

Stock code: 600428

Stock abbreviation: COSCO SHIPPING Specialized

**COSCO SHIPPING Specialized Carriers Co., Ltd.**

**2019 ANNUAL REPORT SUMMARY**



**April 2020**

## I Important Notices

1. The Annual Report Summary is a simplification of the annual report. To comprehensively understand the Company's operating results, financial position and future development plans, investors shall refer to the full text of the annual report which can be found on the official website of Shanghai Stock Exchange and other media designated by China Securities Regulatory Commission.
2. The board of directors, the board of supervisors, the directors, the supervisors and the senior management of the Company guarantee the authenticity, accuracy and completeness of the contents of the annual report, in which there are no false representations, misleading statements, or material omissions, against which the former will incur joint and several liabilities.
3. All the directors of the Company attended the board meeting.
4. Baker Tilly China Certified Public Accountants (Special General Partnership) has issued a standard and unqualified auditor's report for the Company.
5. The proposal of distribution of profit for the reporting period or the transfer of capital reserve to equity considered by the board of directors:

In light of the Company's profitability in 2019 and the retained earnings accumulated in the previous years, the Board agreed not to distribute the retained earnings for 2019 after taking the Company's future business development and capital requirements into full consideration. The distribution plan needs to be proposed for consideration at the Company's 2019 annual general meeting.

## II. Company's Basic Information

### (I) Company Profile

Information on the Company's Shares				
Type of shares	Place of listing	Short form	Stock code	Short form before change
A Shares	Shanghai Stock Exchange	COSCO SHIPPING Specialized	600428	COSCOL

Contact Persons and Methods	Secretary to Board of Directors	Representative of securities affairs
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## **(II) The Company's principal businesses in the reporting period**

### **1. The Company's principal businesses and business model**

COSCO SHIPPING Specialized is mainly engaged in special cargo shipping and related businesses. Taking “To Become the Greatest Competitor on Global Specialized Shipping Market and the Leader of International Logistics Engineering” as its strategic objective, and upholding the philosophy of “Exceptional Capability, Excellent Service”, COSCO SHIPPING Specialized is committed to building a world class special cargo shipping fleet. The Company currently has a special cargo shipping fleet with world-leading scale and comprehensive strength, operating and managing over 100 3,000,000 DWT vessels, including semi-submersible vessels, multi-purpose vessels, heavy lift vessels, pure car carriers, log carriers and asphalt carriers and other types of vessels.

The ships of COSCO SHIPPING Specialized are featured by reasonable structure, strong carrying capacity, cargo seaworthiness, and energy-efficient and environment-friendly. These ships are capable of carrying over-length, super-heavy, oversized, uncontainerizable cargo including RIGs, locomotives and train carriages, windmills, bridge cranes, complete equipment and other cargoes with special carrying, loading and unloading requirements. With carrying capacities ranging from 1 ton to 100,000 tons, they are designed to provide safe and efficient transport services for customers.

The COSCO SHIPPING Specialized has an established service network throughout the world, which covers more than 1,600 ports in 160 countries and regions worldwide. Basing on the Far East, COSCO SHIPPING Specialized has formed advantages in the trading routes from/to Europe, America, Africa, Pan Indian Ocean, and Pan Pacific Ocean, and has aspiringly explored new routes, including Atlantic and Oceania.. Meanwhile, the Company is the only shipping company in the world which has experience of successfully shipping to the Arctic and the Antarctic. The Company can arrange loading and unloading ports for its ships in a flexible manner as per customers' requirement according to the needs and condition of the projects. The Company's shipping routes can extend wherever the project is located, to ensure the safe arrival of goods. By virtue of its superior strength, the Company has successfully provided transport services for hundreds of major multinational projects, setting new records on transport “ultralimit” one after another.

COSCO SHIPPING Specialized actively launches innovative services and improves its service level, realizing shift from “port to port” transportation model to “door to door” one to cover the whole logistic process, and from “maritime transportation” to “maritime transportation plus installation”. The Company is a leader in term of freight technology in the world. Aiming at the most advanced technology and the demand of the most high-end

customers, the Company has developed cooperative partnership with scientific research institutions, higher learning institutions and other professional research institutions to develop complicated cargo loading, unloading and transportation solutions which require high-tech, so as to meet and beyond the customer's expectations.

COSCO SHIPPING Specialized has established sound management system, introduced ISO9001, ISO14001, OHSAS18001 and other management system standard besides meeting the international mandatory regulatory requirements like ISM, ISPS and MLC2006, and established QHSE management system at the premise of meeting the mandatory codes and standards, centering on the two key points of customers' security requirement and management improvement requirement. Thanks to its high standard internationalized and professional management, COSCO SHIPPING Specialized has developed a sustainable and stable security assurance and environmental protection system, always ready to provide stable and reliable professional specialized shipping service for customers.

COSCO SHIPPING Specialized is committed to continuous and diversified development, possessing shipping-related industries, including vessel technical engineering service, vessel material supply, vessel communication and navigation services and others. It has rich experience in the industry and has developed an industrial chain with certain scale, which internally provides strong support and protection for its main business of shipping and externally builds a professional brand for itself, to complement its principal business while realizing coordinated development.

## **2. Industry overview of the Company**

Shipping industry is closely connected with global economy and trade, and maritime transportation is the first and foremost means of transportation for international logistics, which serves as a "barometer" for reflecting economic ups and downs. Although being impacted by changes in economic and trade conditions and featured by cyclicity, the long-term demand in global shipping industry is still huge in the long run. In particular, China is still in the progress of industrialization and urbanization. In the future, China will continue to focus on promoting major infrastructure construction, which will doom to stimulate the consumption of bulk materials, and create huge demand for maritime transportation. Such a pulling effect will show up over time. The prospect of China's shipping industry is bright.

International shipping industry can be classified into container vessels business, dry bulk cargo carriers business, cruise ship business and other branches by vessel model. The special vessel shipping business the Company engaged in is an important subdivision of the international shipping industry, including multi-purpose vessels, heavy lift vessels,

semi-submersible vessels, lumber carriers, asphalt carriers, pure car carriers and other kinds of special vessels business. The special vessel market is affected by both the overall economic and trade environment and the supply and demand relationship solely owned by its market segments. Compared with the container vessels market and the dry bulk cargo carriers market, the special vessel market is generally characterized by relatively small scale and relatively stable market fluctuation. With the driven out of sub-standard players and benefit to first rated enterprises and industry integration in the international shipping market in recent years, various special vessel segments have formed some leading enterprises with strong competitiveness. COSCO SHIPPING Specialized has a leading position in many of these segments.

Since 2019, the global economic condition has been complicated and changeable, the growth momentum of emerging economies has weakened significantly, the international shipping market has remained fluctuated at a lower level, and it is still struggling on the road of recovery. It still featured strong cyclical and uncertainties, and the differentiation of the trend of each vessel model has further increased. According to the statistics from Clarksons, the growth of global maritime trade has slowed down in 2019. The annual volume of maritime trade increased by 2.2% year-on-year in tons, and the growth rate of global fleet capacity was 1.9%, which was lower than the average value since the outbreak of 2008 international financial crisis. The international bulk cargo transportation market fluctuated ups and downs in the whole year. At the beginning of the year, it fell down affected by accidents such as Brazil Brumadinho dam collapse accident, Baltic Dry Index (BDI) fell into 595 points on 11 February. After entering into the second and third quarter, the iron ore supply in Brazil recovered and superimposed by the urgent demand for grain transportation in South America, BDI rebounded from the low level and climbed to 2518 points on 4 September, created the highest record since December 2013, and then fell down again due to the decline demand at the end of the year. The average value of BDI in 2019 was 1353 points, which was the same as that in 2018. The overall demand growth in container shipping industry in 2019 remained weak, the peak season of the market was obviously slack, and the average value of China Containerized Freight Index (CCFI) in 2019 was 823 points, with a slight increase of 0.5% year-on-year. The global oil shipping market has benefited from an upward trend in the growth of energy consumption. In 2019, the Baltic Crude Oil Freight Index (BDTI) was 855 points, representing a year-on-year increase of 7.2%. The special vessel shipping market which the Company is engaged in continues to adjust at a low level, but the diversification and difference in the market segments have brought new opportunities for medium and long-term development.

### (III) Key Accounting Data and Financial Indicators

#### 1. Key Accounting Data and Financial Highlights for the most recently three years

Unit: Yuan, Currency: RMB

	2019	2018		Increase/decrease for the year as compared with last year (%)	2017	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Total assets	22,249,133,998.0 9	21,695,327,273.9 0	21,666,421,461.0 6	2.55	21,283,069,634.0 6	21,250,771,066.48
Operating income	8,266,236,025.56	7,579,318,633.61	7,576,116,168.03	9.06	6,512,793,259.75	6,508,692,188.32
Net profit attributable to equity holders of the listed company	100,928,932.07	86,066,557.49	86,066,557.49	17.27	237,560,541.70	237,560,541.70
Net profit attributable to equity holders of the listed company (excluding extraordinary gains or losses)	-270,794,122.38	-64,324,661.86	-64,324,661.86	N/A	241,434,915.89	241,434,915.89
Net assets attributable to equity holders of the listed company	9,642,177,376.80	9,578,070,445.56	9,578,070,445.56	0.67	9,503,310,165.04	9,503,310,165.04
Net cash flow from operating activities	1,264,621,568.49	898,532,210.00	895,235,843.12	40.74	1,427,865,726.46	1,425,774,288.60
Basic earnings per share (RMB per share)	0.047	0.040	0.040	17.27	0.111	0.111
Diluted earnings per share (RMB per share)	0.047	0.040	0.040	17.27	0.111	0.111
Weighted average return on net assets (%)	1.05	0.90	0.90	Increased by 0.15 percentage points	2.52	2.52

#### 2. Quarterly key accounting data during the Reporting Period

Unit: Yuan, Currency: RMB

	First quarter (January- March)	Second quarter (April – June)	Third quarter (July-September)	Fourth quarter (October-December)
Revenue from operations	1,960,498,780.06	2,025,980,858.40	2,093,325,873.95	2,186,430,513.15
Net profit attributable to equity holders of the listed company	30,900,422.21	68,530,860.59	47,440,932.06	- 45,943,282.79
Net profit attributable to equity holders of the listed company (excluding extraordinary gains or losses)	31,738,039.89	61,588,580.73	79,745,462.73	- 443,866,205.73
Net cash flow from operating activities	197,524,024.08	139,688,172.30	363,783,904.34	563,625,467.77

Explanation on differences between the quarterly data and disclosed periodic report data

Applicable     Not applicable

### 3. Share capital and shareholders

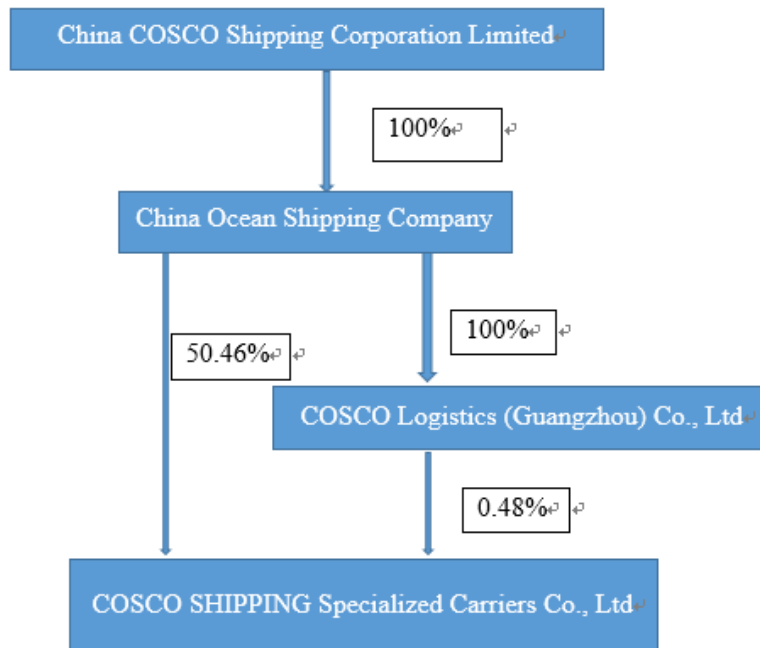
#### (1) Numbers of ordinary equity holders and preference equity holders with recovery of voting rights and the shareholding of the top 10 shareholders

Unit: share

Total number of ordinary equity holders as at the end of the Reporting Period (household)							101,067
Total number of ordinary equity holders at the end of the previous month before the date of disclosure of Annual Report (household)							98,137
Total number of preference equity holders with recovery of voting rights as at the end of the Reporting Period (household)							
Total number of preference equity holders with recovery of voting rights at the end of the previous month before the date of disclosure of Annual Report (household)							
Shareholding of the top 10 shareholders							
Name of shareholders (Full name)	Increase/decrease during the Reporting Period	Number of shares held at the end of the period	Percentage (%)	Number of shares subject to selling restrictions	Number of shares pledged or frozen		Nature of shareholders
					Status of shares	Number	
China Ocean Shipping Co., Ltd.		1,083,147,344	50.46	0	Nil	Nil	State-owned legal person
Qianhai Kaiyuan Fund -Baoshang Bank-Qianhai Kaiyuan Private Placement No. 11 Asset Management Plan		228,102,189	10.63	0	Unknown	Unknown	Domestic non-state-owned legal person
Central Huijin Asset Management Ltd.		48,347,200	2.25	0	Unknown	Unknown	Other
YinHua Fund- Agricultural Bank-Yinhua China Securities and Financial Assets Management Program		11,510,100	0.54	0	Unknown	Unknown	Other
ICBC Credit Suisse Fund-Agricultural Bank- ICBC Credit Suisse China Securities and Financial Assets Management Program		11,220,948	0.52	0	Unknown	Unknown	Other
China Ocean Shipping Agency (Guangzhou) Co., Ltd		10,256,301	0.48	0	Unknown	Unknown	State-owned legal person
Agricultural Bank of China Limited-CSI 500 Exchange Traded Fund	372,518	9,671,172	0.45	0	Unknown	Unknown	Other
Da Cheng Fund- Agricultural Bank — Da Cheng China Securities and Financial Assets Management Program		8,195,732	0.38	0	Unknown	Unknown	Other
ChinaAMC Fund — Agricultural Bank — ChinaAMC China Securities and Financial Assets Management Program		6,263,470	0.29	0	Unknown	Unknown	Other
Wang Xueyan	2,500,000	2,500,000	0.12	0	Unknown	Unknown	Domestic natural person
Explanation of the connected relationship or acting-in-concert relationship among the above shareholders:		1. During the Reporting Period, the shareholders holding 5% or more of shares of the Company were China Ocean Shipping Co., Ltd. and Qianhai Kaiyuan Fund, with no pledged or frozen shares of the Company held by China Ocean Shipping Company Limited. The Company did not know whether other shares held by shareholders who are not subject to selling restrictions were pledged or frozen. 2. China Ocean Shipping Agency (Guangzhou) Co., Ltd and the Company are under the common control of the shareholder, namely, China Ocean Shipping Company Limited. In addition, the Company did not know the connected relationship among the above shareholders who are not subject to selling restrictions or the parties acting-in-concert as defined under the Measures for the Administration of the Takeover of Listed Companies.					
Explanation on preference equity holders with recovery of voting rights and shareholdings							

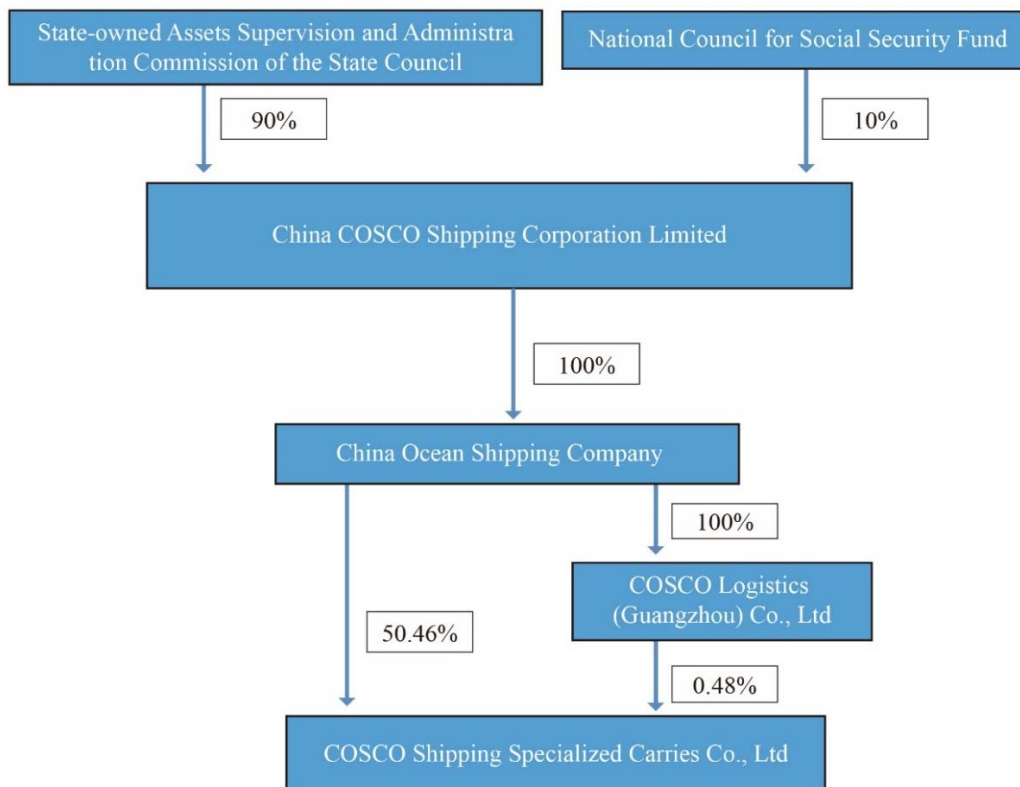
**(2) Block diagram of ownership and controlling relationship between the Company and the controlling shareholders**

√Applicable  Not applicable



**(3) Block diagram of ownership and controlling relationship between the Company and its beneficial controllers**

√Applicable  Not applicable





**(4) At the end of the Reporting Period, the total number of holders of preference shares and Top 10 Shareholders are as Follows:**

Applicable     Not applicable

#### **4. THE CORPORATE BONDS**

Applicable     Not applicable

### **III. Management Discussion and Analysis**

In 2019, with the targets of “outperform the market, drive innovation, and lead the era”, the Company held " Exceptional Capability, Excellent Service", and followed the strategy of developing its "Specialized" aspect in order to deepen the reform of the state-owned enterprises and enhance the sustainable development capability of the Company. During the Reporting Period, the Company realized operating revenue of RMB826,236,000, representing a year-on-year increase of 9.06%, and created the highest standard in the past decade; it realized total profit of RMB200,480,500, representing a year-on-year increase of 60.95%; it realized net profit of RMB102,851,100, representing a year-on-year increase of 18.09%.

During the Reporting Period, the Company brought in 5 new vessels of 310,000 DWT, decommissioned 6 old vessels of 110,000 DWT, signed a shipbuilding contract of 50,000-ton semi-submersible vessels, and exercised the option to the order of 4 paper pulp vessels of 62,000 DWT. As at the end of the Reporting Period, the Company owned 103 vessels of 2,811,000 DWT, representing a year-on-year decrease of 1 vessel and an increase of about 200,000 DWT. The average vessel age of self-owned fleet was 9.3 years.

During the Reporting Period, the Company seized opportunities, expanded marketing, refined the operation, and strove to improve the operating quality of main business of shipping. The competitiveness of each fleet has been effectively improved and good operating results have been achieved:

#### **(I) Multi-purpose vessels and heavy lift vessels**

During the Reporting Period, the market for multi-purpose vessels and heavy-lift vessels maintained an overall low level, and the rent for Clarkson of 21,000 and multi-purpose vessels of 1.7 tons was USD10,542/day and USD8,858/day respectively, representing a year-on-year decrease of 1.7% and 1.5%. There were both increase and decrease in the market for major commodity sources: the export of steel of China decreased by 7.3% year-on-year in 2019; the export volume of mechanical equipment decreased by 2.9%, of which the engineering machinery and wind power equipment still maintained a good growth trend; the

completion of the contracted overseas projects decreased by 2.3% year-on-year, but the capability of Chinese enterprises to undertake large projects under the framework of "One Belt and One Road" continued to strengthen. During the year, the accumulated amount of new contracts for overseas projects increased by 7.6% year-on-year, and the import volume of paper pulp of China increased by 9.7% year-on-year.

The Company is the world's largest multi-purpose vessels operator in terms of the combined deadweight tons of multi-purpose vessels and heavy lift vessels (referred to the report of Dynama, a marine industry analyst in Holland, in May 2018). During the Reporting Period, the Company took the initiative to grasp the key points of management, continuously increased the service capability of the countries along the "One Belt and One Road", and actively responded to the new challenges arising from trade frictions between China and the United States and global industrial transfer. The Company continued to put more strength on its professional marketing in the industry, due to which its market share increased in timber, paper pulp and wind power equipment transportation; the Company set up its first overseas operating platform in Europe to promote the construction of third-country routes in the Atlantic Ocean and Southeast Asia and therefore improved its global operating capability; at the same time, the Company took project goods and basic goods as the core of its cargo sources, broke the wall of the navigation routes, actively developed the advantages of integration, optimized the layout of the tonnages, and effectively improved the freight rate. With various measures, the operating profit of multi-purpose ships and heavy lift ships increased by 25.93% year on year.

In 2019, the Company determined to strengthen the paper transportation business in tackling an industrial chain management, for which it reached to the distribution and warehousing of paper pulp, leading the development of the industry. During the Reporting Period, the Company took the delivery of 5 multi-purpose paper pulp newbuilts of 62,000 DWT, and 11 multi-purpose paper pulp vessels of 38,000 DWT, suitable for carrying paper pulp. The number of the Company's multi-purpose paper pulp fleet has reached 16 of nearly 730,000 DWT, ranking the third in the world.

As at the end of 2019, the Company had 35 multi-purpose vessels of 1,015,000 DWT, and 24 heavy-lift vessels of 639,300 DWT. In 2019, the Company's own and chartered-in multi-purpose vessels realized operating income of RMB2,926 million, representing a year-on-year increase of 0.55%, accounting for 38.10% of operating income from the Company's fleet, and realized operating profit of RMB-93 million. The Company realized a total operating income of RMB1,392 million from the heavy lift vessels, representing a year-on-year increase of 0.88%, accounting for 18.13% of the operating income of the ship

fleet, and realized a profit of RMB20 million from the heavy lift vessels, representing a year-on-year decrease of 64.13%.

## **(II) Semi-submersible vessels Business**

During the reporting period, international oil prices as a whole went upward, and offshore oil and gas exploration was further promoted. The oversupply of offshore engineering equipment eased with the growth of market demand. As at the end of 2019, the international utilization rate of drilling rigs reached 84%, representing an increase of approximately 7 percentage points from the beginning of the year. However, generally speaking, the marine engineering market is still recovering moderately. The upstream oil and gas exploration activities still have limited impact on the newly-established market. The semi-submersible vessels spot market is still facing the situation of insufficient supply and excess capacity.

The semi-submersible vessels business of the Company relied on advanced technology and excellent safety operation brands to further consolidate its leading position in the global market. The year 2019 is the peak year for the implementation of the TCO project in Kazakhstan. The project team carefully organized and led the subcontractor to successfully complete 36 voyages and 95 modules arrived safely, achieving a win-win effect with customers. The Company controlled the “transport + installation” market for marine engineering platforms, and completed the only floating submerged vessels installation project in the world during the year. During the reporting period, based on the project, the Company focused on shipbuilding, chartering and cooperation with other shipowners to effectively integrate market capacity. The Company carried out capacity cooperation with several shipowners and considered and approved the shipbuilding of the 50,000 DWT semi-submersible vessels project at the sixth meeting of the seventh board of directors, which further strengthened its market control. As at the end of 2019, the Company had 7 semi-submersible vessels with a total deadweight of 321,800 DWT. In 2019, the semi-submersible vessels of the Company achieved a total operating revenue of RMB1,997 million, representing a year-on-year increase of 31.18%, accounting for 26.01% of the operating revenue of the fleet; it achieved an operating profit of RMB283 million, representing a year-on-year decrease of 9.34%.

## **(III) Pure Car Carriers Business**

In 2019, with the slowdown of domestic economic growth, the overdraft demand for the national standard V vehicles, the gradual decline of subsidies for new energy vehicles and the decline of the desire for consumption of customers, the sale volume of automobile in China decreased by 8.2% year-on-year, of which new energy vehicles decreased by 2.3%, the first

decline since the introduction of the new energy vehicle industry in 2009. During the same period, the export of automobile enterprises in China decreased by 1.6% year-on-year.

During the Reporting Period, the Company deepened the domestic trade of the pure car carriers market, advanced the extended logistics services, reinforced the close cooperation with the customers and expended the capital cooperation of the automobile supply chain, successfully turning losses into gains in terms of the management efficiency. During the Reporting Period, the Company decommissioned 1 pure car carrier in total with a total deadweight of 11,700 DWT. By the end of the Reporting Period, the Company had 5 pure car carriers with a total deadweight of 68,000 DWT. In respect of the pure car carriers, the Company recorded operating revenue of RMB391,000,000 for 2019, representing a year-on-year increase of 13.67% and accounting for 5.10% of the operating revenue from the Company's fleet; the Company recorded profit from operations of RMB1,000,000.

#### **(IV) Lumber Carriers Business**

According to customs statistics, the imported timber in China represented a slight increase of 0.6% year-on-year for 2019 with a narrower growth rate as compared with last year. On the one hand, under the context of recession of the real estate market, market of building materials for home decoration which is closely related to the timber was adversely affected to some extent. On the other hand, strict environmental monitoring resulted in the reduction of the operating rates of the wood-working enterprises and the weak demand of the downstream market. Saved for the poor sales conditions, the lumber carriers market also faced the pressures from the policy restrictions of the countries producing the materials, the severity of the port congestion and others, together with the sluggish rise in the freight rates.

In 2019, the Company internally strengthened the integrated operation of the lumber carriers with other types of vessels; and the Company externally paid attention to the extension of the industry chain. It intensified the strength and depth of cooperation with shipowners and promoted the market to develop in an orderly manner. By the end of the Reporting Period, the Company had 11 lumber carriers with a total deadweight of 338,200 DWT. In respect of the lumber carriers, the Company recorded operating revenue of RMB521,000,000 for 2019, representing a year-on-year increase of 1.04% and accounting for 6.79% of the operating revenue from the Company's fleet; the Company recorded profit from operations of RMB-3,000,000.

#### **(V) Asphalt Carriers Business**

In recent years, the asphalt supply in China has been in surplus. The growth in the domestic road construction slowed down, the industrial operating rates remained low and the volume of

the imported asphalt supplied to China kept reducing. The imported volume of petroleum asphalt in aggregated represented a year-on-year decrease of 6.9% in China for 2019. There was no obvious improvement in asphalt carriers market with the vessels overpassing the goods. The major issue encountered currently was still the short in goods volume.

In 2019, the Company strengthened its basic supply of goods of the asphalt market, stood still in Asia-Pacific region, opened up the European market, developed new customers, continued to promote the structural adjustment of the fleet and increased the operating efficiency. During the Reporting Period, the Company decommissioned 1 asphalt carrier with a total deadweight of 10,800 tons. By the end of the Reporting Period, the Company had 16 asphalt carriers in total with a total deadweight of 118,900 tons. In respect of the asphalt carriers, the Company recorded operating revenue of RMB452,000,000 for 2019, representing a year-on-year increase of 13.74% and accounting for 5.88% of the operating revenue from the Company's fleet; the Company recorded profit from operations of RMB-126,000,000.

#### **IV. Main Operating Conditions during the Reporting Period**

The Company recorded operating revenue of RMB8,266,236,025.56 for 2019, representing a year-on-year increase of 9.06%. Due to the effect of the increased cost in fuel, the increased expenses in vessel chartering and other factors, operating cost represented a year-on-year increase of 9.30%. Fleet charter hire represented a year-on-year increase of 14.35%. The Company recorded net profits attributable to owners of the parent company of RMB100,928,932.07 for 2019, representing a year-on-year increase of 17.27%.

#### **(I) Analysis of principal businesses**

##### **1. Analysis of changes to related items in Income Statement and Cash Flow Statement**

	Unit: Yuan      Currency: RMB		
Items	Balance for the current period	Balance for the corresponding period last year	Change percentage (%)
Revenue from operations	8,266,236,025.56	7,579,318,633.61	9.06
Operating costs	7,062,365,719.79	6,461,613,133.75	9.30
Taxes and surcharges	36,507,940.51	25,837,798.97	41.30
Selling expenses	58,589,305.38	49,603,057.64	18.12
Administrative expenses	584,318,767.47	511,759,729.78	14.18
Research and development expenses	5,305,997.57	746,792.27	610.51
Finance costs	363,400,365.24	381,407,152.98	-4.72
Asset impairment loss	471,131,288.11	212,313,183.71	121.90
Credit impairment loss	44,066,992.70	0.00	N/A

Gains from changes in fair value	25,519,051.42	0.00	N/A
Investment income	651,772,624.04	152,080,517.61	328.57
Non-operating income	9,065,754.16	52,634,310.92	-82.78
Non-operating expenses	115,811,369.08	263,913.41	43,782.34
Income tax expenses	97,629,396.81	37,467,091.03	160.57
Net cash flow from operating activities	1,264,621,568.49	898,532,210.00	40.74
Net cash flow from investment activities	-1,109,977,071.99	-1,018,187,444.53	N/A
Net cash flow from financing activities	-377,432,739.33	-238,257,261.14	N/A

Explanation of changes in operating revenue: mainly due to the increase in the revenue from shipping businesses as a result of the continuous optimization of the cargo portfolio by the Company during the Reporting Period.

Explanation of changes in operating cost: mainly due to the corresponding increase in the chartering costs and other shipping costs as a result of the increase of vessels chartered-in for projects.

Explanation of changes in selling expenses: mainly due to the increase of marketing costs as a result of the increase of the scale of marketing.

Explanation of changes in administrative expenses: mainly due to the increase in the labour cost during the Reporting Period.

Explanation of changes in research and development expenses: mainly due to the increase in the expenses invested in for the research and development projects during the Reporting Period.

Explanation of changes in finance costs: mainly due to the year-on-year increase in the gains from foreign currency exchange as a result of the changes in the foreign currency exchange rate during the Reporting Period.

Explanation of changes in asset impairment loss: mainly due to the asset impairment provision for certain vessels during the Reporting Period.

Explanation of changes in credit impairment loss: mainly due to the expected credit loss of the receivables provision reflected in the items of the credit impairment loss as a result of the

first adoption of new financial instruments standards by the Company during the Reporting Period.

Explanation of changes in gains from changes in fair value: mainly due to the gains from changes in fair value of non-current financial assets recognised as a result of the first adoption of new financial instruments standards by the Company during the Reporting Period.

Explanation of changes in investment income: mainly due to the gains of RMB594 million from the equity disposal of the subsidiary recognised by COSCOGZ, the subsidiary, during the Reporting Period.

Explanation of changes in non-operating income: mainly due to the subsidy for the decommissioning and upgrading of vessels received by the Company in the same period of year 2018 while there was no such subsidy during the Reporting Period.

Explanation of changes in non-operating expenses: mainly due to the loss incurred from the disposal of the scrapped old vessels by the Company and the payment of compensation for early termination of the contract of the chartered-in vessels during the Reporting Period while there was no such expenses for the same period of year 2018.

Explanation of changes in income tax expenses: mainly due to the increase in the income tax expenses as a result of the disposal of the equity of Guangzhou COSCO SHIPPING Specialized Carriers Co., Ltd.

Explanation of changes in net cash flows from operating activities: mainly due to the year-on-year increase in the cash inflow from operating activities as a result of the increase in the income scale during the Reporting Period.

Explanation of changes in net cash flow from investment activities: mainly due to the year-on-year increase in the payment for the construction of vessels according to the progress of shipbuilding contracts during the Reporting Period.

Explanation of changes in net cash flow from financing activities: mainly due to the year-on-year increase in the repayment of the bank loans during the Reporting Period.

## 2. Analysis of Income and Cost

### (1) Breakdown of Main Business by Industry, Product and Region

Unit: Yuan      Currency: RMB

Breakdown of principal businesses by industry						
By industry	Revenue from operations	Operating cost	Gross profit margin (%)	Year-on-year increase/decrease in revenue from operations (%)	Year-on-year increase/decrease in operating cost (%)	Year-on-year increase/ decrease in gross profit margin (%)
Shipping business	7,679,055,751.64	6,730,502,559.05	12.35	8.63	8.75	Decreased by 0.10 percentage point
Non-shipping business	587,180,273.92	331,863,160.74	43.48	15.10	21.70	Decreased by 3.06 percentage point
Breakdown of principal businesses by product						
By product	Revenue from operations	Operating cost	Gross profit margin (%)	Year-on-year increase/ decrease in revenue from operations (%)	Year-on-year increase/ decrease in operating cost (%)	Year-on-year increase/ decrease in gross profit margin (%)
Multi-purpose vessels	2,925,592,991.20	2,629,860,903.11	10.11	0.55	-2.90	Increased by 3.19 percentage points
Heavy lift vessels	1,391,980,124.66	1,207,957,652.75	13.22	0.88	3.22	Decreased by 1.96 percentage points
Semi-submersible vessels	1,997,337,132.75	1,564,171,566.04	21.69	31.18	40.56	Decreased by 5.22 percentage points
Log carriers	521,230,796.96	502,014,912.01	3.69	1.04	6.21	Decreased by 4.69 percentage points
Asphalt carriers	451,527,048.90	516,780,678.96	-14.45	13.74	19.04	Decreased by 5.09 percentage points
Pure car carriers	391,387,657.17	309,716,846.18	20.87	13.67	6.60	Increased by 5.26 percentage points
Total	7,679,055,751.64	6,730,502,559.05	12.35	8.63	8.75	Decreased by 0.10 percentage point
Breakdown of principal businesses by region						
By region	Revenue from operations	Operating cost	Gross profit margin (%)	Year-on-year increase/decrease in revenue from operations (%)	Year-on-year increase/decrease in operating cost (%)	Year-on-year increase/decrease in gross profit margin (%)
Import shipping	1,761,778,538.30	1,782,066,054.98	-1.15	-12.44	-10.59	Decreased by 2.09 percentage points
Export shipping	2,499,148,998.16	2,032,442,092.82	18.67	-6.23	-4.23	Decreased by 1.70 percentage points
Coastal shipping	433,813,498.28	390,609,262.99	9.96	-7.22	-16.02	Increased by 9.44 percentage points
Third country shipping	2,984,314,716.90	2,525,385,148.25	15.38	55.07	57.01	Decreased by 1.04 percentage points
Total	7,679,055,751.64	6,730,502,559.05	12.35	8.63	8.75	Decreased by 0.10 percentage point



Vessel types	Time charter in 2019 (dollars/operating days)	Time charter in 2018 (dollars/operating days)	Increase/decrease in time charter as compared with the corresponding period of last year (%)
Multi-purpose vessels	9,784.17	9,398.03	4.11
Heavy lift vessels	11,210.31	11,430.26	- 1.92
semi-submersible vessels	33,326.80	34,698.94	- 3.95
Lumber carriers	8,144.05	9,126.90	- 10.77
Asphalt carriers	4,992.82	6,561.24	- 23.90
Pure car carriers	11,839.14	10,650.73	11.16
Total	12,528.95	10,956.33	14.35

Note1: Multi-purpose vessels in the above table include the chartered-in general cargo vessels and pure car carriers include the chartered-in Roll-on Roll-off vessels;

Note2: Statistics in the above table exclude the relevant statistics of shipping space charter.

## (2) Analysis of costs

Unit: Yuan

By industry							
By industry	Costs component	Amount for the current period	Proportion of the amount for the current period to the total costs (%)	Amount for the same period in the previous year	Proportion of the amount for the corresponding period of last year to the total costs (%)	Percentage change in the amount for the current period as compared to that for the corresponding period of last year (%)	Explanation
Shipping businesses	Fuel	1,783,928,421.31	25.26	1,722,008,171.80	26.65	3.60	Due to an increase in cost of the fuel as a result of the increase in the price of the fuel
	Port charge	1,249,718,767.20	17.70	1,285,207,544.07	19.89	-2.76	Due to a decrease in cost of goods as a result of the decrease in volume of freight
	Crew cost	869,282,646.93	12.31	852,987,613.53	13.20	1.91	Due to an increase in crew cost as a result of the increase in the average numbers of vessel
	Depreciation cost	841,616,039.67	11.92	838,459,479.74	12.98	0.38	Due to the newly-built vessels being put into

							operation
	Vessel chartering cost	940,207,063.17	13.31	747,315,073.35	11.57	25.81	Due to an increase chartered-in vessels for projects

**(II) Analysis of assets and liabilities**

√Applicable    □Not Applicable

Unit: Yuan

Items	Amount at the end of the current period	Proportion of the amount at the end of the current period with respect to the total assets (%)	Amount at the end of the previous period	Proportion of the amount at the end of the previous period with respect to the total assets (%)	Percentage change in the amount at the end of the current period as compared to that at the end of the previous period (%)	Explanation
Accounts receivable	967,691,260.34	4.35	715,947,445.33	3.30	35.16	Due to an increase in freight charges not yet due at the end of the Reporting Period
Other receivables	161,826,802.54	0.73	82,426,553.36	0.38	96.33	Due to the refund of the shipyard berth contracts receivable at the end of the Reporting Period
Assets held for sale	0.00	0.00	24,678,679.32	0.11	100.00	Due to no assets held for sale at the end of the Reporting Period
Long-term equity investments	1,530,979,947.87	6.88	777,945,033.93	3.59	96.80	Due to the purchase of stakes in the construction industry by the evaluation of value-added capital increase of the equity in Guangzhou Specialized Carrier during the Reporting Period
Investments in other equity instruments	0.00	0.00	31,354,075.00	0.14	100.00	Due to a decrease in the fair value of the equity in Guangdong Heavy Industry during the Reporting Period
Construction in progress	428,140,598.50	1.92	307,375,828.56	1.42	39.29	Due to an increase in the amounts of vessels under construction at the end of the Reporting Period
Long-term deferred expenses	19,609,813.45	0.09	29,913,303.87	0.14	-34.44	Due to a decrease in net value due to the expense amortization during the Reporting Period
Deferred tax assets	139,626,893.89	0.63	56,568,475.25	0.26	146.83	Due to the recognition of the corresponding deferred income tax assets to the impairment provision of vessel assets at the end of the Reporting Period

Funds received in advance	187,310,732.37	0.84	120,277,133.88	0.55	55.73	Due to an increase in freight charges for uncompleted flights received in advance at the end of the Reporting Period
Staff remuneration payable	311,596,688.60	1.40	208,632,890.60	0.96	49.35	Due to an increase in deferred performance salary of accrual at the end of the Reporting Period
Taxes payable	52,282,781.32	0.23	17,755,718.34	0.08	194.46	Due to an increase in enterprise income tax and value-added tax payable at the end of the Reporting Period
Other payables	464,922,982.06	2.09	274,002,867.21	1.26	69.68	Due to an increase in newly-added borrowed funds between companies during the Reporting Period
Long-term payables	165,169,963.41	0.74	9,573,706.00	0.04	1,625.65	Due to the newly-added finance lease for vessels during the Reporting Period

## V. Discussion and Analysis of the Company on the Future Development of the Company

### (I) Industry Layout and Trend

Applicable  Not Applicable

Entering 2020, the outbreak of novel coronavirus has become the largest "black swan" event in the beginning of the year, exerting more downward pressure on the global economy in a fragile recovery. It is a foregone conclusion that global GDP growth will decline in 2020. The superimposed factors of the traditional off-season and the novel coronavirus epidemic have brought negative impacts on the economy, trade, transportation and production, resulting in insufficient demand for the shipping industry, which has further intensified the pressure on various shipping market segments. However, it is believed that with the concerted efforts of all parties, the negative impact of the epidemic on the world economy will be phased, and the active policies of all countries will gradually improve the economy. As the second largest economy in the world, the fundamentals of the upward trend and high-quality growth in the long run of Chinese economy have not changed. The current domestic epidemic prevention and control are actively improving and promising. With the full resumption of work and production, the national economy is gradually stabilizing, and the combination of the endogenous resilience and counter-cyclical macro policies of Chinese economy will support and guarantee the return of Chinese economy to its normal track of operation. The overall performance of the shipping market throughout the year first went low and then surged. The market segments of special-purpose vessels have suffered a

certain impact in the short term, but there is no shortage of structural opportunities in the crisis, and the medium and long-term development prospects are still promising.

## **1. The market pressure on the multi-purpose and heavy lift vessels market has increased but there is no shortage of structural opportunities**

The sudden outbreak of novel coronavirus pneumonia at the beginning of the year made the multi-purpose and heavy lift vessels market in the traditional off-season during the Spring Festival more and more deserted. China's import and export trade fell sharply from January to February. Many provinces and cities are facing lengthy shutdowns, resulting in reduced export volume, delayed shipments of some project goods, and sluggish spot market. If the global epidemic reaches an inflection point in the middle of the year, the negative impact on the multi-purpose and heavy lift vessels market will be concentrated in the first and second quarters. In the second half of the year, the global economy and shipping production and operation are expected to gradually stabilize and recover, which will bring certain opportunities to the multi-purpose and heavy lift vessels market. To be specific: firstly, the substantial reduction of new shipping capacity will ease market pressure to a certain extent. At present, new ship orders account for only 2% of the current shipping capacity, which is at a low level. In addition, the new ship delivery plan may be further delayed because of postponed resumption of work due to epidemic prevention and control; secondly, the international exchange and cooperation under the framework of the "Belt and Road" will be further strengthened, which will vigorously promote bilateral trade exchanges between countries along the Belt and Road, and the construction of integration and interconnection of regional infrastructures is also expected to drive the development of China's overseas contracting business; thirdly, the strong growth of clean energy will support the transportation demand of related equipment. From 2019 to 2023, the newly installed capacity of global wind power will reach 330GW. The International Energy Agency predicts that nuclear power will account for 14% of global total power generation by 2040.

## **2. Semi-submersible vessels market is facing low oil price pressure**

Under the impact of multiple negative factors, international oil prices have plummeted successively since March 2020, with WTI and Brent crude oil both fell below \$25/barrel. Affected by the sharp decline in oil prices, oil companies will cut capital expenditures, projects have shown signs of postponement, new project negotiations have also encountered resistance, offshore equipment operators have delayed the pick-up of ships, and the semi-submersible vessels market is facing downward pressure on oil prices in the short term. Rystad Energy predicts that the epidemic may result in a reduction in global investment in exploration and production of approximately US \$ 30 billion by 2020. In the short term, the semi-submersible vessels market has been affected by the epidemic and oil prices.

The trend of the semi-submersible vessels market is promising for a long term and will not change. It is expected that the growth rate of the transport capacity of semi-submersible vessels will decrease by 2% -3% in the next few years as the withdrawal of old ships from the market and the reduce of the new construction size. IHS anticipates that the complex annual growth rate of global oil and gas exploration and investment will reach 5.9% during 2019 to 2023, and the market size will maintain a recovery trend. The market size of global oil services is expected to recover to the 2015 level (USD310,000 - 330,000 million). Along with the development of marine oil gas into deep water, the scale of marine engineering is expected to be further expanded. In addition, there is also a big business opportunity in the market of scrap platforms removing. From 2018 to 2022, about 700 oil fields in the world will be shut down, with an average of 140 oil fields to be shut down per annum and the total disposal fee is expected to reach USD38.6 billion, which is expected to drive the transport demand for semi-submersible vessels.

### **3. The lumber carriers market is mainly under the phase of restoration**

At present, the outbreak of novel coronavirus pneumonia affects the import of China's timber to a certain extent. New Zealand's timber exporters have started to reduce the harvesting rate, but it is expected that this suspension of trade is staged. Currently, China and the traditional timber market in Oceania and Africa are not the focus of the epidemic areas. As the situation has been effectively controlled, the restrictions on timber trade in the countries concerned will be lifted. China's timber demand is expected to rise again from a low level as the downstream industry of construction and home decoration resumes its normal production.

It is expected that the lumber carriers market will be mainly under the phase of restoration in 2020. According to the prediction of Clarksons, the global seaborne trade volume of forest products will reach 391 million tons in 2020, representing an increase of 2% as compared to 2019. From the domestic perspective, the downward pressure on the national economy will increase in 2020. The Central Economic Work will adhere to the position of "housing is for accommodation instead of speculation". The decline trend of real estate market is adverse to the decoration and furniture industry, and will further affect the demand for timber and other raw materials. However, taking into account factors such as urbanization development, living consumption of residents, lack of forest resources, and implementation of natural forest conservation projects, the trend of China in terms of importation of timber will not change in the long run. Due to the operation of the policy in banning the exportation of timber in many African countries, and the forest plantation in Oceania is matured, the timber markets in Australia and New Zealand are expected to become a bright spot of growth in the future.

#### **4. Downward pressure in pure car carriers market is rising**

Since the outbreak of COVID-19 pandemic, the supply end had been restrained following the suspension of production at home and abroad given the consumers were restricted in travelling which lead to the significant suppression of the demand for car, coupled with the length and the wide range of the global automobile industry chain. China Association of Automobile Manufactures forecasted a 25% decrease in domestic automobile production and sales in the first half of 2020, and a positive growth might be impossible for the whole year. Clarksons estimated that the global automobile shipping volume for 2020 would record a decrease of 5%. It's estimated that the downward pressure in auto market for 2020 would be relatively large as a whole, however, domestic trade market would be generally better than foreign one.

In the long term, Chinese auto industry tends to be positive in the future. As the national economy grows stably and the living standard of the residents improves, a rigid demand for car consuming in China will exist in the long run. The advantages of affordability and security of water transportation have been recognized by auto manufacturers. In the future, a “shipping + large scale dispatching center” model will be developed. In light of that, the proportion of roll-roll shipment volume will further increase. In term of foreign trade, on one hand, China has officially initialed second-hand car export. It's expected that the number of second-hand cars demanded in some major targeted markets such as Africa, Southeastern Asia, Russia, South America and Middle East might amount to US\$100 billion. In particular, “The Belt and Road” countries are expected to be important importers of second-hand cars from China. On the other hand, the quality, performance and international competitiveness of new energy vehicles which are manufactured in China are improving, and new energy vehicles are expected to be a new force to drive the export of automobiles in the future.

#### **5. Asphalt carriers market is expected to recover gradually**

After the Spring Festival, road constructions were postponed. Transportation and end demand were affected greatly, and the trading market was generally thin. Given the strengthening of anti-pandemic measures in ports impacted the working efficiency, which delayed shipping schedule and transportation plans, together with the sharp decrease of international oil price and the wait-and-see mood among traders, Chinese asphalt trading market faces pressure, showing a downward trend.

However, as the impacts of the pandemic are weakening and refineries are shifting to develop low-sulfur ship-use fuel oil, the supply of asphalt will be somewhat tight. In term of demand, under the guidance of “Outline for the Construction of a Strong Transportation Network”,

China targets to complete its transportation construction task which is an integral part of its decisive victory on constructing a moderately prosperous society by 2020 and various tasks under the “13th Five-Year Plan for Developing the Modern Integrated Transportation System”. It’s expected “crashing” for road construction will support the demand for asphalt to a certain extent in China and promote import trading. In the international market, as one kind of infrastructure construction material, asphalt will benefit from the rapid development of global infrastructure construction. In particular, “The Belt and Road” countries may have great potential demand for asphalt. The asphalt market in the second half is expected to be better than that in the first in 2020.

## **(II) Development Strategy of the Company**

Applicable Not Applicable

COSCO SHIPPING Specialized Carriers adheres to the development strategy featured in “specialized” and constantly enhances its core competitiveness, thereby establishing and maintaining the global leading position of the specialized carriers segment market.

Firstly, to build the exclusive advantages and win the first chance in the competitiveness. With the particular technological strength of the Company, the safest and most effective solution for loading and unloading as well as transportation will be offered to customers so as to get rid of the competitiveness in low standard and set up the industrial threshold, and further to continuously strengthen the brand image and intensify the customer viscosity, consequently building the comprehensive strength that is insuperable for the competitors.

Secondly, to take the advantages of scale and improve the market power. The priority of the future development shall be given to the segment market with extensive market capacity and promising development prospect. The adjustment and optimization of the fleet structure will keep on promoting and the fleet will develop in multiple ways of comprehensive application of construction, purchase, vessel leasing, associates and others, achieving a global leading in terms of the scale and a dominant market power in terms of the business. Meanwhile, in order to lock-in the profits and control the risk, the principle of “vessel built with projects” will be carried on for offering the customized vessels for major customers, major projects and major COA contracts.

Thirdly, to keep on innovating and forging ahead and lead the industrial development of the specialized carriers. In respect of the marketing, business mode, customer services and other factors, the Company will put forward new solutions by proactively expanding its mind and utilizing the emerging technologies, instruments and thoughts, thus maintaining the cutting-edge position in the field of specialized carriers.



Fourthly, to promote the upgrading of the services and expand the development space. Back to its own works in the services of shipping industry and upholding the idea of “customer-oriented and market-guided”, it will constantly improve its technological strength, develop the service field, intensify the operating capability of industry chain and enhance the all-round service standard in accordance with the personalized demand of the customers, finally achieving the full industrial chain services offered to customers and maximizing the enterprise value through the improvement of the customer value.

Aiming at “win the market, win the changes and win the era”, the Company will capture the opportunities and accelerate the development, focus on “high quality development, breakthrough development and integrated development” and continue to make every effort to build itself a world class specialized carrier company with global competitiveness.

#### **VI. CAUSES OF SUSPENSION OF LISTING**

Applicable       not applicable

#### **VII. STATUSES AND CAUSES OF TERMINATION OF LISTING**

Applicable       not applicable

#### **VIII. COMPANY’S ANALYSIS ON THE CAUSE AND IMPACT OF CHANGES OF ACCOUNTING POLICIES AND ACCOUNTING ESTIMATION**

Applicable       not applicable

Changes in accounting policies due to the implementation of new financial instrument standards

In 2017, the Ministry of Finance promulgated four new financial instrument accounting standards, including revised Accounting Standards for Business Enterprises (“ASBE”) No. 22 — Recognition and Measurement of Financial Instruments (2017 revision) (Cai Kuai [2017] No. 7), ASBE No. 23 — Transfer of Financial Assets (2017 revision) (Cai Kuai [2017] No. 8), ASBE No. 24 — Hedge Accounting (2017 revision) (Cai Kuai [2017] No. 9) and ASBE No. 37 — Presentation of Financial Instruments (2017 revision) (Cai Kuai [2017] No.14), requiring that companies that are listed on domestic to apply four new financial instrument accounting standards since 1 January 2019. As considered and approved at the fourth meeting of the seventh session of the board of directors of the Company, the Company will implement the above corporate accounting standards since 1 January 2019, and make adjustments to the relevant content of accounting policies.

Since 1 January 2019, the equity investment originally listed as financial asset available-for-sale project on the balance sheet will be adjusted to other equity instruments investments on the balance sheet according to different holding purposes, and designated as financial assets at fair value through other comprehensive income; or be adjusted to other non-current financial assets project on the balance sheet, and designated as financial assets at fair value through profit or loss. The affected items in the report are specifically as following:

Affected items in statement	31 December 2018	1 January 2019	Affected amount (Yuan)
Available-for-sale financial assets	348,012,875.00	0.00	- 348,012,875.00
Other equity instrument investments	0.00	31,354,075.00	31,354,075.00
Other non-current financial assets	0.00	316,658,800.00	316,658,800.00

#### (II) Change in accounting estimates

The estimated net residual value of vessel assets of the Company is recognized as estimated steel scrap price. As approved at the fifth meeting of the seven<sup>th</sup> Session of the Board of the Company, in order to reflect the estimated residual value of the fixed assets of vessels more objectively, the Board agreed to change the estimated net residual value of the Company's own vessels from US\$330 to US\$366 per LDT based on the changes in market. Such change in accounting estimates is applied prospectively, with effect from 1 January 2019.

As a result of the change in accounting estimates, the depreciation charges of the Company for 2019 are reduced by RMB28,320,900, while net profit attributable to the owner of parent company for 2019 increased by RMB22,426,400 accordingly.

#### **IX. Analysis and Explanation for Reasons and Impact of Rectifying Major Accounting Errors by the Company**

Applicable Not Applicable

#### **X. The Company Shall Give Specific Explanation for the Changes of the Scope for Consolidating of Financial Statements Compared with the Financial Report for the Previous Year**

Applicable Not Applicable

The consolidation scope of the Company's Consolidated Financial Statements is determined on the basis of control, including the financial statements of the Company and those of all of its subsidiaries. A subsidiary is an enterprise or entity that is controlled by the Company. During 2019, the number of subsidiaries which were consolidated into the accounts of the

Company totaled 5, as detailed in “Note 6. The changes of consolidation scope”, “Note 7. Interests in other entities”.