2019
Interim Results
Aug 2019
1H2019 Results
In the first half of 2019, increasing uncertainties in global economy has hindered the recovery of shipping industry. While the outlook of the world economic growth is weakened, the shipping and demand contradiction has intensified.

During the period, COSCO SHIPPING International has achieved profit to shareholder of $150.0 million, down 18% YoY from $184 million in 1H2018. EPS were HK9.79 cents. And the Board has declared to pay DPS of HK$7 cents, as compared to HK$5 cents last year.
Although the reported net profit declined by 18% YoY, the adjusted net profit has increased by 31% to $162.2 million if we take out the impacts from the non-recurring factors, including,

1. a HK$17.8 million gains from the reversal of provision that recorded in 1H18;
2. HK$12.2 million of government subsidy for factory relocation recorded in 1H18; also,
3. the FX differences. While a HK$39.7 million FX gains was recorded in 1H18, a FX losses of $14.1 million is recorded in 1H19.

In 1H2019, Selling and Admin expenses has declined by 6% YoY, mainly as a result of effective cost control in our coating business, lowering both the labor and selling costs.

Net Finance income has increased by 41% or HK$30.9 million YoY to HK$105.8 million, as a result of higher cash return in the period. From an average of 2.35% in 1H2018 to 3.42% in 1H2019.

In addition, share of profit from JV and Associate recorded turnaround profit in 1H19, mainly as a result of the recovery from our marine coating business.
The financial positions of COSCO SHIPPING International remain robust. As of 30 Jun 2019, while Debt Equity ratio was 0.7%, quick ratio was 7.4 times, and cash on hand was HK$6.2 billion, representing a highly liquid balance sheet and strong capital structure.

As there was no split up or new shares issued, the company’s issued shares remained at 1.5 billion shares. Net asset per share was HK$5.13, and the net cash per share was HK$3.29.
Segment Review
The table provides a snapshot of the segment PBT.

Apparently, PBT from ship trading agency business, which declined by 45% YoY, has dragged down the overall performance of our shipping services clusters.

Our insurance brokerage business and supply of marine equipment business remain relatively stable. And Our coating business has achieved a strong rebound. While marine fuel trading business recorded a turnaround loss.
The decline in the profit of ship trading agency business was a result of
1. Lower FX gains as compared to the same period last year
2. fewer delivery arrangements of new build vessels, and
3. decline in the trading volume of second-hand vessel in the first half

Newbuild delivery was 1.3 million DWT in 1H19, as compared to 3.1m DWT last year. The trading volume of second hand vessels was 0.2 million DWT, as company to 0.56m DWT last year.

However, if taking our the impact from FX gains, the decline of PBT in ship trading agency segment would have been diminished to 26% YoY.
PBT from insurance brokerage business was HK$23.2m in 1H2019, down slightly by 3% YoY.

This is because of lower ship prices in the period that has drove down the premium, however the impact was largely unwind by increase in war insurance premium.
PBT from supply of marine equipment was down by 4% YoY, even though the segment’s revenue has increased by 15%.

The decline in PBT was mainly as a result of the FX changes during the period. While there was a FX gain of HK$4.6 million in 1H18, a HK$0.7 million FX losses was recorded in 1H19.

If taking out such FX factor, the adjusted PBT would be HK$36.8 million against HK$33.0 million in 1H18, representing a 11.5% YoY growth.
For our coating business, which is constituted by our wholly owned COSCO Kansai, 50% owned COSCO Juton and 33% owned Nasurfar.

The total PBT of our coating business was HK$0.8 million in 1H2019, versus HK$25.8 million LBT in 1H18. Mainly as a result of the recovery in COSCO Juton and the profit contribution from Nasurfar.

During the period, COSCO Juton has enhanced its procurement management and pricing strategy, so to promptly reflect its production costs. As a result the gross profit margin of COSCO Juton has improved by about 6% YoY.

On the contrary, although the total sales volume of COSCO Kansai has increased by 10.5% YoY, its revenue has declined slightly by 1.6%. This was because the ASP of container coatings has declined by 19%. In addition to the absence of government subsidy for factory relocation recorded in 1H18, the PBT from COSCO Kansai declined by 58% YoY.
For marine fuel trading business, the segment recorded a turnaround loss in 1H19. This was as a result of:

1. We deliberately trimmed down the business of Sinfeng to minimize the risk of the business, taking into account of the Coastal Oil case.
For our General Trading business, PBT was HK$6.9 million in 1H19, down 64% YoY. This was mainly as a result of the absent of $17.82 million that came from the reversal of provision recorded in 1H18.

If taking out such non-recurring factor, adjusted PBT YoY growth would be 360% as compared to HK$1.5 million in 1H18.
Market Review
Although the output of newbuild container has recorded a strong growth in 2018, the ASP was comparatively weak under keen competition between CIMC, SIGAMAS and CXIC.

For the reason, the increase in production costs were not passed to their customers, and the ASP was down 7% YoY in 2018.

Stepping into the first half of 2019, the output of newbuild containers decreased by 30%, and the ASP further declined by 19% from the first half of 2018, or 14% from FY2018.

It looks like that the squeezed margin in container manufacturers has began to pass to the upperstreams.
Strategic Direction
COSCO SHIPPING International (Hong Kong) will pursue its vision to become a leading international shipping service company by maintaining good confidence in the implementation of business transformation and upgrades, adheres to the concept of innovative development in the construction of the two major platforms, as well as seeking development path with high-quality services.

With ample internal resources and strong support from our ultimate holding company COSCO SHIPPING Group, the Company is moving towards its two major strategic development directions of building the “shipping services industrial cluster unified operation platform” and “non-financial business investment platform”, eventually achieving sustainable business development and striving to create greater returns for shareholders.
Appendix: Corporate Profile
Our Position in China COSCO Shipping Corp.

China COSCO SHIPPING Corp.*

- Shipping
  - COSCO SHIPPING Holdings (1919.HK / 0686.HK)
  - Container Shipping
    - COSCO SHIPPING Port (1990.HK)
  - Specialized and General Cargo Transportation
    - COSCO SHIPPING Development (2866.HK / 0686.HK)
  - Container Leasing and Ship Chatering

- Logistics
  - COSCO SHIPPING (1919.HK)

- Shipping Finance
  - COSCO SHIPPING International (5172.HK)

- Equipment Manufacturing
  - China Shipping Network Technology (2401.SZ)

- Shipping Services

- Social Services

- Internet+

- Port Operation
  - Container Shipping

- Energy
  - Oil & Gas Shipping

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* China COSCO Shipping Corporation Limited, a merger of COSCO Group and China Shipping Group, was established on 5 Feb 2016 in Shanghai. It comprises 1,114 vessels with a capacity of 85.32m DWT, ranking No.1 in the world. The vision of China COSCO Shipping is to build a world-leading business entity that provides integrated logistics and supply chain services.
COSCO SHIPPING International (Hong Kong) is a HK-based shipping services provider, offering diversified and specialized shipping related services or products to customers such as shipping companies, shipyards, container manufacturers, etc.

Centralised Procurement Platform for COSCO SHIPPING's Fleet

- Ship Trading Agency
  - 100% COSCO SHIPPING (Hong Kong) Limited
  - 100% COSCO SHIPPING (HK) Co., Ltd.

- Marine Insurance Brokerage
  - 100% COSCO SHIPPING Insurance Brokers Limited
  - 55% Shenzhen COSCO Insurance Brokers Co., Ltd.

- Marine Equipment & spare parts supply
  - 100% Youanzhai Marine Service (HK) Limited
  - 100% Shi Cheng Lin (Japan)
  - 100% Xing Yuan (Singapore)
  - 100% Youanzhai Marine Trade (Shanghai)

- Production & Sale of Coatings
  - 64% COSCO Kempa (Container Coatings)
  - 50% Jilin COSCO (Marine Coatings)
  - 31% Nanxun Biomaterial Technology

- Marine Bunker Supply
  - 100% SINO Marine Services (Singapore)
  - 18% Double Rich (HK)

- General Trading
  - 100% COSCO SHIPPING International Trading

*As at the end of Dec 2018, the total number of issued shares was 1,532,953,429.*
Milestones

Strategic Transformation from a Conglomerate into a Shipping Services Provider

- Acquired COSCO Ship Trading from COSCO Group, and began to develop shipping services
- Acquired COSCO HK Insurance Brokers and Yuantong from COSCO Group for marine insurance brokerage and equipment supply
- Divested the building construction business & a property investment in Shenyang, China
- COSCO Kansai started to build a new plant in Shanghai
- Acquired 100% equity interest in Hapag-Lyn in Germany to enlarge marine equipment supply network outside Asia
- Built COSCO Kansai's first facility in Shanghai
- Tsunmeng signed a strategic cooperation agreement with CSHT Marine Machinery Suppliers Ltd.
- Acquired 100% equity in CSHT Marine Machinery Suppliers Ltd.
- Acquired management services agreement with COSCO SHIPPING (Hong Kong)
- COSCO Kansai relocated its plant in Shanghai
- Acquired equity in COSCO Kansai and established Shaxi Marine Machinery Co., Ltd.
- Acquired Xing Yuan in Singapore and established Shaxi Marine Machinery Co., Ltd.
- Acquired 51% equity interest in Yuanshun in the USA
- Acquired 100% equity in Yuanshun in the USA
- The Company's name was changed to "COSCO SHIPPING International (Hong Kong) Co., Ltd.
- Subscription of 33% equity interest in Natunfo Biomaterial Technology (Changsha)
- Acquired equity in COSCO Kansai and established Shaxi Marine Machinery Co., Ltd.
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