	874,374

Note: A government subsidy of RMB195,000,000 was credited to interest expenses on bank loans and other loans and borrowings upon received by the Group during the Reporting Period. There were no unfulfilled conditions or contingencies relating to this subsidy.

During the Reporting Period, the capitalisation rate applied to funds borrowed and utilised for the vessels under construction was at a rate of 2% to 4.78% (2016: 2.82% to 3.18%) per annum.

8. INCOME TAX

	Note	2017	2016 (Restated)
		RMB'000	*RMB'000*
Continuing operations			
Current income tax			
PRC	(i)		
- provision for the year		102,365	279,599
- under provision in respect of prior years		27,778	26,038
Hong Kong	(ii)		
- provision for the year		753	744
- (over)/under provision in respect of prior years		(34)	19
Other districts	(iii)		
- provision for the year		215	34
		131,077	306,434
Deferred tax		30,567	16,613
Total income tax expense		161,644	323,047

Note:

(i) PRC Corporate Income Tax

Under the Law of the PRC on Corporate Income Tax Law (the "**CIT Law**") and Implementation Regulation of the CIT Law, the tax rate of the entities within the Group established in the PRC is 25% (2016: 25%) except for those entities with tax concession.

(ii) Hong Kong Profits Tax

The provision for Hong Kong Profits Tax was provided at 16.5% (2016: 16.5%) on the estimated assessable profits for the Reporting Period from the entities within the Group operating in Hong Kong.

(iii) Taxes or profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the entities within the Group operate.

9. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Dividends recognised and paid as distribution during the Reporting Period:		
Final dividend for 2016 - RMB0.19 (2016: Final dividend for 2015 - RMB0.10) per share	766,086	403,203

Final dividend of RMB0.19 per share in respect of the year ended 31 December 2016 was approved by independent shareholders at the annual general meeting held on 8 June 2017 and a total amount of RMB766,086,000 was paid during the Reporting Period.

At the Board meeting held on 28 March 2018, the Directors proposed a final dividend of RMB201,602,000, representing RMB0.05 per share, in respect of the Reporting Period (the "**Proposed Final Dividends**"). This Proposed Final Dividends is subject to the approval of the Company's independent shareholders at the forthcoming annual general meeting on a date to be fixed, and has not been recognised as a liability at the end of the Reporting Period.

As at the end of the Reporting Period, the net assets per share was RMB6.9245 and the Directors considered that the net assets per share as at the end of the Reporting Period after the Proposed Final Dividends per share would be RMB6.8745.

10. EARNINGS PER SHARE

(a) From continuing and discontinued operations

The calculation of basic and diluted earnings per share is based on the profit for the year attributable to owners of the Company of RMB1,774,647,000 (2016: RMB1,932,524,000) and the weighted average number of ordinary shares of 4,032,033 thousand (2016: 4,032,033 thousand) shares in issue during the Reporting Period.

(b) **From continuing operations**

The calculation of basic and diluted earnings per share from continuing operations attributable to owners of the Company is based on the earnings figures calculated as follows:

	2017	2016 (Restated)
	RMB'000	*RMB'000*
Profit for the year attributable to owners of the Company	1,774,647	1,932,524
Less: profit for the year from discontinued operation attributable to owners of the Company	—	742,523
Profit for the year from continuing operations attributable to owners of the Company	1,774,647	1,190,001

The denominators used are the same as those detailed above for basic and diluted earnings per share from continuing and discontinued operations (see note 10(a)).

11. BUSINESS COMBINATIONS INVOLVING ENTITIES UNDER COMMON CONTROL

On 22 February 2017, the Company acquired 80% equity interest in USA Tanker by way of capital contribution of RMB2,195,000. The principal activity of USA Tanker is provision of agency services.

Since 1 July 2017, the Company recognised Huahai Petrol as its subsidiary as it considered that it has control over operating and financial policies of this entity. The principal activities of Huahai Petrol are provision of petroleum product transportation and vessel chartering.

The financial statements of USA Tanker and Huahai Petrol are consolidated by the Group as the Group has control over operating and financial policies of these entities.

As mentioned in note 2.2, the Group has applied merger accounting as prescribed in Accounting Guideline 5 to account for the business combination involving entities under common control. Accordingly, USA Tanker and Huahai Petrol have been combined since 1 January 2016, the earliest financial period presented, as if the acquisition had occurred at that time.

(i) The reconciliation of the effect arising from the business combination involving entities under common control on the consolidated statements of financial position as at 31 December 2017 and 2016 and 1 January 2016 are as follows:

	The Group excluding USA Tanker and Huahai Petrol	USA Tanker	Huahai Petrol	Adjustment	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017					
Non-current assets					
Investment in subsidiaries	30,635	—	—	(30,635)	—
Other non-current assets	52,760,639	105	374,498	—	53,135,242
	52,791,274	105	374,498	(30,635)	53,135,242
Current assets					
Other current assets	2,224,167	404	18,154	(890)	2,241,835
Cash and cash equivalents	4,975,678	3,762	28,214	—	5,007,654
	7,199,845	4,166	46,368	(890)	7,249,489
Current liabilities					
Other current liabilities	8,819,395	1,516	54,622	(890)	8,874,643
Net current (liabilities)/assets	(1,619,550)	2,650	(8,254)	—	(1,625,154)
Total assets less current liabilities	51,171,724	2,755	366,244	(30,635)	51,510,088
Equity					
Equity attributable to owners of the Company					
Issued capital	4,032,033	2,815	56,879	(59,694)	4,032,033
Reserves	23,749,237	(60)	276,665	(138,235)	23,887,607
	27,781,270	2,755	333,544	(197,929)	27,919,640
Non-controlling interests	174,926	—	—	167,323	342,249
Total equity	27,956,196	2,755	333,544	(30,606)	28,261,889
Non-current liabilities					
Other non-current liabilities	23,215,528	—	32,700	(29)	23,248,199
Total equity and non-current liabilities	51,171,724	2,755	366,244	(30,635)	51,510,088

	The Group excluding USA Tanker and Huahai Petrol	USA Tanker	Huahai Petrol	Adjustment	Consolidated
					(Restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2016					
Non-current assets					
Other non-current assets	49,047,361	139	405,877	(164,386)	49,288,991
Current assets					
Other current assets	2,609,877	596	25,800	(857)	2,635,416
Cash and cash equivalents	6,364,583	1,208	19,278	—	6,385,069
	8,974,460	1,804	45,078	(857)	9,020,485
Current liabilities					
Other current liabilities	7,565,202	1,362	50,783	(857)	7,616,490
Net current assets/(liabilities)	1,409,258	442	(5,705)	—	1,403,995
Total assets less current liabilities	50,456,619	581	400,172	(164,386)	50,692,986
Equity					
Equity attributable to owners of the Company					
Issued capital	4,032,033	415	56,879	(57,294)	4,032,033
Reserves	23,381,056	166	271,893	(272,059)	23,381,056
	27,413,089	581	328,772	(329,353)	27,413,089
Non-controlling interests	9,993	—	—	164,967	174,960
Total equity	27,423,082	581	328,772	(164,386)	27,588,049
Non-current liabilities					
Other non-current liabilities	23,033,537	—	71,400	—	23,104,937
Total equity and non-current liabilities	50,456,619	581	400,172	(164,386)	50,692,986

	The Group excluding USA Tanker and Huahai Petrol	USA Tanker	Huahai Petrol	Adjustment	Consolidated
					(Restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016					
Non-current assets					
Other non-current assets	75,277,342	—	436,804	(160,277)	75,553,869
Current assets					
Other current assets	5,439,210	—	53,935	(875)	5,492,270
Cash and cash equivalents	4,863,247	3,000	13,062	—	4,879,309
	10,302,457	3,000	66,997	(875)	10,371,579
Current liabilities					
Other current liabilities	14,089,050	2,496	74,749	(875)	14,165,420
Net current (liabilities)/assets	(3,786,593)	504	(7,752)	—	(3,793,841)
Total assets less current liabilities	71,490,749	504	429,052	(160,277)	71,760,028
Equity					
Equity attributable to owners of the Company					
Issued capital	4,032,033	415	56,879	(57,294)	4,032,033
Reserves	27,675,185	89	263,673	(263,762)	27,675,185
	31,707,218	504	320,552	(321,056)	31,707,218
Non-controlling interests	862,874	—	—	160,779	1,023,653
Total equity	32,570,092	504	320,552	(160,277)	32,730,871
Non-current liabilities					
Other non-current liabilities	38,920,657	—	108,500	—	39,029,157
Total equity and non-current liabilities	71,490,749	504	429,052	(160,277)	71,760,028

The above adjustments represent adjustments to eliminate the paid-up capital of USA Tanker and Huahai Petrol against the Group's investment cost in USA Tanker and Huahai Petrol and non-controlling interests arising from the acquisition of USA Tanker and consolidation of Huahai Petrol, current accounts between the Group and USA Tanker and Huahai Petrol as at 31 December 2017 and 2016 and 1 January 2016 respectively and adjustments to achieve consistency of accounting policies.

(ii) The effect of the business combination involving entities under common control, described above, on the Group's basic and diluted earnings per share for the year ended 31 December 2016 is as follows:

	Impact on basic and diluted earnings per share
	RMB cents
As previously reported	47.97
Restatement arising from business combination involving entities under common control	(0.04)
Restated	47.93

(iii) The effect of business combination involving entities under common control, described above, on the Group's profit for the year in respect of the year ended 31 December 2016 is as follows:

	RMB'000
As previously reported	1,966,675
Restatement arising from business combination involving entities under common control	4,152
Restated	1,970,827

12. COMPARATIVE FIGURES

Certain comparative figures have been re-presented as a result of the application of merger accounting due to the business combination involving entities under common control.

II. MANAGEMENT DISCUSSION AND ANALYSIS

1. ANALYSIS OF THE INTERNATIONAL AND DOMESTIC SHIPPING MARKET DURING THE REPORTING PERIOD

(1) International oil shipping market

In 2017, according to CLARKSONS, the global demand for and supply of transportation capacity with crude oil tankers increased by approximately 5.0% and 5.7% respectively, as compared with the previous year, of which, the demand for and supply of very large crude carrier ("**VLCC**") transportation capacity increased by approximately 4.8% and 6.3% respectively, as compared with the previous year; the global demand for and supply of transportation capacity with refined oil tankers increased by approximately 3.3% and 4.1% respectively, as compared with the previous year. While the demand for transportation capacity has been growing steadily, the freight rates continued to fall as the supply outgrew the demand in the market due to the heavily-scheduled delivery of new vessel orders and the year-on-year reduction in VLCC floating storage capacity during the year, etc. The annual average shipping freight rate for the VLCC Middle East-Far East (TD3) route is WS58.36, representing a decrease of 23.22% as compared with the same calibre of the previous year. The shipping freight rates for the other types of vessels decreased by approximately 7% - 37% as compared with the same calibre of the previous year.

In 2017, the international crude fuel price was high, with the annual average price for Brent crude oil being USD54.7/barrel, representing a year-on-year increase of 21.02%, with once topped USD67/barrel in the fourth quarter. International fuel prices rose accordingly, and the average price of IFO380 in Singapore for the year was USD327/tonne, representing a year-on-year increase of 40.95%, which added to the cost pressure on ship-owners.

Affected by such unfavourable factors of falling freight rates and rising fuel prices, in 2017, the daily revenues (Time Charter Equivalent) of the major vessel types in the international oil shipping market fell sharply as compared with the previous year, and the average daily revenue of the VLCC Middle East-Far East (TD3) route was USD22,682/day, representing a year-on-year decrease of 45.7%, and that of the typical routes of other types of vessels decreased by 18%-112% as compared with the previous year.

(2) **Domestic oil shipping market**

In 2017, the total demand in the domestic crude oil shipping market remained stable with a slight increase. Affected by the decrease in the freight rates in the international oil shipping market, a small number of vessels with both domestic and international operating qualifications broke into the market, resulting in a slight increase in capacity supply. However, the balance between the supply and demand in the overall capacity market has not yet been broken, with the freight rates and competition landscape both remaining stable.

In 2017, the supply and demand pattern in the domestic coastal refined oil shipping market was generally stable, with rather fragmented capacity with small vessels, except for a few industry leaders. On 28 November 2017, the Shanghai Shipping Exchange separated China Coastal Tanker Freight Index (CCTFI) from China Bulk Freight Index (CBFI) for an official trial run, which is expected to play an active role in guiding the participants into orderly competition in this market.

(3) **LNG transportation market**

According to the latest "LNG Outlook" Report released by Shell, the global LNG demand increased by 29 million tonnes to 293 million tonnes in 2017, hitting a record high, and representing a year-on-year growth rate of approximately 11%. In 2017, China's LNG imports continued to grow at a high rate. According to The General Administration of Customs of the PRC, China's LNG imports totaled 38.13 million tonnes in 2017, representing a year-on-year increase of 45.80%, surpassing Korea for the first time to be the second largest LNG importer in the world.

Due to the characteristics of the LNG industrial chain, the LNG shipping industry mainly operates in a vessel-bound-for-project business model. Approximately 79% of the vessels of the existing LNG fleets are now serving specific LNG projects and have entered into long-term chartering contracts with project owners, with the rest operating in the LNG spot market. In 2017, the freight rates in the LNG spot shipping market picked up.

2. REVIEW OF OPERATING RESULTS DURING THE REPORTING PERIOD

In 2017, facing the unfavourable situation in the international shipping market, the Group, under the leadership of the Board, made good use of its unique advantage of a solid business structure and the linkage between domestic and foreign trade, and realized an expansion of its business scale and stability in operating efficiency.

In 2017, the volume of cargo shipped in respect of the continuing operations of the Group increased by 13.53% year-on-year to 120 million tonnes, and the transport turnover increased by 16.25% year-on-year to 406.827 billion tonne-nautical miles. Revenue derived from the continuing operations decreased by 3.10% year-on-year to RMB9.505 billion. Excluded from the impact of provision for onerous contracts, the operating costs increased by 11.83% year-on-year to RMB7.442 billion, and the gross profit from the continuing operations of the Group for the year was RMB2.063 billion, representing a year-on-year decrease of 34.60%. The profit attributable to owners of the Company generated from the Group for the year was RMB1.775 billion, representing a year-on-year decrease of 8.17%.

In 2017, the Group's LNG shipping business segment made a breakthrough, contributing to a profit attributable to owners of the Company for the year of RMB236 million, representing a year-on-year increase of 81.4%.

(1) **Revenue from Principal Operations**

In 2017, overall details of the Group's principal operations by products transported and geographical regions were as follows:

Principal Operations by Products Transported

Industry or Product Description	Revenue	Operating costs	Gross profit margin	Increase/ (decrease) in revenue as compared to 2016	Increase/ (decrease) in operating costs as compared to 2016	Gross profit margin as compared to 2016
	(RMB'000)	*(RMB'000)*	*(%)*	*(%)*	*(%)*	
Continuing operations						
Oil shipment	8,744,228	7,087,778	18.94	(9.74)	7.75	13.16 percentage points lower
LNG shipment	619,896	256,315	58.65	1,607.04	1,431.70	4.73 percentage points increase
LPG shipment	92,508	59,684	35.48	40.92	29.35	5.77 percentage points increase
Others	48,303	38,400	20.50	148.92	166.39	5.21 percentage points lower
Total	9,504,935	7,442,177	21.70	(3.10)	11.83	10.45 percentage points lower

Note: The operating costs and gross profit margin in the above table have been excluded from the impact of provision for onerous contracts.

Principal Operations by Geographical Regions

Regions	Revenue	Increase/ (decrease) in revenue as compared to 2016
	(RMB'000)	*(%)*
Continuing operations	9,504,935	(3.10)
International shipment	6,615,145	(6.37)
Domestic shipment	2,889,790	5.33

(2) **Shipping business — Oil shipment**

International oil shipment business:

In 2017, the Group completed an international oil shipping volume of approximately 385.318 billion tonne-nautical miles, representing a year-on-year increase of approximately 16.21%; a transportation income of approximately RMB5.868 billion, representing a year-on-year decrease of 15.80%, which was mainly due to the decrease in the freight rates level of the vessels in the international oil shipping market by 7%-37%. In the face of unfavourable market conditions, the Group adhered to its prudent philosophy of stable operation and adopted a diversified business model that combines self-operation, contract of affreightment ("**COA**"), time chartering, pooling and a unified planning on the East-West shipping capacity deployment and carefully-designed connection of long and short routes, for which it outperformed the competition in a downturn. The performance of its VLCC fleet for the same period was higher than the market by 47.3%.

1) Adhering to a strategy of targeting major customers while innovating cooperation methods, aiming to expand market share. During the year, the Group entered into a basket of agreements with Sinochem Oil for the lease of five VLCCs and COAs on time charters, representing the establishment of a win-win cooperation mechanism during the market downturn while expanding its capacity and market share.

2) Closely following the progress of the "One Belt and One Road" Initiative to customize the best logistics solutions for the major customers. The Group signed a contract with China National Petroleum Corporation ("**CNPC**") for the shipment of China-Burma crude oil pipelines, a key project under the "One Belt and One Road" Initiative, which is also the first COA contract

signed by CNPC for offshore oil import, which successfully opened up the Persian Gulf-Maad Island international crude oil transportation route, providing CNPC with a "quasi-liner" service for the transportation of 3.3 million tonnes of crude oil each year, ensuring the smooth operation of the new channel for China's oil import.

3) Increasing customer development efforts and building a global supply network. The Group's VLCC fleet carried out business cooperation with 26 customers throughout the year, representing an increase of 7 customers over the same period of last year. The cooperation with customers in Europe, America, Japan, Korea, and Taiwan has exceeded that of previous years. The Group made good use of the two new overseas locations in Houston and London to provide considerate personal services to major oil companies at home and abroad, while the development of new overseas customers and new projects abroad has produced preliminary results.

4) Seizing market opportunities and expanding fleets at low cost. The Group seized the window period when the cost of new vessels was at historical lows and entered into a new contract for construction of 16 tankers, totaling 3.0576 million dwt. While consolidating the Group's leading edge as the world's number one in oil tanker transportation capacity, the Group further optimized its fleet age structure, reduced fleet maintenance costs, and enhanced future profitability.

Domestic oil shipping business:

In 2017, the Group completed a domestic oil shipping volume of approximately 21.406 billion tonne-nautical miles, representing a year-on-year increase of 16.78%; a transportation income of RMB2.877 billion, representing a year-on-year increase of 5.81%. The Group's market share in domestic oil shipment market remained at around 56%. Facing the decrease in freight rates in the foreign oil shipping market, the Group made good use of its unique advantage of the linkage between domestic and foreign trade, specifically increased its efforts in capacity investment and customer development in the domestic market, realizing a year-on-year increase in the volume of domestic oil transportation business. The year-on-year decrease in the gross profit margin of domestic oil transportation business was mainly due to the year-on-year increase in fuel prices.

1) Closely following the market trend, focusing on the development of new customers and incremental sources of supply. The Company seized the opportunity of its key strategic customers changing their logistics plans and secured a 2.17 million tonnes of incremental supply from the change of

ground transportation to water transportation, and realized an additional revenue of approximately RMB80.90 million, while securing a number of new local refineries, resulting in an additional transportation income of approximately RMB60 million from the new domestic transhipment customers only.

2) Adhering to the Group's strategy of targeting major customers and maintaining a high proportion of domestic COA sources. The Group enforced the implementation of the client manager system to provide one-on-one personal service to its customers. In the domestic refined oil sector, the Group entered into new COA contracts with three major customers. The shipping volume from domestic COA sources accounted for over 90% of the Group's shipping volume from domestic oil business.

3) Innovating the business models of the Group to improve customer service and vessel operating efficiency. The Group continued to implement and optimize the "liner transportation" model for fixed vessels and fixed routes, adding two new liner routes for domestic oil transportation during the year. The Group promoted the "Weizhou Service Model", and launched the military transportation service model, Huizhou service model, and Huanghua service model to improve customer service quality and improve vessel operating efficiency.

4) Joining hands with powerful cargo owners to secure segment market dominance. The Group furthered its strategic cooperation with PetroChina Company Limited ("**PetroChina**") for the full integration of its refined oil business resources. By acquiring CNPC's refined oil fleet by capital increase and shareholding, the Group's refined oil fleet has emerged as a leader in the domestic refined oil transportation sector and has mastered the dominance of market segments. The agreements in relation to the acquisition were executed on 6 March 2018.

In summary, in 2017, the Group completed a total oil transportation volume of approximately 406.724 billion tonne-nautical miles, representing a year-on-year increase of approximately 16.24%, and the revenue from oil transportation amounted to approximately RMB8.744 billion, representing a year-on-year

decrease of 9.74%. An analysis of the transportation volume and revenue by product types is as follows:

Transportation volume by product types

	2017	**2016**	**Increase/ (decrease)**
	(billion tonne-nautical miles)	*(billion tonne-nautical miles)*	*(%)*
International	385.318	331.565	16.21
Crude oil	363.527	311.223	16.81
Refined oil	21.791	20.342	7.12
Domestic	21.406	18.330	16.78
Crude oil	17.415	15.724	10.75
Refined oil	3.991	2.606	53.15
Total	406.724	349.895	16.24

Revenue by shipment types

	2017	**2016**	**Increase/ (decrease)**
	(RMB billion)	*(RMB billion)*	*(%)*
International	5.867	6.969	(15.80)
Crude oil	3.960	4.233	(6.44)
Refined oil	0.529	0.585	(9.47)
Vessel charting	1.378	2.151	(35.95)
Domestic	2.877	2.719	5.81
Crude oil	2.441	2.342	4.28
Refined oil	0.327	0.264	23.63
Vessel chartering	0.109	0.113	(4.00)
Total	8.744	9.688	(9.74)

Development of LNG Transportation Business

The Group is a leader in China's LNG shipping business and an important player in the world's LNG shipping market. COSCO SHIPPING LNG Investment (Shanghai) Co., Ltd., which is a wholly-owned subsidiary of the Group, and China LNG Shipping (Holdings) Limited ("**CLNG**"), in which the Group hold 50% of its equity, are currently the only two large-scale LNG shipping companies in China.

In 2017, the Group seized the strategic opportunities of the world and China advancing the green energy revolution and achieved new breakthroughs in the development of LNG shipping business. Leveraging on the long-term strategic partnership with PetroChina and Mitsui O.S.K. Lines, Ltd. ("**MOL**") and the Group's early-stage participation in the shipbuilding investment in the Yamal Project, the Group succeeded in securing a chance to acquire the 50% equity in the four conventional LNG vessels totalling 174,000 cubic meters in the Yamal project, further expanding the business scale and profit of the LNG shipping business. So far, among the 19 LNG vessels built for the first phase of the Yamal Project in Russia, the Group has invested and participated in the building of 18 vessels, of which 14 are Arc7-grade polar ice-breaking LNG carriers, representing a major industry breakthrough in the opening of the Arctic LNG shipping routes.

After careful cultivation in the early stage, the Group's LNG shipping business is heading into the harvest period with accelerating paces. In 2017, the profits attributable to the owners of the Company before tax from the LNG segment for the year amounted to RMB236 million, representing a year-on-year increase of 81%. As at the end of 2017, the Group had a total of 16 jointly-invested LNG vessels in operation, representing an increase of five vessels as compared to the end of the previous year; with 22 jointly-invested LNG vessels which the Group has signed a contract to build are still under construction or waiting in line, and all of which will be launched and start operation before the end of 2020.

3. COSTS AND EXPENSES ANALYSIS

In 2017, in the context of rising fuel price and continuous expansion of fleet capacity, the Group further strengthened its strategy of "winning through costs", starting with operation management and overall budget management, further strengthening cost control and reducing costs. During the year, the Group's continuing business incurred a total cost of RMB7.442 billion in its principal operations, excluded from the impact of provision for onerous contracts, representing a year-on-year increase of 11.83%.

Fuel expenditure is the largest item of the transportation costs of the Group and is the most important aspect of cost management. The Group leverages the advantages of transportation capacity, structure, vessel type and routes to promote centralized and unified management and focuses on the synergy of scale procurement. In 2017, the Group's average purchase price of overseas fuel was USD315/tonne, which was lower than the market price (average price of USD327/tonne of IFU380 in Singapore) by USD12/tonne; the average purchase price of domestic fuel was RMB3,441/tonne, which was lower than the market price (RMB3,575/tonne) by RMB134/tonne. The Group made a bulk procurement of foreign fuel of 321,000 tonnes, at an average price of USD280/tonne, which reduced the procurement costs by nearly RMB130 million. Through maximising cruising speed efficiency, the Group aimed to control cargo oil heating, washing, filling, ballast water replacement and other technical aspects to improve fuel efficiency, resulting in a year-on-year decrease in fuel consumption by 42.37%.

In addition to the control of fuel costs, the Group also joined hands with China COSCO Shipping Corporation Limited and its subsidiaries ("**COSCO SHIPPING Group**") in negotiating for favourable port fees and preferential policies with major ports and agencies, and signed an insurance service framework agreement with COSCO SHIPPING Property Insurance Co., Ltd.* (中遠海運財產保險自保公司) to exercise a general control over the insurance expenses as a whole. The Group cooperated with COSCO SHIPPING Group to further promote the reform of the crew management system, integrate the crew management resources, and exert the synergistic effects of crew management, aiming to gradually reduce the overall management costs.

The cost constitution of the Group's principal operations for 2017 is as follows:

Item	2017	2016	Increase/ (decrease)	Composition ratio in 2017
	(RMB'000)	*(RMB'000)*	*(%)*	*(%)*
Continuing operations				
Fuel costs	2,027,482	1,424,085	42.37	27.24
Port costs	811,475	780,942	3.91	10.90
Sea crew cost	1,179,235	1,006,727	17.14	15.85
Lubricants expenses	192,188	142,072	35.28	2.58
Depreciation	1,871,003	1,645,877	13.68	25.14
Insurance expenses	157,348	155,265	1.34	2.11
Repair expenses	245,921	270,004	-8.92	3.31
Charter cost	580,827	994,533	-41.60	7.81
Others	376,698	235,560	59.92	5.06
Total	7,442,177	6,655,065	11.83	100.00

Note: The operating costs in the above table have been excluded from the impact of provision for onerous contracts.

4. OPERATING RESULTS OF THE JOINT VENTURES AND THE ASSOCIATES

(1) The operating results achieved by the 3 joint ventures of the Group in 2017 are as follows:

Company name	Interest held by the Group	Shipping volume	Operating revenue	Net profit
		(billion tonne-nautical miles)	*(RMB'000)*	*(RMB'000)*
CLNG	50%	17.48	1,073,260	382,850
Sino-Ocean Shipping Co., Ltd.	50%	1.45	74,990	25,770
Offshore Oil (Yangpu) Shipping Co., Ltd.	43%	1.45	173,170	47,390

(2) The operating results achieved by an associate of the Group in 2017 is as follows:

Company name	Interest held by the Group	Shipping volume	Operating revenue	Net profit
		(billion tonne-nautical miles)	*(RMB'000)*	*(RMB'000)*
Shanghai Beihai Shipping Company Limited	40%	13.58	1,254,550	454,430

In 2017, the net profit achieved by China Shipping Finance Co., Limited, a non-shipping associate, in which the Company held a 25% equity interest, was approximately RMB195 million.

5. SAFE WORK

In 2017, the Group adhered to the safety guidelines of "implementing high-standard management, customizing high-standard vessels, and providing high-standard crews", taking safety as the core competitiveness of its transportation services, and striving to provide its global customers with safe and high-quality logistics solutions. No general or above safety accidents occurred and no work-related casualties occurred during the year; the Group recorded a success rate of 100% in preventing typhoon and flooding; a success rate of 100% in safeguarding against pirates; a passing rate of 100% in the ISPS inspection; a passing rate of 100% in the PSC inspection, with a no-defect approval rate of 82.6%, representing a year-on-year increase of 10.4 percentage points; a passing rate of 100% in FSC inspection, with a no-defect approval rate of 23.1%, representing a year-on-year increase of 5.7 percentage points; a passing rate of 100% in inspection by major oil companies; and its social management and comprehensive management qualifying in all aspects.

6. FINANCIAL ANALYSIS

(1) Net cash generated from operating activities

The net cash generated from operating activities of the Group for the Reporting Period was approximately RMB3,452,994,000, representing an decrease of approximately 72% as compared to approximately RMB12,120,295,000 for the year ended 31 December 2016.

(2) Capital commitments

	Note	**2017** *RMB'000*	**2016** *RMB'000*
Authorised and contracted but not provided for:			
Construction and purchases of vessels	(i)	9,563,431	8,891,396
Project investments	(ii)	487,255	655,930
		10,050,686	9,547,326

Note:

(i) According to the construction and purchase agreements entered into by the Group, these capital commitments will fall due in 2018 to 2021.

(ii) Included in capital commitments in respect of project investments are commitments to invest in certain projects held by CLNG.

In addition to the above, the Group's share of the capital commitments of its associates which are contracted but not provided for amounted to RMB298,709,000 (2016: RMB121,969,000). The Group's share of the capital commitments of its joint ventures, which are contracted but not provided for amounted to RMB1,430,809,000 (2016: RMB2,267,070,000).

(3) Capital structure

Management monitors the Group's capital structure on the basis of a net debt-to-equity ratio. For this purpose, the Group defines net debt as total debts which includes interest-bearing bank and other borrowings, other loans and bonds payable less cash and cash equivalents.

The Group's net debt-to-equity ratio as at the end of Reporting Period is as follows:

	2017	2016 (Restated)
	RMB'000	*RMB'000*
Total debts	29,278,990	26,611,958
Less: cash and cash equivalents	(5,007,654)	(6,385,069)
Net debt	24,271,336	20,226,889
Total equity	28,261,889	27,588,049
Net debt-to-equity ratio	86%	73%

(4) **Trade and bills receivables**

	2017	2016 (Restated)
	RMB'000	*RMB'000*
Trade and bills receivables from third parties	962,966	1,232,407
Trade receivables from joint ventures	—	122
Trade receivables from fellow subsidiaries	5,383	6,117
Trade receivables from related companies (note)	750	—
	969,099	1,238,646
Less: allowance for doubtful debts	(14,730)	(22,499)
	954,369	1,216,147

Note: Related companies are related parties that the fellow subsidiaries of the Company either have joint control or significant influence in these related companies.

As of the end of the Reporting Period, the ageing analysis of trade and bills receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	2017	**2016 (Restated)**
	RMB'000	*RMB'000*
Within 3 months	758,917	918,710
4 - 6 months	83,273	104,940
7 - 9 months	43,543	102,566
10 - 12 months	27,575	28,127
1 - 2 years	41,061	60,995
Over 2 years	—	809
	954,369	1,216,147

The Group normally allows a credit period of 30 to 120 days to its major customers. In view of the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

(5) **Trade and bills payables**

	2017	**2016 (Restated)**
	RMB'000	*RMB'000*
Trade and bills payables to third parties	685,852	757,063
Trade payables to immediate holding company	1,985	1,374
Trade payables to fellow subsidiaries	301,427	595,360
Trade payables to an associate	3,267	—
Trade payables to related companies (note)	54,030	—
	1,046,561	1,353,797

Note: Related companies are related parties that the fellow subsidiaries of the Company either have joint control or significant influence in these related companies.

An ageing analysis of trade and bills payables at the end of the Reporting Period, based on the invoice date, is as follows:

	2017	**2016 (Restated)**
	RMB'000	*RMB'000*
Within 3 months	626,597	1,042,369
4 - 6 months	75,940	58,469
7 - 9 months	73,324	35,738
10 - 12 months	60,941	3,835
1 - 2 years	15,995	19,877
Over 2 years	193,764	193,509
	1,046,561	1,353,797

Trade and bills payables are non-interest-bearing and are normally settled in 1 to 3 months.

(6) **Provision and other liabilities**

	2017	**2016**
	RMB'000	**RMB'000**
Provision for onerous contracts	54,621	495,338
Others	15,318	15,281
	69,939	510,619
Less: current portion	(54,621)	(302,551)
Non-current portion	15,318	208,068

Onerous contracts relate to operating lease contracts for certain vessels chartered by the Group from other parties where the unavoidable costs of meeting the obligations under the lease agreements exceed the economic benefits expected to be received from them for the next 12 months.

(7) **Derivative financial instruments**

As at 31 December 2017, the Group had interest rate swap agreements with total notional principal amount of approximately USD554,364,000 (equivalent to RMB3,622,325,000) (2016: approximately USD537,040,000 (equivalent to RMB3,725,448,000)) which will be matured in 2031 and 2033 (2016: 2031 and 2032). These interest rate swap agreements are designated as cash flow hedges in respect of the Group's certain portion of bank borrowings with floating interest rates.

During the Reporting Period, the floating interest rates of the bank borrowings were 3-month London Inter-bank Offered Rate ("**Libor**") plus 2.20% (2016: 3-month Libor plus 0.42%, 0.65% or 2.20%).

(8) **Interest-bearing bank and other borrowings**

	2017	**2016 (Restated)**
	RMB'000	*RMB'000*
Current liabilities		
(i) Bank borrowings		
Secured	1,216,509	1,119,250
Unsecured	4,289,599	3,475,198
	5,506,108	4,594,448
(ii) Other borrowings		
Unsecured	1,372,410	30,185
Interest-bearing bank and other borrowings - current portion	6,878,518	4,624,633

	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Non-current liabilities		
(i) Bank borrowings		
Secured	14,068,254	11,531,962
Unsecured	2,995,123	5,149,582
	17,063,377	16,681,544
(ii) Other borrowings		
Unsecured	208,850	271,665
Interest-bearing bank and other borrowings - non-current portion	17,272,227	16,953,209

As at 31 December 2017, the Group's interest-bearing bank and other borrowings were secured by pledges of the Group's 39 (2016: 25) vessels and 4 (2016: 5) vessels under construction with total net carrying amount of RMB19,998,023,000 (2016: RMB11,367,817,000) and RMB3,216,511,000 (2016: RMB6,568,108,000) respectively.

As at 31 December 2017, secured bank borrowings of RMB15,085,062,000 (2016: RMB12,479,811,000) and unsecured bank borrowings of RMB6,704,422,000 (2016: RMB7,342,329,000) are denominated in United States Dollar ("**USD**").

(9) **Bonds payable**

The movement of the corporate bonds during the Reporting Period is set out below:

	2017	2016
	RMB'000	RMB'000
At 1 January	3,982,045	3,978,488
Interest charge	3,732	3,557
At 31 December	3,985,777	3,982,045

(10) **Contingent liabilities**

(i) Aquarius LNG Shipping Limited ("**Aquarius LNG**") and Gemini LNG Shipping Limited ("**Gemini LNG**"), and Capricorn LNG Shipping Limited ("**Capricorn LNG**") and Aries LNG Shipping Limited ("**Aries LNG**") are associates of East China LNG Shipping Investment Co., Limited and North China LNG Shipping Investment Co., Limited, 2 non-wholly-owned subsidiaries of the Company (the "**4 Associates**") respectively. Each associate entered into a ship building contract for one LNG vessel. After the completion of each LNG vessel, the 4 Associates would, in accordance with time charters agreements to be signed, lease their LNG vessels to the following charterers respectively:

Company name	**Charterer**
Aquarius LNG	Papua New Guinea Liquefied Natural Gas Global Company LDC
Gemini LNG	Papua New Guinea Liquefied Natural Gas Global Company LDC
Capricorn LNG	Mobil Australia Resources Company Pty Ltd.
Aries LNG	Mobil Australia Resources Company Pty Ltd.

On 15 July 2011, the Company entered into four guaranteed leases (the "**Lease Guarantees**"). According to the Lease Guarantees, the Company irrevocably and unconditionally provided the charterers, successors and transferees of the 4 Associates with guarantee (1) for the 4 Associates to fulfil their respective obligations under the lease term, and (2) to secure 30% of amounts payable to charterers under lease term.

According to the term of the Lease Guarantees and taking into account the possible increase in the value of the lease commitments and the percentage of shareholdings by the Company in the 4 Associates, the amount of lease guaranteed by the Company is limited to USD8,200,000 (equivalent to RMB53,580,000). The guarantee period is limited to 20 years which represented the lease period of each LNG vessel leased by the 4 Associates.

(ii) At the 2014 seventh Board meeting held on 30 June 2014, the Board approved the ship building contracts, time charter agreements and supplemental construction contract signed by 3 joint ventures of the Group for the Yamal LNG project (the "**3 Joint Ventures**"). To secure the obligation of the ship building contracts, time charter agreements and supplemental construction contracts, the Company provides corporate guarantees to the shipbuilders, Daewoo Shipbuilding & Marine Engineering Co., Ltd. and DY Maritime Limited. The total aggregate liability of the Company under the corporate guarantees is limited to USD490,000,000 (equivalent to RMB3,201,758,000). In addition, the Company provides owner's guarantees to the charterer, YAMAL Trade Pte. Ltd. The total aggregate liability of the Company under these guarantees is limited to USD6,400,000 (equivalent to RMB41,819,000).

(iii) Subsequent to the approval by independent shareholders at the annual general meeting held on 8 June 2017, the Company entered into three financing guarantees with two banks (the "**Banks**"), to the extent of amount of USD377.5 million (equivalent to RMB2,466,661,000), in respect of 50% of the bank borrowings provided by the Banks to each of the 3 Joint Ventures and was determined on a pro rata basis of the Company's indirect ownership interest in each of the 3 Joint Ventures. The guarantee period provided by the Company for each of the 3 Joint Ventures is limited to 12 years after the vessel construction project of each of the 3 Joint Ventures is completed.

(11) **Foreign exchange risk management**

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to USD and Hong Kong Dollar ("**HKD**") against RMB. Foreign currency risk arises from future commercial transactions, recognised assets and liabilities.

As at 31 December 2017, if USD and HKD had weakened or strengthened by 1% against RMB with all other variables held constant, post-tax profit for the year would have been RMB6,729,000 higher/lower (2016: RMB8,951,000 lower/higher), mainly as a result of foreign exchange gains or losses on translation of USD and HKD denominated cash and cash equivalents, receivables and payables and borrowings.

(12) **Interest rate risk management**

Other than the deposits placed with banks and financial institutions and loan receivables, the Group has no other significant interest-bearing assets. As the average interest rates applied to the deposits are relatively low, the Directors are of the opinion that the Group is not exposed to any significant interest rate risk for these assets held as at 31 December 2017 and 2016.

The Group's exposures to interest rate risk also arises from its borrowings. Loan receivables and borrowings issued at variable rates expose the Group to cash flow interest rate risk. Management monitors the capital market conditions and certain interest rate swap agreements with banks have been used to achieve optimum ratio between fixed and floating rates borrowings.

As at 31 December 2017, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's post-tax profit for the year would have been RMB111,606,000 (2016: RMB150,967,000) lower/higher, mainly as a result of higher/lower interest income on loan receivables and interest expenses on borrowings issued at floating rates.

7. OTHERS

(1) **Fleet expansion projects**

In 2017, the Group has achieved further development in its fleet expansion.

In 2017, the cash outflow from investment activities of the Group was approximately RMB7.1 billion which has been paid for construction and purchase of new vessels and capital increases (in form on both investment and loans) into associates and joint ventures of the Group, in which capital expenditure of approximately RMB6.1 billion was paid for the construction and purchase of new vessels by the Group.

In terms of fleet expansion, 13 new tankers with a total capacity of approximately 2.34 million DWT and five new jointly-invested LNG vessel with capacity of approximately 87,000 cubic metres have been delivered for use in 2017. In 2017, the Group entered into a contract for the construction of 16 new oil tankers, totalling 3,057,600 dwt; it also invested in the construction of four new LNG vessels, totalling 696,000 cubic metres.

As at 31 December 2017, the composition of the Group's fleet is as follows:

	Number of vessels	Deadweight tonnes/ Cubic metres *('000)*	Average age *(years)*
Oil Tankers	116	17,155	7.7
LPG vessels	5	15	10.8
LNG vessel (note)	4	696	0.8
Total	125	17,170/696	7.6

Note: The carrying capacity of LNG vessel is measured in cubic metres.

8. OUTLOOK AND HIGHLIGHTS FOR 2018

(1) Competitive landscape and development trend in the industry

International oil shipping market

In view of the supply and demand of international oil transportation capacity market, CLARKSONS expects the growth rate of demand for crude oil tanker capacity to be 5.2% in 2018, that of capacity supply to be 3.5%, and growth rate of demand is 1.7 percentage points higher than that of supply; it expects the growth rate of demand for refined oil tanker capacity to be 3.4% in 2018, that of capacity supply to be 1.6%, and growth rate of demand is 1.8 percentage points higher than that of supply. In addition to the supply and demand fundamentals, the international oil market freight rates will be subject to fluctuations due to the impact of international crude oil price trends and geopolitical factors.

Looking at the demand side of transportation capacity, in terms of international crude oil transportation, the volume of transportation has been steadily increasing with the distance extending, which together support the demand for transportation capacity to continue to grow. The demand for oil in the Far East, especially China and India, remained strong, where the crude oil imports continued to grow rapidly; production cuts of Organisation of the Petroleum Exporting Countries ("**OPEC**") and the increase in crude oil exports from the American and African countries have resulted in a significant increase in the number of long-haul voyages. In terms of international refined oil transportation,

with the new refining capacity shifting to oil-producing countries, the demand for refined oil tanker capacity will further increase. Due to the effect of multiple factors such as the construction of “One Belt and One Road” projects and the continuous improvement in its oil refining capacity, China’s refined oil exports will continue to increase year on year.

Looking at the supply side of transportation capacity, according to the latest statistics from CLARKSONS, among the fleets of oil tankers of 10,000 tonnes or above, old-fashioned oil tankers aged 15 or older accounted for 19.1%, which is at a relatively high level. With the Ballast Water Convention and the Sulphur Emissions Convention coming into effect, the cost pressure on the old vessels will continue to build up. Since the second half of 2017, the number of tankers dismantled has increased dramatically, and there were altogether 13 VLCCs dismantled for the whole 2017, representing a year-on-year increase of 84.6%, the trend is expected to continue in 2018. As at the end of 2017, the global order capacity with oil tankers accounted for approximately 11% of the existing capacity, and the ratio of the order capacity to capacity of vessels aged more than 15 years is approximately 62%, which is at a relatively low level. It is expected that in 2018, the delivery of new vessels will slow down as compared to the previous year. These two factors jointly contributed to the decline in capacity supply.

Domestic oil shipping market

With regard to the domestic coastal crude oil shipping market, with the accelerated construction of pipelines and large terminals in China, the logistics structure of the transportation of locally refined oil has changed, and the demand of imported crude oil for water transhipment may go down. However, benefiting from the policy on the loosening of the rights to import crude oil and the rights to use the imported crude oil, in 2018, the quota for crude oil import for local refineries will reach 142 million tonnes, representing a year-on-year increase of approximately 50 million tonnes, which will support the overall stability of the coastal crude oil shipping market.

As for the domestic coastal refined oil shipping market, the supply of and demand for transportation capacity will remain generally stable. With the continuous improvement in the coastal refined oil price index mechanism, the market competition will tend to be standardized and transparent, and resources are expected to further converge to the leading industries with advantages on scale.

LNG shipping

According to Drewry's forecast, with the completion of LNG liquefaction plants in North America in 2018-2020 and the launch of LNG projects in the Arctic region of Russia during the same period, global LNG production capacity will increase from 377 million tonnes in mid-2017 to 564 million tonnes in 2020, representing an increase of 49%. It is estimated that by 2020, there will be an increase of 60 million tonnes/year in global demand for LNG, which will need 50-60 LNG vessels to cater for.

In recent years, China is making remarkable efforts to promote the application of natural gas, a clean energy source, and the development of related industries. It has declared that the consumption of natural gas should account for 10% of the total energy consumption by 2020, and 15% by 2030. In the past decade, China's natural gas consumption was growing at approximately 14.98%, while the natural gas output was growing at 10.31%. The gap between production and consumption is continuously widening, making China the second largest LNG importer in the world in 2017.

Recently, the cooperation between the Chinese and American enterprises in energy, especially in LNG, is widening. For example, CNPC has entered into a memorandum of cooperation with Cheniere Energy from US to commence cooperation in the LNG project in the Gulf of Mexico; Sinopec and other companies signed an agreement with Alaska Gas Development Corporation (AGDC) to jointly develop the LNG project in Alaska, and so on. At the end of 2017, Russia's Yamal LNG project (Phase I) was formally put into operation. Cooperation between China and Russia in the field of LNG is destined to have a bright future. The rapid growth of China's natural gas consumption and the significant increase in global LNG production capacity will promote the rapid growth in China's LNG imports and will bring on more opportunities for the development of the Group's LNG shipping business.

(2) **Development strategies of the Company**

Facing the opportunities and challenges in the new era, the Group will strive to become a "Brilliant Leader in Global Energy Transportation with International Competitiveness, Brand Influence and Customer Satisfaction", and accomplish its transformation from a participant to a leader in global energy transportation. To this end, the Group will accelerate its strategic transformation into an all-round tanker transportation service providers, who can provide its customers with full-range transportation solutions and one-stop services, while continuing its operation at the bottom of the cycle in the oil shipping industry, aiming at

low-cost expansion. At the same time, it will vigorously implement its strategy of "Advancing towards the Blue Ocean" and penetrate the emerging areas such as "new energy, new routes and new business", promoting the forward-looking presence establishment and comprehensive upgrade of its business structure.

(3) **Operational plans**

In 2018, the Group expects to introduce a total of eight new oil tankers, totalling 1.54million dwt, and nine LNG vessels, totalling 1.56 million cubic metres (including joint ventures, associated companies). It is expected that there will be 139 oil tankers put into operation during the year, totalling 19 million tonnes, and 25 LNG vessels, totalling 4.17 million cubic metres (including joint ventures, associated companies).

According to the situation of the domestic and international shipping market in 2018, combined with the introduction of the Group's new shipping capacity, the main objectives of the Group in 2018 are as follows: completing a transportation volume of 426.3 billion tonnes-nautical miles; generating an expected operating income of RMB11 billion; and incurring operating costs of RMB8.5 billion.

(4) **Work initiatives of the Company**

A. ***Advancing the "Five Changes" and accomplishing the strategic transformation into a full-range tanker transportation service provider.***

The first change is to integrate the domestic and foreign trade and transportation resources, establish a full logistics planning service mechanism for major customers, and realizing the transformation of the Group's fleet operation from focusing on market segments to providing full logistics service. The second is to implement the customer manager system and simultaneously build four marketing centres to accomplish the transition of marketing model from ship-oriented to customer-oriented. The third is to enforce centralized management and control of vessels, establish a unified and high-standard safety management system, and accomplish the transition of vessel management from decentralized management to intensive management. The fourth is to unify the guarantee function for fleet operation, strengthen the management and control of operational efficiency and revenue, and accomplish the transition of operation management from extensive management to intensive management. The fifth is to build a big data analytics platform, strengthen the pre-judgment on the real-time market opportunities and analysis of industry competition, and realize the change in thinking from a shipping dispatcher to a shipping trader. Through the "Five Changes" with providing the Group's customers with full-range transportation solutions and one-stop services as the main guideline, the Group will complete the re-allocation of the resources elements required for the strategic transformation and form new competitive edges.

B. ***Exploiting the advantages of the Group's fleet structure and form a business structure in which the market is linked internally and externally and the routes complement each other.***

In terms of international oil transportation, the Group must make good use of its overseas outlets in Houston, London and Singapore, and focus on development of the western markets; make new achievements in the development of triangular routes resources and sources of goods in the third countries, so as to further improve its global supply networks and improve the efficiency of its vessel operations, while grasping the opportunity of increased exports of refined oil in China to develop incremental sources of refined oil exports and expand market share.

In terms of domestic oil transportation, as a result of the capital injection into Dalian PetroChina Shipping Limited (大連中石油海運公司), the Group has become a leading player in the coastal refined oil transportation industry. It will take full advantage of this joint venture platform, strengthen cooperation with local refineries, and establish a synergy mechanism for the industry transportation resources, aiming to exert greater influence on the coastal refined oil market. The Group will continue to optimize its business model of "liner transportation", carefully serve the customers, improve its operational efficiency, and increase customer loyalty.

C. ***Adhering to the cost-leadership strategy and exploit reforms and lean management for benefits.***

Based on the reform of the crew management system, in 2018, the Group will continue its efforts in specialization, further promote the reform of the vessel management system, continue to release the scale effect and synergies, increase the integration of internal resources, and strive for new breakthroughs in the control of costs and expenses, and exploit the reforms for benefits. The Group will insist on the dynamic tracking of fuel price locking mechanism, formulate long-term, medium-term and short-term operation plans, and stay in line with the market pace. The Group will strive for combining the normalized lean management of fuels with the extreme deceleration in a special period, comprehensively calculating the voyage costs and charter revenue, optimizing the route design, achieving the optimal match of cargo oil heating and voyage fuel consumption, and maximizing the voyage efficiency.

D. ***Grasping the golden period of market development and accelerating the expansion of LNG shipping business.***

The Group will increase its efforts in the development of LNG business, focusing on the development and progress of LNG cooperation projects between China and US, China and Russia, and along the "One Belt and One Road", seizing the market opportunities of China's massive import of LNG, and make good use of the advantages of long-term strategic alliance with the "Three Barrels of Oil (PetroChina, Sinopec and CNOOC)", and secure more investment opportunities in LNG projects. While advancing the specialization reform, the Group will further increase its management capability of LNG vessels, so as to build an international brand of LNG vessel management, and improve its capability to participate in bidding for international projects.

E. ***Joining in the global green energy revolution and vigorously developing new energy transportation business.***

In recent years, the global demand for clean energy such as methanol, ethanol and ethane has been increasing rapidly, while China is one of the fastest growing markets. Many of these emerging energy projects adopt operating model similar to that of the LNG project, i.e. customizing shipping capacity based on long-term leases. The Group's investments in these long-term projects will not only enable it to expand the scale of business with stable income, but more importantly, enable it to proactively establish its strategic presence in the emerging businesses and gain leading edge. The Group will carefully select target projects, conduct careful research and demonstration, strive to make breakthroughs in shipping of new energies, and promote the further upgrade of its business structure.

F. ***Building a solid foundation for safety and gaining safety marketing expertise.***

The Group will accelerate the integration of the excellent safety management mechanisms developed by Dalian Tanker and Shanghai Tanker in their respective development processes; increase the Group's efforts in improving the navigation safety monitoring measures, promoting the maintenance plan for the whole life cycle, reinforcing the risk assessment mechanism before the actual work is started and strengthening the operation management of goods while increasing management efforts; promote the management system under which the chiefs manage the vessels and further forming a closed-loop management mechanism. The Group will make good use of information technology to promote safety to build a digital ship management platform and improve its risk prevention capabilities and safety management efficiency.

G. ***Strengthening the Group's counter-cycle development and expanding room for future profitability.***

At present, the oil tanker shipping industry is at the bottom of the cycle, with the equity and assets of the tanker owners all at the low level of valuation. Ship dismantling, sales, and mergers and acquisitions have reached the peak in recent years. As the market is expected to rebound, the favourable opportunities for low-cost expansion will arise but will soon disappear. The Group will adhere to the two-wheel drive mode in which scale growth and quality improvement are both prioritized, seize the window period to speed up the low-cost expansion, and simultaneously plan for resource integration and business cooperation. At the same time, the Group will accelerate its entry into the upstream and downstream industries, extend its industrial chain, so as to achieve strategic coordination.

H. ***Reinforcing the team and inspiring the vitality of the Company.***

The Group's Share Option Incentive Scheme has been approved by the SASAC, which has made an unprecedented example for the introduction of equity incentive scheme by a listed state-owned shipping company. The Group will accelerate its pace in completing the implementation of the equity incentive scheme and closely link the interests of the shareholders, senior management and those holding the key positions in the Company, so as to maximize shareholders' value. The Group will further strengthen the construction of its talent team and focus on the selection of talents with professional qualifications at home and abroad. The Group will also launch a campaign known as "Hero Express" to organize and carry out the Company's key tasks in a project-based manner, thus providing the talents of the Group with a stage to showcase their capabilities.

9. OTHER SIGNIFICANT EVENTS

(1) Results, dividends and closure of the H Share register

The Company will separately announce the arrangement in relation to the closure of the H share register of members of the Company and the annual general meeting of the Company in due course.

(2) Medical insurance scheme

As required by the regulations of the PRC local government effective from 1 July 2001, the Company participates in a defined contribution medical insurance scheme organised by PRC social security authorities. Under the scheme, the Company is required to make monthly contributions at the rate of 12% of the

total basic salaries of the employees. In addition, pursuant to the aforementioned regulations, the contributions are accounted for as staff welfare payables accrued by the Company. The Company has no obligation for the payment of medical benefits beyond such contributions to the registered insurance companies.

Since 1 July 2010, the Company has developed a defined medical insurance scheme according to the spirit of the State to advocate the establishment of a multi-level enterprise medical security system and of the "Notice on Enterprise Income Tax Policies Relating to Defined Contribution Retirement Insurance and Defined Medical Insurance" (CaiShui 2009 No. 27). Under the scheme, the Company shall make a provision of 5% of the total salary of employees, which shall be deposited into a special account for defined medical insurance fund.

(3) **Pension and Enterprise annuity schemes**

(i) ***PRC (other than Hong Kong)***

Pension scheme

The Group is required to contribute to a pension scheme (the "**Scheme**") for its eligible employees. Under the Scheme, the Group's retirement benefit obligations to its existing retired and future retiring employees except for the medical expenses to retired employees, are limited to its annual contributions equivalent to the range of 19% to 20% (2016: 19% to 20%) of the basic salaries of the Group's employees. Contributions made by the Group to the Scheme for the Reporting Period amounted to RMB77,473,000 (2016: RMB78,885,000).

Enterprise annuity scheme

In 2008, the representatives of the Group's Labour Union and the Board resolved to approve and adopt an enterprise annuity scheme. Pursuant to the annuity scheme the employer's contributions will be 5% of the total staff costs of the previous year. The employees' contributions will be 1.25% of their income from the previous year and the employer's contributions for the management staff should not be five times more than the staff average.

The enterprise annuity scheme became effective on 1 January 2008. Under the scheme, actual amount incurred as labour cost in 2017 amounted to RMB22,459,000 (2016: RMB16,164,000).

The Group has no further obligations beyond the annual contributions. In the opinion of the Directors, the Group did not have any significant liabilities beyond the above contributions in respect of the retirement benefits of its employees.

(ii) ***Hong Kong***

The Group operates a Mandatory Provident Fund Scheme ("**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD30,000 effective as on 1 June 2014. Contributions to the MPF Scheme vest immediately. Contributions made by the Group to the MPF Scheme for the Reporting Period amounted to RMB292,000 (2016: RMB594,000).

(4) **Directors' and supervisors' interests and short positions in shares and underlying shares of the Company**

As at 31 December 2017, none of the Directors, supervisors, chief executives or, to the best knowledge of the Directors, their associates had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) that was required to be recorded pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

(5) **Purchase, sale or redemption of the Company's listed securities**

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

(6) **Compliance with the Corporate Governance Code**

The Board is committed to the principles of corporate governance for a value-driven management that is focused on enhancing shareholders' value. In order to enhance independence, accountability and responsibility, the posts of chairman of the Board and the chief executive officer are assumed by different individuals so as to maintain independence and balanced views.

In the opinion of the Directors, save as disclosed below, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2017.

As provided for in code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Feng Boming, Mr. Zhang Wei, Ms. Lin Hong Hua, the non-executive directors, and, Mr. Ip Sing Chi, Mr. Rui Meng and Mr. Teo Siong Seng, the independent non-executive directors, were unable to attend the annual general meeting held on 8 June 2017 ("**2017 AGM**") due to prior commitments. In addition to the 2017 AGM, the independent non-executive directors, Mr. Wang Wusheng, Mr. Ip Sing Chi and Mr. Teo Siong Seng were unable to attend first extraordinary general meeting held on 16 March 2017 due to prior commitments. The independent non-executive directors, Mr. Ip Sing Chi, Mr. Rui Meng and Mr. Teo Siong Seng were unable to attend the second extraordinary general meeting held on 10 October 2017 due to prior commitments. The independent non-executive director, Mr. Ip Sing Chi and Mr. Teo Siong Seng were unable to attend the third extraordinary general meeting held on 18 December 2017 due to prior commitments.

The Company will keep its corporate governance practices under continuous review to ensure their consistent application and will continue to improve its practices having regard to the latest developments including any new amendments to the Corporate Governance Code.

The Company has established four professional committees under the Board, namely the Audit Committee, the Remuneration and Appraisal Committee, the Strategy Committee and the Nomination Committee, with defined terms of reference.

(7) **Audit Committee**

The Company has established an audit committee to review the financial reporting procedures and internal control and to provide guidance thereto. The audit committee of the Company comprises three independent non-executive Directors.

The audit committee of the Company has reviewed the annual results of the Company for the Reporting Period.

(8) **Remuneration and Appraisal Committee**

The remuneration and appraisal committee of the Company comprises five independent non-executive Directors of the Company. The remuneration and appraisal committee of the Company has adopted terms of reference which are in line with the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

(9) **Compliance with the Model Code as set out in Appendix 10 to the Listing Rules**

The Company has adopted a code of conduct regarding Directors' securities transactions in accordance with the required standard set out in the Model Code.

Following specific enquiries made with the Directors, supervisors and chief executive of the Company, the Company confirms that each of them has complied with the Model Code during the Reporting Period.

(10) **Employees**

The adjustments of employee remuneration is calculated in accordance with the Company's turnover and profitability and is determined by assessing the correlation between the total salary paid and the economic efficiency of the Company. Under this mechanism, management of employees' remuneration will be more efficient while employees will be motivated to work hard to bring encouraging results for the Company. Save for the remuneration policy disclosed above, the Company does not maintain any share option scheme for its employees and the employees do not receive any bonus. The Company regularly provides its administrative personnel with training on various subjects, including operation management, foreign languages, computer skills, industry know-how and policies and laws. Such training may be in different forms, such as seminars, site visits and study tours.

As at 31 December 2017, the Company had 6,257 (2016: 8,068) employees. During the Reporting Period, the total staff costs was approximately RMB1,874 million (2016: approximately RMB2,094 million).

(11) **Events after the Reporting Period**

On 6 March 2018, a capital injection agreement and a supplemental agreement ("**Capital Injection Agreements**") were entered into by PetroChina, Dalian PetroChina Shipping Limited ("**PetroChina Dalian**"), a wholly-owned subsidiary of PetroChina prior to the entering of the Capital Injection Agreements, and the Company. Pursuant to the Capital Injection Agreements, the Company shall inject a sum of RMB396,551,000 into PetroChina Dalian by cash as registered capital and capital reserve of PetroChina Dalian. Upon completion of the capital injection, the Company and PetroChina will hold 51% and 49% equity interest in PetroChina Dalian respectively. PetroChina Dalian will therefore become a subsidiary of the Company.

(12) **Update of the Articles of Association**

In accordance with the relevant laws and regulations in the PRC, including the Guidance on the Articles of Association of Listed Companies (revised in 2016) (《上市公司章程指引》(2016修訂)) and the Listed Companies Regulatory

Guidance No. 3 — Cash Dividends Distribution of Listed Companies (《上市公司監管指引第3號— 上市公司現金分紅》) issued by the China Securities Regulatory Commission and the Guideline on the Distribution of Cash Dividends by Listed Companies of the Shanghai Stock Exchange (《上海證券交易所上市公司現金分紅指引》) issued by the Shanghai Stock Exchange, the third extraordinary general meeting of the Company which was held at 18 December 2017 approved to make certain amendments ("Proposed Amendments to Articles") on the Company's profit distribution plan on the Company's articles of association to reflect the above changes. The announcement for the proposed changes is published on The Stock Exchange of Hong Kong on 1 December 2017.

(13) **Publication of annual results on the website of The Stock Exchange of Hong Kong Limited**

An annual report of the Company containing all the financial and relevant information as required under the Listing Rules will be posted on the website of The Stock Exchange of Hong Kong in due course.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December 2017 and 2016, but is derived from the consolidated financial statements prepared in accordance with accounting principles generally accepted in Hong Kong and complies with accounting standards issued by the HKICPA. Those consolidated financial statements for the Reporting Period, which will contain an unqualified auditors' report, will be delivered to the Companies Registry, and delivered to shareholders as well as made available on the Company's website at http://www.coscoshippingenergy.com.

By order of the Board
COSCO SHIPPING Energy Transportation Co., Ltd. *
Huang Xiaowen
Chairman

28 March 2018
Shanghai, the PRC

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Huang Xiaowen, Mr. Liu Hanbo and Mr. Lu Junshan as executive Directors, Mr. Feng Boming, Mr. Zhang Wei and Ms. Lin Honghua as non-executive Directors, Mr. Ruan Yongping, Mr. Ip Sing Chi, Mr. Rui Meng and Mr. Teo Siong Seng as independent non-executive Directors.

* *for identification purpose only*