Ride the wind, step forward and develop gradually

# COSCO International Holdings Limited

Annual Report 2009

Stock Code: 00517

Marine Insurance
Brokerage Services

Ship Trading Agency
Services

Supply of Marine
Equipment and
Spare Parts

Production and
Sale of Coatings

Trading and
Supply of Marine Fuel
and Related Products

Despite the difficulties and challenges pertaining to the global financial crisis and the volatile and complicated domestic and international operating environment in 2009, the management team and all employees of COSCO International united together to steadfastly steer through the storm. Apart from dedicating our efforts to enhancing profitability, we also expanded into new businesses and explored new markets, with the aim of paving the way for future development. Under the joint efforts of all associates, we achieved satisfactory operating results and made breakthroughs in business expansion.

# Contents



# Financial Highlights

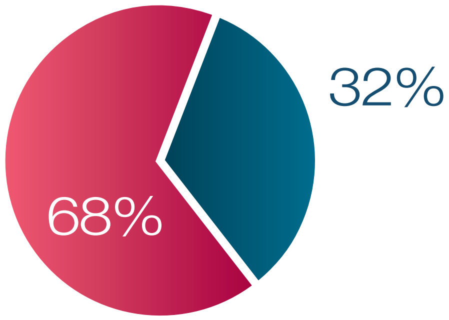
| | 2009 HK$'000 | 2008 HK$'000 | % Change |
|---|---|---|---|
| **ANNUAL RESULTS HIGHLIGHTS** | | | |
| **For the year ended 31st December** | | | |
| Revenue | **1,630,055** | 2,100,937 | -22% |
| Gross profit | **422,984** | 635,401 | -33% |
| EBITDA | **634,790** | 607,177 | 5% |
| Operating profit | **186,831** | 203,763 | -8% |
| Profit before income tax | **904,983** | 582,533 | 55% |
| Profit attributable to the equity holders | **843,675** | 491,015 | 72% |
| Profit attributable to the equity holders, excluding profit contribution from SOLHL and net gains on deemed disposal of partial interest in SOLHL | **243,907** | 171,831 | 42% |
| Basic earnings per share (HK cents) | **56.25** | 33.18 | 70% |
| Dividends per share (HK cents) | **9.40** | 7.40 | 27% |

| | 2009 | 2008 |
|---|---|---|
| **KEY FINANCIAL RATIOS** | | |
| **For the year ended and as at 31st December** | | |
| Gross profit margin | **25.9%** | 30.2% |
| Interest coverage | **78.7 times** | 39.8 times |
| Current ratio | **2.4 times** | 1.9 times |
| Liquidity ratio | **2.0 times** | 1.6 times |
| Total liabilities/total assets | **11.9%** | 20.3% |
| Total borrowings/total assets | **0.2%** | 4.4% |

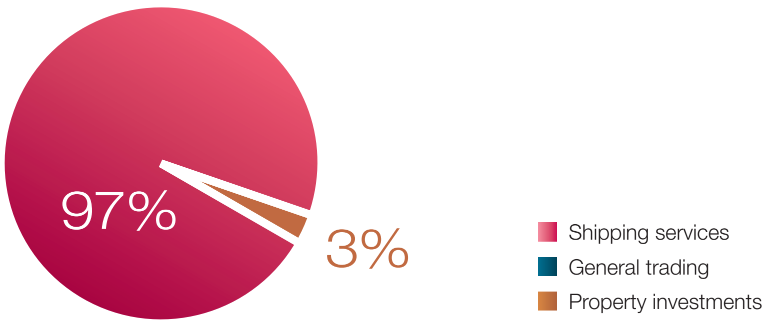
| | 2009 HK$'000 | 2008 HK$'000 | % Change |
|---|---|---|---|
| **SEGMENT REVENUE** | | | |
| **For the year ended 31st December** | | | |
| Sale of coatings | **399,971** | 1,381,076 | -71% |
| Sale of marine equipment and spare parts | **444,334** | 454,646 | -2% |
| Commission income from ship trading agency | **151,564** | 130,700 | 16% |
| Commission income from insurance brokerage | **67,140** | 65,682 | 2% |
| Sale of marine fuel and other products | **45,565** | - | - |
| Sale of asphalt and other products | **515,340** | - | - |
| Sale of properties | **4,997** | 66,353 | -92% |
| Rental income | **1,144** | 2,480 | -54% |
| **TOTAL** | **1,630,055** | 2,100,937 | -22% |

## REVENUE BY SEGMENTS

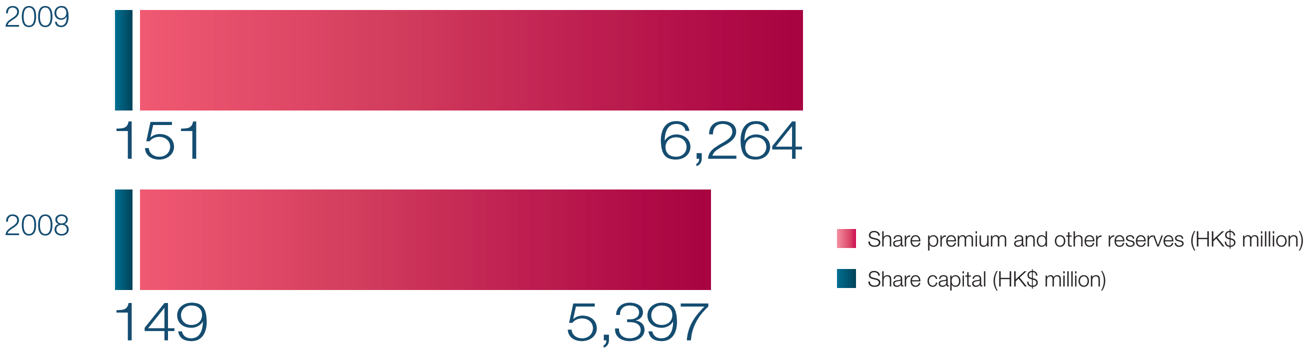
2009




2008



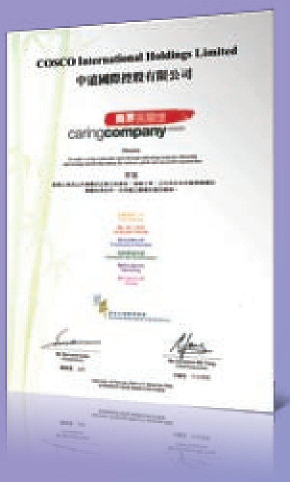

## SHAREHOLDERS' FUNDS



# Highlights of the Year

## 10th FEBRUARY

COSCO International was awarded the Caring Company Logo 2008/09 by The Hong Kong Council of Social Service in recognition of its active participation in social services and commitment of being a good corporate citizen in the past year.




## 3rd MARCH

COSCO International announced the acquisition of 18% of the issued share capital of Double Rich Limited for a cash consideration of US$4,905,484 in order to expand its business into trading and supply of marine fuel and related products.

## 14th MARCH

COSCO International was awarded the Top Five in 2009 IR Global Rankings - Financial Disclosure Procedures in the Greater China Region.


## 27th MARCH

Press conference and analyst presentation meeting for 2008 annual results were held in Hong Kong.

## 21st APRIL

A special general meeting was held in Hong Kong regarding the acquisition of 18% issued share capital of Double Rich Limited and all resolutions were passed.

## 2nd JUNE

2009 Annual General Meeting was held in Hong Kong and all resolutions were passed.

## 18th DECEMBER

COSCO International's revamped website won the Bronze Award for "Redesign/ Relaunch: Stakeholders Communications" in the 9th International iNOVA Award Competition.


## 11th DECEMBER

Mr. Wang Xiaodong was appointed as the Managing Director of the Company. Mr. Liang Yanfeng resigned as Managing Director but remained as Executive Director of the Company on the same day.

SINFENG

## 18th NOVEMBER

COSCO International expanded its trading and supply of marine fuel and related products into overseas market through the incorporation of a wholly-owned subsidiary, Sinfeng Marine Services Pte. Ltd., in Singapore.

# 2009

## 1st NOVEMBER

COSCO International donated a sum of about HK$170,000 to sponsor and support its staff to participate in the event of Sowers Action Challenging 12 Hours Charity Marathon 2009, which raised funds to support the education in rural area of China Mainland.


## 17th SEPTEMBER


COSCO International's 2008 Annual Report was awarded the Silver Award for "Interior Design", the Bronze Award for "Financial Data", the Bronze Award for "Cover Photo/Design", the Bronze Award for "Printing & Production", in the shipping services category of the 23rd International ARC Awards Competition.

## 2nd SEPTEMBER

Press conference and analyst presentation meeting for 2009 interim results were held in Hong Kong.

# Company Information

## DIRECTORS

### Executive Directors

Mr. Zhang Fusheng *(Chairman)*
Mr. Wang Futian *(Vice Chairman)*
Mr. Liang Yanfeng
Mr. Wang Xiaoming
Mr. Wang Xiaodong *(Managing Director)*
Mr. Lin Wenjin

### Non-executive Directors

Mr. Li Jianhong
Mr. Jia Lianjun
Mr. Meng Qinghui
Mr. Chen Xuewen

### Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.

## COMPANY SECRETARY

Ms. Chiu Shui Suet

## QUALIFIED ACCOUNTANT

Mr. Lo Siu Leung, Tony

## AUDIT COMMITTEE

Mr. Kwong Che Keung, Gordon *(Committee Chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.

## EXECUTIVE COMMITTEE

Mr. Wang Xiaodong *(Committee Chairman)*
Mr. Wang Futian
Mr. Liang Yanfeng
Mr. Wang Xiaoming
Mr. Lin Wenjin

## INVESTMENT COMMITTEE

Mr. Wang Xiaoming *(Committee Chairman)*
Mr. Wang Futian
Mr. Liang Yanfeng
Mr. Wang Xiaodong
Mr. Lin Wenjin

## NOMINATION COMMITTEE

Mr. Tsui Yiu Wa, Alec *(Committee Chairman)*
Mr. Kwong Che Keung, Gordon
Mr. Jiang, Simon X.
Mr. Liang Yanfeng

## REMUNERATION COMMITTEE

Mr. Jiang, Simon X. *(Committee Chairman)*
Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec
Mr. Liang Yanfeng
Mr. Lin Wenjin

## RISK MANAGEMENT COMMITTEE

Mr. Liang Yanfeng *(Committee Chairman)*
Mr. Wang Futian
Mr. Wang Xiaoming
Mr. Wang Xiaodong

## INDEPENDENT AUDITOR

PricewaterhouseCoopers

## LEGAL ADVISERS

Woo Kwan Lee & Lo
Sit, Fung, Kwong & Shum
Conyers Dill & Pearman

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Company Limited
China Merchants Bank Company Limited
Industrial and Commercial Bank of China (Asia) Limited
Mizuho Corporate Bank, Limited
The Hongkong and Shanghai Banking Corporation Limited

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

## LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Ordinary share (Stock code: 00517)

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## PRINCIPAL PLACE OF BUSINESS

47th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

## INVESTOR RELATIONS

Telephone : (852) 2809 7888
Facsimile : (852) 8169 0678
Website : www.coscointl.com
E-mail : info@coscointl.com

## FINANCIAL CALENDAR

2009 Annual General Meeting : 2nd June 2009
Announcement of 2009 Interim Results : 2nd September 2009
Announcement of 2009 Annual Results : 23rd March 2010
2010 Annual General Meeting : 1st June 2010

## DIVIDENDS

| | |
|---|---|
| 2009 Interim Dividend | : 1.00 HK cent per share |
| Proposed 2009 Final Dividend | : 8.40 HK cents per share |
| Total Dividends for 2009 | : 9.40 HK cents per share |

# Corporate Profile

COSCO International Holdings Limited ("COSCO International" or the "Company") and its subsidiaries (the "Group") are principally engaged in the provision of shipping services. Other business operations are general trading and property investments.

The shares of COSCO International have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since February 1992 under the stock code of 00517. The Company has become a subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") since July 1997 which in turn is a wholly-owned subsidiary of 中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company) ("COSCO"). COSCO and its subsidiaries ("COSCO Group") is a diversified and multinational conglomerate focusing mainly on shipping, logistics and shipbuilding and ship repairing businesses with a leading position in the world. COSCO Group is engaged in the provision of quality services in shipping, logistics and shipbuilding and ship repairing, as well as other ship related businesses globally.

COSCO International has positioned shipping services as its core business. The Company has laid a platform of shipping services comprising ship trading agency, marine insurance brokerage, supply of marine equipment and spare parts, production and sale of coatings as well as trading and supply of marine fuel and related products, which grounded a solid foundation for future growth.

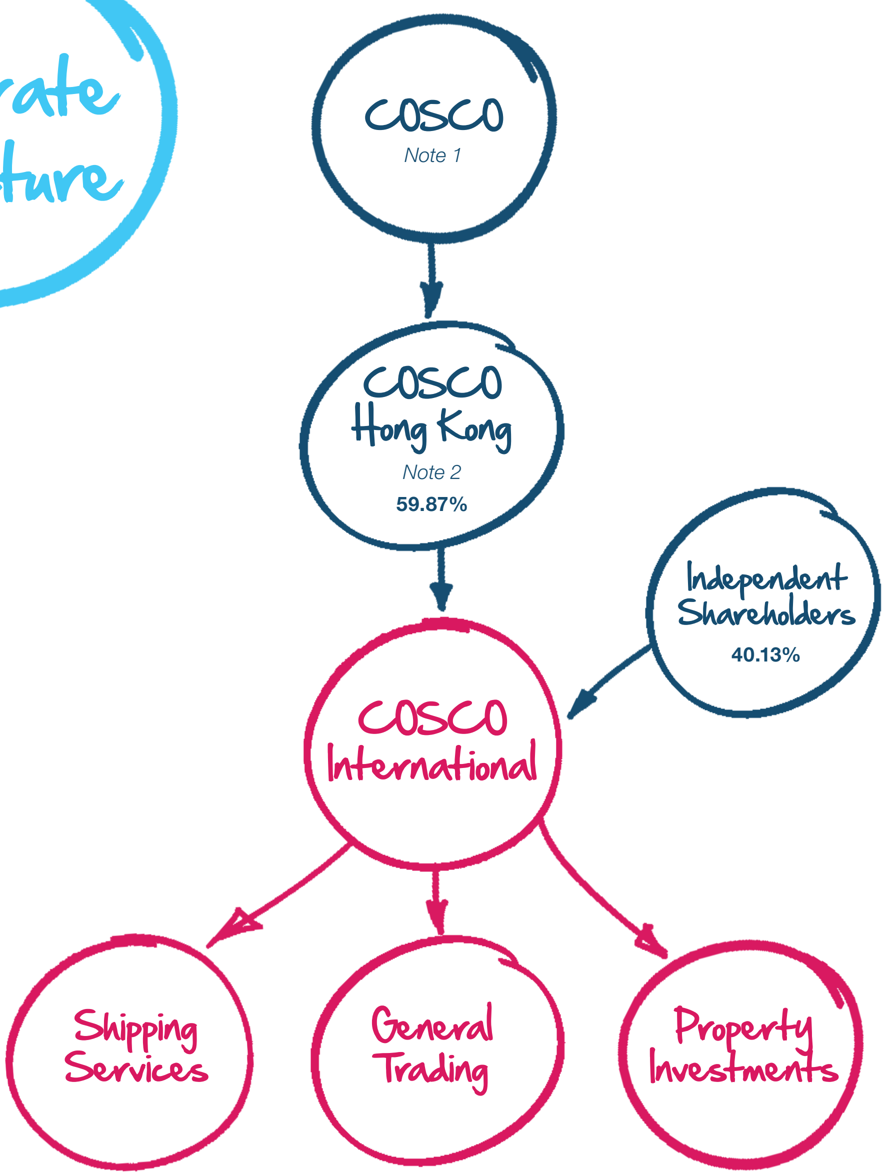
## Vision

COSCO International's vision is to provide quality and professional services for fleets in China and worldwide, through the establishment of a comprehensive, safe, reliable and efficient shipping services supply platform. Our aim is to become a specialised, unique and leading shipping services provider.

## Mission

By virtue of the support of COSCO Group and leveraging on its substantial resources, COSCO International's mission is to maximise its shareholders' returns. By securing trustworthy and harmonious relationships with its customers, business partners and employees, COSCO International will pursue sustainable growth and maintain its leading position in the shipping services industry.

# Corporate Structure




**Shipping Services**

**Ship Trading Agency Services**
- COSCO International Ship Trading Company Limited ("COSCO Ship Trading") **100%**

**Marine Insurance Brokerage Services**
- COSCO (Hong Kong) Insurance Brokers Limited ("HK COSCO Insurance Brokers") **100%**

**Supply of Marine Equipment and Spare Parts**
- Yuantong Marine Service Co. Limited ("Yuantong") **100%**

**Production and Sale of Coatings**
- 中遠關西塗料化工（珠海）有限公司 COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd. ("COSCO Kansai (Zhuhai)") **64.71%**
- 中遠關西塗料化工（天津）有限公司 COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. ("COSCO Kansai (Tianjin)") **63.07%**
- 中遠關西塗料化工（上海）有限公司 COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd. ("COSCO Kansai (Shanghai)") **63.07%**
- Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO") **50%**

**Trading and Supply of Marine Fuel and Related Products**
- Sinfeng Marine Services Pte. Ltd. ("Sinfeng") **100%** *Note 3*
- Double Rich Limited ("Double Rich") **18%** *Note 4*

**General Trading**
- 中遠國際貿易有限公司 COSCO International Trading Company Limited ("CITC") **100%**

**Property Investments**
- Sino-Ocean Land Holdings Limited ("SOLHL") **16.85%**

*Note 1*

*COSCO is the ultimate holding company of COSCO International. It operates a fleet of about 800 modern commercial vessels with a total carrying capacity of about 50,000,000 dead weight tonnages.*

*Note 2*

*COSCO International is a subsidiary of COSCO Hong Kong. COSCO Hong Kong is an important overseas regional headquarters and conglomerate of COSCO Group which operates and manages a few hundred subsidiaries in Hong Kong and Macau. The main business aspects of COSCO Hong Kong include shipping services, information technology, property development and property management, etc.*

*Note 3*

*On 18th November 2009, Sinfeng was established by the Group to carry out the business of providing marine fuel supply, trading of marine fuel and related products and broker services.*

*Note 4*

*On 3rd March 2009, a wholly-owned subsidiary of the Company, New Renown Limited entered into a share transfer agreement with COSCO Trading and Supply Investments Limited in relation to the acquisition of 18% interests in Double Rich.*

# Chairman's Statement

## OVERALL RESULTS AND BUSINESS EXPLORATION

The Group's profit attributable to the equity holders reached HK$843,675,000, an increase of 72% over 2008. Excluding the net gains on deemed disposal of its partial interest in SOLHL arising from issue of new shares by SOLHL and profit contribution from SOLHL, profit attributable to equity holders increased by 42% year-on-year to HK$243,907,000. Basic earnings per share were 56.25 HK cents, up 70% as compared with 2008. The Group's total revenue for the year was HK$1,630,055,000. In appreciation of the shareholders' continued support, the board of the Company (the "Board") proposed a final dividend of 8.40 HK cents per share for 2009. Together with the interim dividend of 1.00 HK cent per share, total dividends for 2009 was 9.40 HK cents per share, an increase of 27% as compared with 2008.

As to its business exploration and development, the Group was determined in focusing on its strategic development positioning in shipping services. The year 2009 was a year full of challenges. However, the Group captured the "opportunities" arising from the "crisis" and successfully expanded into the trading and supply of marine fuel and related products business. During the year, it completed the acquisition of 18% equity interest in Double Rich and established Sinfeng in Singapore. These two investments will give fresh impetus to its

The Group experienced its toughest year of operations in 2009 under the impacts of the financial crisis and the decline in global economy. Nevertheless, the management worked cohesively together with the entire workforce and successfully overcame various difficulties. In the face of the difficulties and challenges pertaining to the global financial crisis and the volatile and complicated domestic and international operating environment, the management team and all employees of COSCO International united together and rode out the storm by enhancing efforts in risk control and striving for profits. More importantly, the Group has actively explored new businesses, new markets and new customers and these endeavors paved a way for its future growth. With the joint efforts of all associates, the Group achieved satisfactory results and made breakthroughs in business expansion.

sustained development that open up a new realm of the Group's shipping services business and help drive the development of the Group's businesses. Such businesses are expected to make considerable contributions to the revenue and profit of the Group.

## CORPORATE GOVERNANCE AND RISK CONTROL

Effective corporate governance is essential for the Group's sustainable, steady, healthy, effective and transparent operation and development. Not only will it increase the overall corporate value of the Group, but will also enhance the Group's attractiveness to investors and protect the interests of its shareholders and stakeholders as well as increase their investment values. In order to enhance its corporate governance, the Group strictly adheres to relevant laws and regulations and regularly reviews and enhances its corporate governance practices and information disclosure. Moreover, it solidifies its corporate governance by making timely adjustment of its management mechanism in response to the market changes. The Group keeps abreast of the latest market developments and acquires new theories and knowledge of corporate governance. At the same time, it pays great attention to a balance of interests of different parties. It strives hard to identify potential risks associated with the corporate management and implements measures to minimise such risks. During the year, COSCO International was awarded as one of the top five companies in the ranking of Financial Disclosure Procedures in the Greater China region in IR Global Rankings 2009. In addition, the Company's 2008 Annual Report won four awards of the 23rd International ARC Awards Competition in recognition of its informative disclosure and good presentation. Furthermore, in order to let shareholders, investors and stakeholders have a deeper and clearer understanding of the Company, it revamped the corporate website last year, which won the Bronze Award in the category of the "Redesign/ Relaunch: Stakeholders Communications" in the 9th International iNOVA Awards Competition.

# Chairman's Statement

The Group attaches great importance to risk management. It regularly reviews its operational system to check if there are any shortcomings. Moreover, it promotes integrity in the working environment and increases management's awareness of risk control through trainings so that risks can be kept under control immediately when they arise. To address the difficult and complex market situation, the Group carried out effective measures last year to deal with various kinds of risks, in particular the liquidity risk, credit risk, inventory risk, exchange risk and the hedging activities, thus ensuring the healthy and steady development of the Group's operations.

## OUTLOOK AND PROSPECTS

The overall economic outlook for 2010 should be better than 2009. While both of opportunities and challenges existed in the market, the former one should prevail. From a global perspective, developed countries will recover from recession as international trade and investment resume growth momentum. Nevertheless, there are still many uncertainties that may affect a full recovery of the global economy. The major contradictions and systematic failures underlying the outburst of the financial crisis have not been thoroughly resolved yet. As a result, there are many twists and turns lying ahead before a full recovery of the global economy can be realised. In China Mainland, the PRC government continues to implement an active fiscal policy and appropriately loose monetary policy, the growth momentum of domestic economy will accelerate, while market confidence will significantly improve. The government's measures to boost domestic demand and to improve livelihood will continue to exert their influences. Nevertheless, the economic environment of China will remain very complicated in this year as there will still be numerous difficulties and challenges.

Although difficulties lie ahead, we are confident that the gradual recovery in the global economy and increasing domestic demand of China will bring us many opportunities and promising market prospects. In 2010, the Group will persist in implementing its strategic development, actively exploring opportunities and stepping up efforts in innovation. We will strengthen our existing businesses and boost capital operations to expand our value chain of shipping services operations. We will closely monitor the changes in government policies on the shipping industry and make adjustments to our strategies accordingly in terms of the objective evaluation of their effects on our businesses. Our operating efficiency and profitability will be further enhanced in the post-financial crisis period. Meanwhile, under the support of COSCO and COSCO Hong Kong, we will actively explore business opportunities within and outside of COSCO Group and in both of overseas and domestic markets. We will integrate and restructure our businesses and make use of the capital market to further consolidate and expand our shipping services businesses, thereby increasing our core competitiveness. We are committed to expanding globally and becoming an international shipping services provider.

With the support of COSCO Group and the dedication and motivation of the management and all employees, I am fully confident of the future development of COSCO International. I would like to take this opportunity to express my heartfelt gratitude to our shareholders and business partners for their continued support and to all members of the Board and the employees for their diligent services.

**ZHANG Fusheng**
*Chairman*
Hong Kong, 23rd March 2010

# Vice Chairman's Statement

In 2009, confronted with a difficult production and operating environment, the Group established the guiding principles of "risk control, lean management, safety assurance, stable development and greater profitability" in order to strengthen its operation and management, broaden its income sources and reduce expenditures, and strive for profits. With the dedicated efforts of all staff, the Group weathered the financial crisis and achieved targeted results together with a steady business growth amid intensified market competition.

# Vice Chairman's Statement

## PERFORMANCE AND DEVELOPMENT OF THE CORE BUSINESS

During the year, the various business segments of the core shipping services operations of the Group faced a variety of difficulties. However, the overall performance was in line with or above our expectations. Total revenue from the shipping services was HK$1,109,692,000, a decrease of 45% over 2008. The decrease was primarily due to a significant contraction of the container coatings sales volume which was hit hard by the financial crisis. Profit before income tax from shipping services segment increased by 26% as compared with 2008. The respective performances of various business segments are as follows: For the ship trading agency services, the Group overcame the difficulties arising from the decrease in new build vessel contracts during the year and strove hard to complete the business accumulated from the new build vessels ordered in the previous years. Moreover, it seized opportunities to develop the second-hand vessel and retired vessel businesses. Segment revenue from ship trading agency increased by 16% year-on-year. For the marine insurance brokerage services, the Group developed a new business model and successfully expanded its customer base to third parties, thereby, to a certain extent, offseting the negative effects arising from the loss or decline in some of its existing businesses due to the financial crisis. Segment revenue from marine insurance brokerage increased by 2% year-on-year. The supply of marine equipment and spare parts business was hit hard by the financial crisis as the market turned down sharply and competition intensified. The Group initiated the strategy to retain major customers and to vigorously explore new customers so as to maintain its existing business and gain some new businesses. Segment revenue from the supply of marine equipment and spare parts slightly decreased by 2% over 2008. Segment revenue from the production and sale of coatings decreased by 71% over 2008 due to a significant decrease in the container coatings business while the developed industrial heavy-duty anti-corrosion coatings business has yet made significant contribution. However, benefiting from a significant growth in profit from the marine coatings operation, segment profit before income tax from the production and sale of coatings increased by 15% as compared with 2008. Trading and supply of marine fuel and related products business was a new business segment developed by the Group in 2009. It generated segment revenue of HK$45,565,000 since it commenced operation in November 2009.

During the year, the Group completed the acquisition of 18% equity interest in Double Rich and established Sinfeng in Singapore, thus enabling it to expand into trading and supply of marine fuel and related products business in Hong Kong and elsewhere in the world. These investments will augment the Group's core business and become a new driver for its profit growth.

## INVESTOR RELATIONS

The Company has been actively involved in investor relations. It takes the initiative to communicate with the investment community and disseminates accurate corporate information to shareholders, investors, analysts and fund managers on a timely basis so that they can make effective assessment of the investment value of the Company. Moreover, the Company established channels for mutual communication to learn about the expectations on and suggestions for corporate development from shareholders and investors. The opinions collected provide the management with valuable information for their corporate decision making. During the year, the Company did not cut down on investor relations in the face of the instability in capital market. Instead, we took this opportunity to increase communications with sell-side analysts and various investors to further fortify investor confidence. Besides, we further enhanced the Company's transparency and corporate governance by revamping our corporate website during the year to improve the timeliness and accuracy of information disclosure at the website. This effort helps us create a good corporate image and enhance the investment value of the Company.

## CORPORATE SOCIAL RESPONSIBILITY

Although the Group had to exercise stringent cost control, save energy and reduce waste emissions to tackle the challenging economic environment, it insisted on joining hands with employees, customers, business partners and the needy in the society to ride out the storm. During the year, the Company continued to pursue the "employee-oriented" management philosophy and to actively enrich its talents reserve through various trainings and team building according to the needs of corporate development. Meanwhile, the Company continued to fulfill its responsibilities as a corporate citizen and contributed its efforts to environmental protection by creating an environmental-friendly working environment and motivating its employees to participate in charitable activities. Under the concerted efforts of the management and all employees, the Company was again awarded the Caring Company Logo 2009/10 by the Hong Kong Council of Social Service in recognition of the efforts and contributions the Company made in the three categories of "Giving", "Caring for the Employee" and "Caring for the Environment".

## FUTURE DEVELOPMENT

It is expected that 2010 will be another year full of challenges. The global economy experienced the most difficult times and is emerging from the trough. The global economy is gradually recovering and China economy is gaining momentum in the post-financial crisis era. However, we noted that the contradictions and systematic problems which contributed to the outbreak of the financial crisis have not been fully resolved. Uncertainties remain and the situation is still complex. There will have a long way to go before international trade returns to its heyday.

Confronted with opportunities and challenges, the Group will stick to the guiding principles of "seizing opportunities, lean management, grabbing market share, striving for returns and further development". The Group will seize the opportunities arising from the market recovery to enhance its overall core competitiveness and overall profitability continually by means of grabbing more market share and striving for better returns, thereby creating greater values for shareholders.

According to the overall development strategy of COSCO Group, the Group has developed itself as a platform for fortifying and expanding shipping services to an international level by relying on the advantages of COSCO Group. In 2010, the Group will continue the development of its existing shipping services and seize the market opportunities to expand related upstream and downstream operations along the business chain, thus enhancing its core competitiveness. By leveraging on the competitive advantages of COSCO Group, the Group will solidify its existing businesses, expand into new businesses and make use of capital market to expand its asset size, thus maximising the interests of shareholders.

**WANG Futian**
*Vice Chairman*
Hong Kong, 23rd March 2010

# Management Discussion and Analysis

## OVERALL RESULTS ANALYSIS

The Group's profit attributable to the equity holders was HK$843,675,000 representing an increase of 72% as compared to HK$491,015,000 in 2008.

During the year, the decline in the Group's revenue and the lower gross profit margins of the newly added general trading and marine fuel and other products segments led to a reduction in the total gross profits earned from our operating subsidiaries. Despite this, the Group still managed to achieve an overall better financial results in 2009 when compared to 2008 due to the following major factors: firstly, the core business in shipping services segment reflected an impressive profit growth of the jointly controlled entity, Jotun COSCO. The Group's share of Jotun COSCO's profit rose 132% to HK$101,488,000 (2008: HK$43,787,000) as a result of the record high delivery of coatings for new build ship orders and lower raw material prices; and secondly, our non-core property investments segment reflected net gain on deemed disposal of partial interest in SOLHL of HK$245,287,000 principally as a result of issuance of new shares by SOLHL to a new shareholder ("Deemed Disposal Gain"); thirdly, profit contribution from SOLHL reached HK$354,481,000 (2008: HK$319,184,000) and represented a steady increase over 2008; fourthly, profit contribution from the new marine fuel and other products segment added profit of HK$10,656,000 (2008: nil); and fifthly, as a result of the Group's ownership of the entire equity interests of COSCO Ship Trading after the acquisition of 100% interests in CITC and the decline in the pre-tax profits of COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and COSCO Kansai (Zhuhai) (collectively "COSCO Kansai Companies") and the liquidated 上海鴻洋置業有限公司 (Shanghai COSCO Honour Property Development Limited) ("Shanghai Honour"), the amount of after-tax profits attributed to minority shareholders decreased. Excluding the Deemed Disposal Gain and the profit contribution from SOLHL of the non-core property investments segment, the Group's profit attributable to the equity holders would have been HK$243,907,000 (2008: HK$171,831,000), rose 42% as compared with 2008 on the same basis.

On earnings per share performance, basic earnings per share increased from 33.18 HK cents in 2008 to 56.25 HK cents in 2009.

## FINANCIAL REVIEW

### Revenue

The Group's revenue for 2009 decreased by 22% to HK$1,630,055,000 (2008: HK$2,100,937,000). Despite ship trading agency and insurance brokerage segments contributed relative stable revenues to the Group and Sinfeng, a wholly-owned subsidiary of the Group newly incorporated in November 2009, started to contribute new source of revenue, segment revenue of the core business in shipping services dropped by 45% to HK$1,109,692,000 (2008: HK$2,033,051,000), and accounted for 68% (2008: 97%) of the Group's revenue. Such decrease was due to drastic fall in demand in the container shipping industry and decline in the container manufacturing industry since the fourth quarter of 2008. These had triggered a substantial contraction in the production and sale of container and industrial coatings.

With the acquisition of 100% equity interests in CITC which was mainly engaged in the sale of asphalt and other products in December 2008, full year's revenue of general trading segment of HK$515,366,000 was consolidated and accounted for 32% of the Group's revenue in 2009. Revenue derived from the property investments segment mainly represented sale of remaining properties of Fragrant Garden in Shanghai. With the Group's expansion into the marine fuel and other products and the general trading segments, revenue derived from property investments segment became minimal in 2009.

### Gross Profit and Gross Profit Margins

The decrease in the Group's gross profit for 2009 by 33% to HK$422,984,000 (2008: HK$635,401,000) was largely attributed to decline in revenue from the coatings and property investments segments, which have been accounting for a major portion of the Group's revenue in 2008. The newly added general trading and marine fuel and other products segments, which accounted for 34% of the Group's revenue in 2009, had lower profit margins as compared to the existing segments. This substantial change in sales composition drove down the Group's overall profit margin by 4 percentage points to 26% (2008: 30%).

## Other Income

Other income of HK$65,787,000 (2008: HK$33,724,000) comprised of exchange reserve realised upon completion of the dissolution of Shanghai Honour of HK$33,721,000 and reversals of provisions for impairment of trade receivables and inventories (net of provisions) of HK$11,356,000. These reversals were made as management considered the risks associated with the recoverability of accounts receivables and inventories had been largely reduced as a result of management's focused action to collect outstanding trade debts, control credit and the gradual stabilisation of economic environment.

## Other Expenses

Other expenses for the year totalled HK$344,000 (2008: HK$105,097,000). Last year's amount mainly represented provisions for impairment of inventories and trade receivables (net of reversals) and net exchange losses incurred in our certain subsidiaries. The drastic decrease of other expenses in 2009 as compared to 2008 was due to these expense items recorded net credits and were therefore accounted for as other income this year.

## Selling, Administrative and General Expenses

The Group's selling, administrative and general expenses recorded a 16% reduction in aggregation to HK$301,596,000 (2008: HK$360,265,000) when compared to 2008 among which selling expenses fell by 49% to HK$74,214,000 (2008: HK$144,868,000) which was in line with the decrease in revenue from coatings business. Administrative expenses rose by 6% to HK$227,382,000 in 2009 (2008: HK$215,397,000) as the Group started to consolidate the full year's administrative expenses of CITC.

## Operating Profit

As mentioned above, owing to the decline in the Group's revenue, reduced overall gross margin as well as the significant reduction in selling expenses, the Group's operating profit only fell by 8% to HK$186,831,000 (2008: HK$203,763,000).

## Finance Income – Net

The Group's finance income of HK$10,716,000 (2008: HK$28,127,000) mainly comprised of interest income generated from cash deposits, money market fund investments and the loans to a jointly controlled entity and finance costs included interest expenses on short term bank loans of HK$6,297,000 (2008: HK$12,842,000) and other finance charges of HK$1,773,000 (2008: HK$2,427,000). The decrease in both interest income and interest expenses were attributable to the lowering of deposit rates and borrowing rates during the year as well as the reduced level of the Group's cash and borrowings.

## Share of Results of Jointly Controlled Entities

The Group's share of profits from jointly controlled entities rose by 123% to HK$104,025,000 (2008: HK$46,728,000). This amount mainly represented the profit contribution from Jotun COSCO of HK$101,488,000 (2008: HK$43,787,000). During the year, Jotun COSCO experienced strong sales growth due to record high delivery of coatings for new build ship orders which had been solicited over the preceding years and lower raw material prices.

## Share of Results of Associated Companies

The Group's share of profits from associated companies increased by 15% to HK$366,194,000 (2008: HK$319,184,000). The Group's share mainly represented the profit contribution from SOLHL of HK$354,481,000 (2008: HK$319,184,000).

## Net Gain on Deemed Disposal of Partial Interest in an Associated Company

The Group recorded a net gain on deemed disposal of partial interest in SOLHL of HK$245,287,000 principally due to the issuance of 934,000,000 new shares by SOLHL to a new shareholder on 30th December 2009.

## Income Tax Expense

The Group's income tax expense for the year increased to HK$58,756,000 (2008: HK$34,268,000). Increase in income tax expense was mainly attributable to increased proportion of the Group's taxable income subject to PRC taxation, under-provision of PRC taxation in prior years of HK$2,286,000 (2008: over-provision of HK$8,186,000) and net deferred income tax charge of HK$8,425,000 (2008: net credit of HK$7,392,000) in respect of timing differences arising from certain income and expenses accrued by the Group's subsidiaries in the PRC.

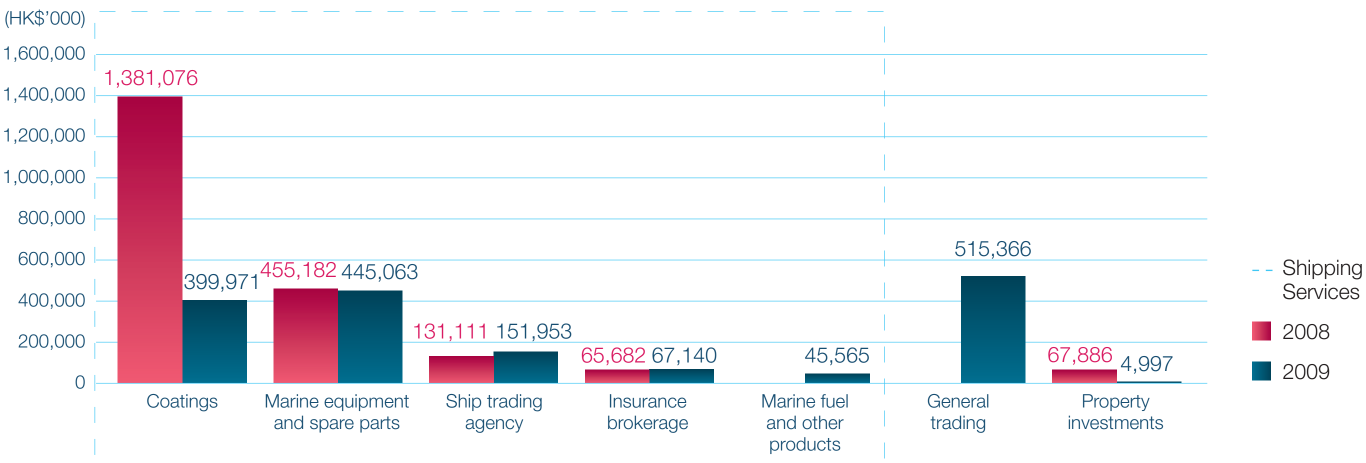
## Profit Attributable to the Equity Holders

The Group's profit attributable to the equity holders increased by 72% to HK$843,675,000 (2008: HK$491,015,000). If the Deemed Disposal Gain (HK$245,287,000 in 2009 and nil in 2008) and profit contribution from an associated company, SOLHL (HK$354,481,000 for 2009 and HK$319,184,000 in 2008) were excluded, the Group's profit attributable to the equity holders would have been HK$243,907,000 (2008: HK$171,831,000), rose 42% as compared with 2008 on the same basis.

# Management Discussion and Analysis

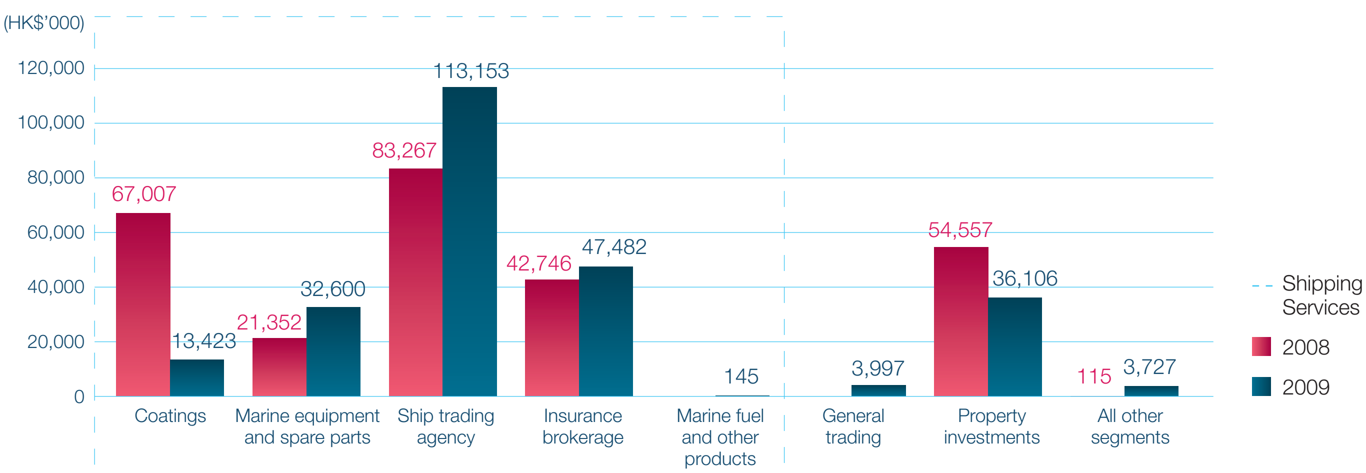
## FINANCIAL RESULTS

### REVENUE AND SEGMENT INFORMATION




In 2009, diminishing demand in the container shipping industry and decline in the container manufacturing industry had triggered a substantial contraction in the production and sale of container and industrial coatings. Compared to the 71% decrease in segment revenue of coatings, segment revenues of the other core shipping services businesses were relatively stable. CITC, which was engaged in the sale of asphalt and other products and was acquired in December 2008, started to contribute new source of revenue. Revenue derived from the property investments segment, which mainly represented sale of remaining properties of Fragrant Garden in Shanghai, became minimal in 2009.

### SEGMENT OPERATING PROFIT




The Group benefits from its provision of diversified shipping services. The cyclical changes of shipping services as compared with shipping industry are more stable and less fluctuated. Coupled with a large amount of new build vessel delivery in 2009, profits of certain business segments of the Group achieved significant growth.

## FINANCIAL RESULTS

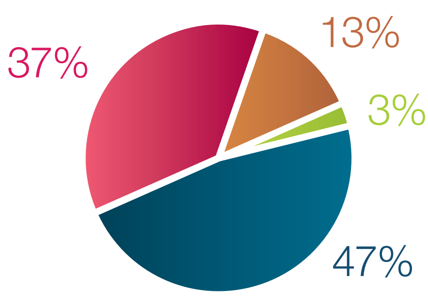
| For the year ended 31st December | 2009 HK$'000 | 2008 HK$'000 | Change | % | Remarks |
|---|---|---|---|---|---|
| Shipping services | **206,803** | 214,372 | (7,569) | (4) | Ship trading agency and insurance brokerage segments contributed relative stable revenues to the Group and Sinfeng started to contribute new source of revenue, thus offsetting the impact of a substantial contraction in the production and sale of container coatings of the coatings segment resulting from the decline in the container shipping industry. |
| Elimination of inter-segment profit | **(69)** | (64) | (5) | 8 | |
| General trading | **3,997** | - | 3,997 | - | This was the first year the Group consolidated the financial results of CITC since its acquisition in December 2008. |
| Property investments | **36,106** | 54,557 | (18,451) | (34) | Mainly the exchange reserve realised upon completion of the dissolution of Shanghai Honour. |
| All other segments | **3,727** | 115 | 3,612 | 3,141 | Mainly represented dividend income from available-for-sale financial assets. |
| Unallocated corporate expenses, net of income | **(63,733)** | (65,217) | 1,484 | (2) | |
| Operating profit | **186,831** | 203,763 | (16,932) | (8) | |
| Finance income – net | **2,646** | 12,858 | (10,212) | (79) | Interest income decreased due to the lower deposit interest rate during the year and the lower cash level of the Group. |
| Share of results of jointly controlled entities | **104,025** | 46,728 | 57,297 | 123 | Jotun COSCO recorded remarkable profit growth as a result of the record high delivery of new build ship orders and lower raw material prices. |
| Share of results of associated companies | **366,194** | 319,184 | 47,010 | 15 | This mainly reflected the steadily increased contribution of the results of SOLHL. |
| Net gain on deemed disposal of partial interest in an associated company | **245,287** | - | 245,287 | - | The Group recorded net gain on deemed disposal of partial interest in SOLHL mainly due to issue of new shares to a new shareholder by SOLHL on 30th December 2009. |
| Profit before income tax | **904,983** | 582,533 | 322,450 | 55 | |
| Income tax expense | **(58,756)** | (34,268) | (24,488) | 71 | Overall increase in income tax expense was attributable to increased proportion of the taxable income subject to PRC taxation, under-provision of PRC taxation in prior years and deferred income tax charge in respect of timing differences arising from certain income and expenses accrued by the Group's subsidiaries in the PRC. |
| Profit for the year | **846,227** | 548,265 | 297,962 | 54 | |

# Management Discussion and Analysis

## ANALYSIS OF BALANCE SHEET

| As at 31st December | 2009 HK$'000 | 2008 HK$'000 | Change | % | Remark |
|---|---|---|---|---|---|
| Intangible assets | **91,340** | 91,323 | 17 | – | |
| Property, plant and equipment, prepaid premium for land leases and investment properties | **165,305** | 163,833 | 1,472 | 1 | |
| Jointly controlled entities | **234,062** | 130,935 | 103,127 | 79 | |
| Associated companies | **4,722,687** | 4,052,810 | 669,877 | 17 | 1 |
| Other non-current assets | **141,510** | 79,347 | 62,163 | 78 | |
| Completed properties held for sale and inventories | **342,421** | 359,366 | (16,945) | (5) | |
| Trade and other receivables | **528,788** | 887,374 | (358,586) | (40) | |
| Restricted bank deposits | **7,104** | 118,963 | (111,859) | (94) | 2 |
| Deposits and cash and cash equivalents | **1,265,557** | 1,373,978 | (108,421) | (8) | 2 |
| Other current assets | **11,098** | 1,136 | 9,962 | 877 | |
| Total assets | **7,509,872** | 7,259,065 | 250,807 | 3 | |
| Deferred income tax liabilities | **8,636** | 8,363 | 273 | 3 | |
| Trade and other payables | **846,077** | 1,128,321 | (282,244) | (25) | |
| Current income tax liabilities | **27,862** | 18,353 | 9,509 | 52 | |
| Short-term borrowings | **11,725** | 316,960 | (305,235) | (96) | 3 |
| Minority interests | **200,712** | 241,373 | (40,661) | (17) | |
| Total liabilities and minority interests | **1,095,012** | 1,713,370 | (618,358) | (36) | |
| Net assets | **6,414,860** | 5,545,695 | 869,165 | 16 | |

## 1 CHANGE IN INTERESTS IN ASSOCIATED COMPANIES

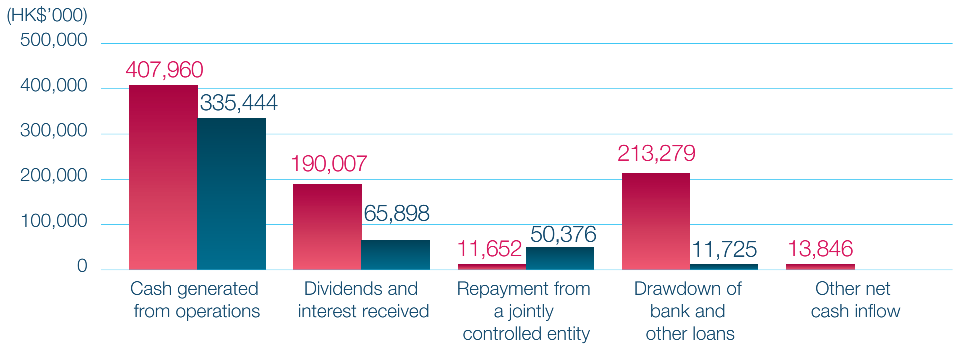



Interests in associated companies increased mainly due to completion of the acquisition of 18% equity interest in Double Rich during the year (HK$47,349,000) and purchase of additional interests in SOLHL (HK$40,617,000), share of reserves of associated companies (HK$15,291,000) and exchange differences on translation (HK$5,828,000), share of results of associated companies (HK$366,194,000) and net gain on deemed disposal of partial interest in SOLHL of HK$245,287,000 resulting from issue of new shares to a new shareholder on 30th December 2009 and after deducting dividends received of HK$50,689,000, the Company's interests in associated companies increased by HK$669,877,000 during the year.

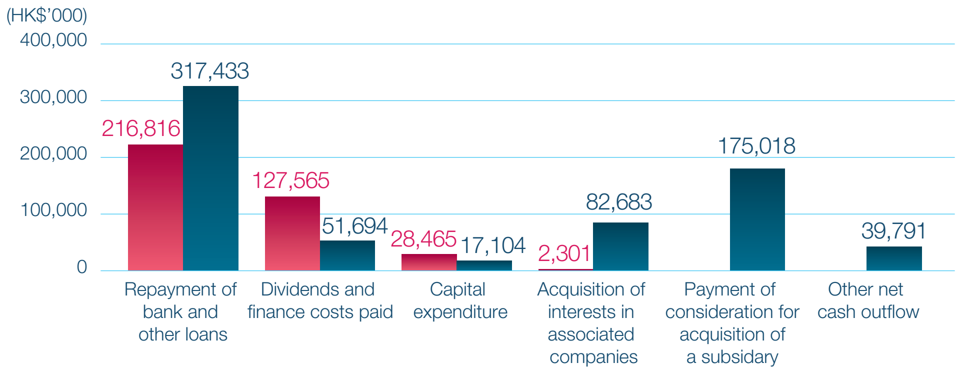
- Net gain on deemed disposal of partial interest in an associated company
- Share of results of associated companies, net of dividends received
- Share of reserves of associated companies and exchange differences on translation
- Acquisition of 18% equity interest in Double Rich and purchase of additional interests in SOLHL

## 2 MAJOR SOURCES AND USAGE OF CASH

### CASH INFLOW




### CASH OUTFLOW




Cash (including restricted bank deposits and cash and cash equivalents) decreased by HK$220,280,000 in aggregate during the year with cash generated from operations of HK$335,444,000, dividends and interests received of HK$65,898,000, repayment of shareholder loans of HK$50,376,000 by a jointly controlled entity and drawdown of bank and other loans of HK$11,725,000.

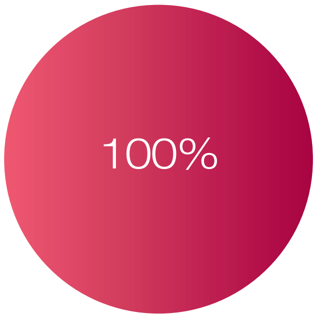
Usage of cash principally included repayment of bank and other loans of HK$317,433,000, payment of dividends and finance costs totaling HK$51,694,000, capital expenditure (including addition to property, plant and equipment) of HK$17,104,000, acquisition of interests in associated companies of HK$82,683,000, payment of consideration for acquisition of a subsidiary of HK$175,018,000 and other net cash outflow of HK$39,791,000.

2008
2009

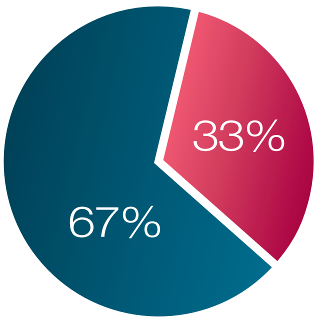
## 3 ANALYSIS OF SHORT-TERM BORROWINGS

### DEBT ANALYSIS

2009




2008

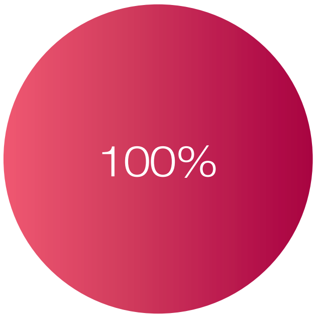



Short-term borrowings as at the end of the year decreased by HK$305,235,000 due to the Group's focus on reducing the level of outstanding bank loans in response to the more difficult operating environment.

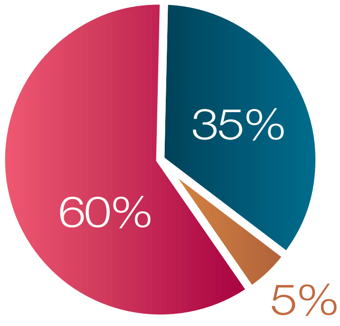
Bank loans utilised by general trading business
Bank loans utilised by coating business

### CLASSIFIED BY CURRENCY

2009




2008




United States dollars
Renminbi
Hong Kong dollars

# Management Discussion and Analysis

## CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent yet flexible approach towards financial management through maintaining a strong balance sheet and a relatively low level of borrowings and achieving a high degree of liquidity. The Board believes this approach is beneficial to the Group's long term development as a major shipping services provider and to weather through the times of uncertainty and volatility.

For the year ended 31st December 2009, the Group financed its liquidity requirements by cash generated from operations, dividends from associated companies and repayment of loan by a jointly controlled entity amounted to HK$335,444,000, HK$50,689,000 and HK$50,376,000 respectively.

As of 31st December 2009, the Group's consolidated assets increased by 3% to HK$7,509,872,000 (2008: HK$7,259,065,000). Total liabilities decreased 39% to HK$894,300,000 (2008: HK$1,471,997,000). These figures reflected the Group's focus on reducing the levels of outstanding accounts receivable, accounts payable and outstanding bank loans in response to the more difficult operating environment.

Net asset value was HK$6,414,860,000 (2008: HK$5,545,695,000). The increase mainly represented retained profit for the year. Net asset value per share was HK$4.25 (2008: HK$3.72), up 14% over the end of 2008.

As at 31st December 2009, the Group's total bank borrowings decreased to HK$11,725,000 (2008: HK$316,960,000), for details, please refer to below table. The Group's total cash in hand and committed yet unutilised standby facilities decreased by 15% to HK$1,272,661,000 (2008: HK$1,492,941,000) and increased by 180% to HK$1,081,493,000 (2008: HK$386,225,000) respectively. Deposits and cash and cash equivalents held by the Group accounted for 59% (2008: 50%) of the Group's total current assets.

Gearing ratio, which represents total borrowings over total assets, was 0.2% (2008: 4.4%).

As of 31st December 2009, the Group did not pledge any assets, other than restricted bank deposits, to banks as security for bank credit facilities (2008: nil). In addition, the Group had restricted bank deposits of HK$7,104,000 (2008: HK$118,963,000).

## DEBT ANALYSIS

| | **31st December 2009** | | 31st December 2008 | |
|---|---|---|---|---|
| | **HK$'000** | **%** | HK$'000 | % |
| Classified by maturity:<br>– repayable within one year | **11,725** | **100** | 316,960 | 100 |
| Classified by type of loan:<br>– unsecured | **11,725** | **100** | 316,960 | 100 |
| Classified by currency:<br>– Renminbi | **–** | **–** | 111,127 | 35 |
| – United States dollars | **11,725** | **100** | 188,933 | 60 |
| – Hong Kong dollars | **–** | **–** | 16,900 | 5 |
| | **11,725** | **100** | 316,960 | 100 |

In view of the Group's current level of cash and bank balances, funds generated internally from operations, the unutilised banking facilities available and a relatively low debt level, the Board is confident that the Group will have sufficient resources to meet its foreseeable capital expenditures and debt repayment requirements.

## Treasury Policy

The Group operates principally in Hong Kong, China Mainland and Singapore, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars and Renminbi. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group managed its foreign exchange exposure through matching its operating costs and borrowings against its receivables on sales. Nevertheless, the Group is still exposed to relevant foreign exchange risk in respect of Renminbi and United States Dollars exchange rate fluctuations such that the Group's profit margin might be impacted accordingly. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the government of the PRC (the "PRC Government").

The Group continued to monitor and adjust its debt portfolio from time to time in light of market conditions, the objective of which is to reduce potential interest rate risk exposure, improve debt structure and lower interest expenses.

At 31st December 2009, borrowings of the Group carried interest at rates calculated with reference to the London Interbank Offered Rate and the benchmark interest rates announced by the People's Bank of China. The Group will consider using forward foreign exchange contracts to hedge its foreign currency exposure should the need arise.

As to investment of surplus funds, the Group invests in highly liquid and secure investments and conduct investments with highly reputable financial institutions both in Hong Kong and China Mainland.

## Major Customers and Suppliers

For the year ended 31st December 2009, aggregate sales to the five largest customers accounted for less than 30% (2008: less than 30%) of total revenue of the Group, while aggregate purchases from the five largest suppliers accounted for less than 30% (2008: less than 30%) of the total cost of sales of the Group.

## Employees

As of 31st December 2009, excluding associated companies and jointly controlled entities, the Group had 646 (2008: 662) employees, of which 109 (2008: 107) are Hong Kong employees.

For the year ended 31st December 2009, total employee expenses, including directors' emoluments and provident funds, was HK$165,093,000 (2008: HK$172,246,000). Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to market conditions and individual performance. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme or recognised occupational retirement scheme.

On 2nd December 2004, directors of the Company (excluding independent non-executive directors) and certain employees of the Group were granted share options to subscribe for a total of 32,650,000 shares of the Company at a price of HK$1.37 per share. These share options are exercisable at any time from 29th December 2004 to 28th December 2014. On 10th May 2005, certain employees of a subsidiary of the Company were granted share options to subscribe for a total of 2,400,000 shares of the Company at a price of HK$1.21 per share. These share options are exercisable at any time from 6th June 2005 to 5th June 2015. On 9th March 2007, directors of the Company (excluding independent non-executive directors) and certain employees of the Group and its jointly controlled entities were granted share options to subscribe for a total of 25,930,000 shares of the Company at a price of HK$3.666 per share. These share options are exercisable from 9th March 2009 to 8th March 2015 in the stipulated proportion at any time namely: (i) no share options shall be exercisable by the grantees within the first two years from 9th March 2007; (ii) up to a maximum of 30% of the share options can be exercised by the grantees from 9th March 2009 onwards; (iii) up to a maximum of 70% of the share options can be exercised by the grantees from 9th March 2010 onwards and (iv) all share options can be exercised by the grantees from 9th March 2011 onwards.

# Management Discussion and Analysis

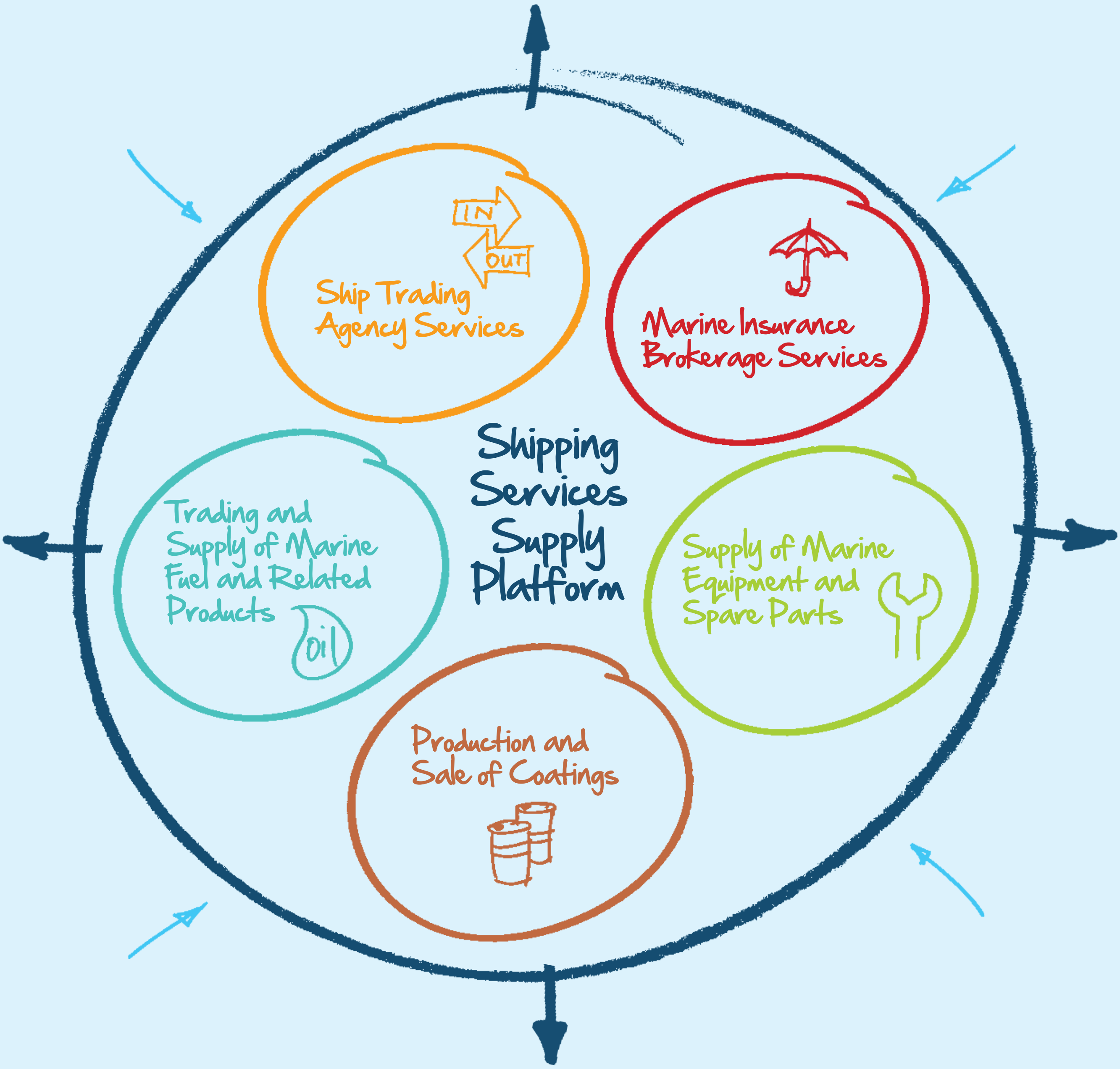
## BUSINESS REVIEW

In 2009, under the global financial crisis, the steep decline in the shipping related markets resulted in difficult operating conditions for the Group which has been focusing on its core business in shipping services. Each business segment of the Group was affected in varying degrees and its operation and production faced a strong challenge. Surrounded by complicated and difficult situations, the Group confronted the crisis by upholding its established strategic development position and work objectives. In response to the challenges, the Group implemented various measures in a proactive way based on various business characteristics with flexible adjustments in various markets to overcome difficulties with every effort. With the efforts of all staff, the Group achieved overall comparatively satisfactory results under the prevailing circumstances. While strengthening the management of the existing business segments, including the key businesses such as ship trading agency services, marine insurance brokerage services, supply of marine equipment and spare parts, and production and sale of coatings, the Group tried its best to broaden its sources of income, reduce its expenditure, retain and develop customers, especially consolidating existing VIP customers with all its strength, through expansion with innovation and strengthening service mentality, and actively explored external markets, with certain achievements made. The impact of the market downturn was partially offset by the successful development of “new markets, new customers and new businesses”. In spite of differing segment revenue changes experienced during the year, all business segments of the Group, among which production and sale of marine coatings and ship trading agency recorded significant profit growth, were able to record profits. Coupled with the profit contribution during the year from SOLHL, an associated company of the Company, the Group managed to achieve significant growth in its overall results during the year despite a difficult external economic environment. In terms of business expansion, the Group continuously implemented its strategic positioning initiative for its core business in shipping services and actively consolidated the development of its core business to seek for new development opportunities. During the year, the Group successfully expanded and entered into the business of trading and supply of marine fuel and related products. The Group completed the acquisition of 18% equity interest in Double Rich by the end of April 2009 and began to step into the business of trading and supply of bunker oil. In November 2009, Sinfeng was set up in Singapore to develop the business of trading and supply of marine fuel for customers other than COSCO Group. The injection of the business of trading and supply of marine fuel and related products into the Group further consolidated and expanded its shipping services business platform, thus laying a solid foundation for its shipping services development in the long run.


### 1. Core Business – Shipping Services

During the year, there was an imbalance between demand and supply in the global shipping market as a result of global economic recession and steep decline in international trade. Shipping enterprises in turn cut capital expenditure, which resulted in steep decrease in global new build ship contracts and a downtrend in new build vessel prices. Shipping enterprises frequently requested to cancel orders or delay deliveries, consequently bringing up lots of uncertainties.

The global economy and shipping market were seriously affected by the unprecedented crisis, under which certain businesses of the Group suffered tremendous negative impacts. The container coating business, in particular, recorded sharp decline. Despite that, as the Group provides diversified shipping services, the Group benefited from the prosperous growth of the shipping market and shipbuilding market in the previous few years and recorded high volume of global new build vessel delivery in 2009, presenting the Group with opportunities and favourable factors. According to the statistic data released by Clarkson Research Services Limited, the global new build vessel delivery volume amounted to 116 million dead weight tonnages in 2009, representing an increase of 27% as compared to 2008, of which new build vessel delivery volume from China shipyards increased by 66.5% to 35.3 million dead weight tonnages. The Group took




advantage of the large amount of new build vessel delivery in 2009 to achieve significant growth in its sale of marine coating business and ship trading agency business, and initiated effective measures to fully implement the "new markets, new customers and new businesses" expansion strategy and the profit oriented operating objectives, with the aim of offsetting the contraction and loss of certain existing businesses. As a result, the Group achieved breakthrough in its businesses.

In 2009, the Group's segment revenue from the shipping services decreased by 45% to HK$1,109,692,000 (2008: HK$2,033,051,000) as compared to 2008, which was mainly due to a significant decrease in the container coating business. Profit before income tax from shipping services segment was HK$324,745,000 (2008: HK$256,739,000), increased by 26% as compared to 2008.

Management Discussion and Analysis

# Core business network


- Ship Trading Agency Services
- Marine Insurance Brokerage Services
- Supply of Marine Equipment and Spare Parts
- Production and Sale of Coatings
- Trading and Supply of Marine Fuel and Related Products
- Business Coverage of Trading and Supply of Marine Fuel and Related Products (including various major ports in China)


## NORTH AMERICA

1 Long Beach
2 New York

## EUROPE

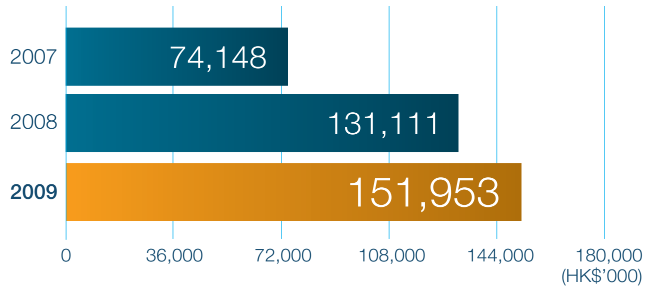
3 Rotterdam

## ASIA

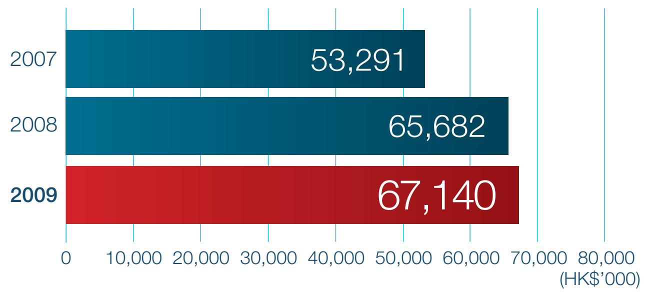
4 Beijing
5 Tianjin
6 Dalian
7 Qingdao
8 Shanghai
9 Fuzhou
10 Guangzhou
11 Shenzhen
12 Hong Kong
13 Zhuhai
14 Malaysia
15 Singapore

# Management Discussion and Analysis

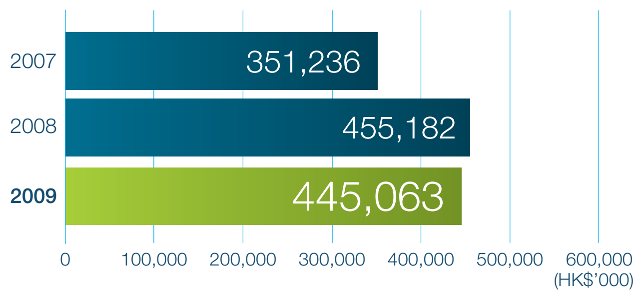
REVENUE FROM
## Ship Trading Agency Services



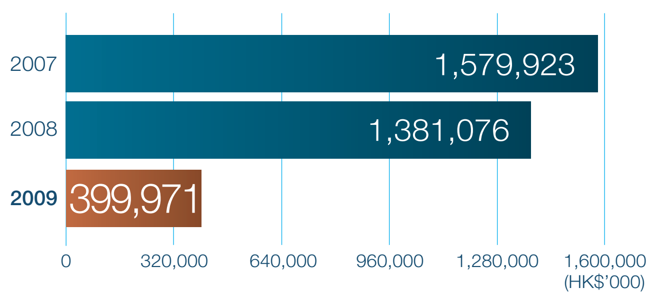

REVENUE FROM
## Marine Insurance Brokerage Services



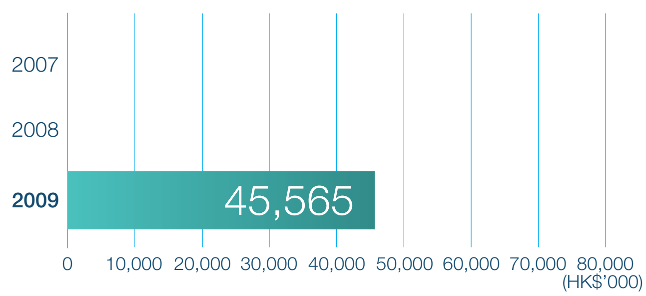

REVENUE FROM
## Supply of Marine Equipment and Spare Parts




REVENUE FROM
## Production and Sale of Coatings




REVENUE FROM
## Trading and Supply of Marine Fuel and Related Products



COSCO Ship Trading, a wholly-owned subsidiary of the Company, is engaged in provision of exclusive agency services relating to shipbuilding and ship trading and agency services relating to chartering for the fleet of COSCO Group, as well as similar agency services to non-COSCO Group shipping companies.

During the year, segment revenue from ship trading agency services increased by 16% to HK$151,953,000 (2008: HK$131,111,000), as compared to 2008. In relation to the revenue for 2007 to 2009 contributed by ship trading agency services, please refer to the chart on the left.

HK COSCO Insurance Brokers, a wholly-owned subsidiary of the Company, is accredited with the qualification Lloyd's broker accreditation and mainly operates intermediary businesses in relation to marine insurance and shipowners' liability insurance outside China Mainland. 深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited) ("SZ COSCO Insurance Brokers"), a non-wholly owned subsidiary of the Company, is engaged in provision of insurance brokerage services to the vessels registered in China Mainland.

During the year, segment revenue from marine insurance brokerage services was HK$67,140,000 (2008: HK$65,682,000), representing a slight increase of 2% as compared to 2008. In relation to the revenue for 2007 to 2009 contributed by marine insurance brokerage services, please refer to the chart on the left.

Yuantong, a wholly-owned subsidiary of the Company, is principally engaged in the sale and installation of marine equipment and spare parts for existing and new build vessels, as well as oil drilling projects at sea, communications systems, shore-based AIS systems, vessel traffic management systems and information management systems for land users.

During the year, segment revenue from supply of marine equipment and spare parts was HK$445,063,000 (2008: HK$455,182,000), representing a slight decrease of 2% as compared to 2008. In relation to the revenue for 2007 to 2009 contributed by supply of marine equipment and spare parts, please refer to the chart on the left.

The coating business of the Company primarily includes production and sale of container coatings, industrial heavy-duty anti-corrosion coatings and marine coatings. COSCO Kansai Companies, all being non-wholly owned subsidiaries of the Company, are principally engaged in the production and sale of container coatings and industrial heavy-duty anti-corrosion coatings. Jotun COSCO, the 50/50 joint venture formed by the Company and the international coating producer Jotun A/S, Norway, is principally engaged in the production and sale of marine coatings.

During the year, segment revenue from production and sale of coatings was HK$399,971,000 (2008: HK$1,381,076,000), representing a decrease of 71% as compared to 2008. In relation to the revenue for 2007 to 2009 contributed by production and sale of coatings, please refer to the chart on the left.

Sinfeng, a wholly-owned subsidiary of the Company established in Singapore, is primarily engaged in provision of marine fuel supply, trading of marine fuel and related products and broker services for customers which are mainly members of non-COSCO Group.

During the year, segment revenue from trading and supply of marine fuel and related products was HK$45,565,000. Please refer to the chart on the left.

Management Discussion and Analysis

IN

OUT

# Ship Trading Agency Services

Benefited from the prosperous growth of the shipbuilding market in the previous years, the new build vessels ordered through COSCO Ship Trading are scheduled to be delivered in the coming three to four years, bringing forth a solid growth in commission income from ship trading agency services.

## 1.1 Ship Trading Agency Services

COSCO Ship Trading, a wholly-owned subsidiary of the Company, is engaged in provision of exclusive agency services relating to shipbuilding and ship trading and agency services relating to chartering for the fleet of COSCO Group, as well as similar agency services to non-COSCO Group shipping companies. COSCO Ship Trading mainly derives its revenue from agency services. In the case of new build vessels, COSCO Ship Trading is paid commissions by shipbuilders according to the relevant contracts. As for the trading of second-hand vessels, commissions are paid according to the contracts after the vendors have delivered vessels to buyers.

Although the number of new build vessel contracts decreased sharply during the year, the volume of global new build vessel delivery was huge as ship trading agency business benefited from the prosperous growth of the shipping market and shipbuilding market in the previous few years. The new build vessels ordered through COSCO Ship Trading are scheduled to be delivered in the coming three to four years. Some cases of delayed new build vessel delivery or cancellation of certain new build ship orders during the year did not have a great effect on the whole. A number of new build vessels were built and delivered, thus resulting in a solid growth in commission income from the Group's ship trading agency services. While providing services for the building up of the COSCO Group's fleet, COSCO Ship Trading also actively develops the ship trading agency business with non-COSCO Group shipping companies. COSCO Ship Trading had established long term and good cooperation relationship with domestic and international shipping companies, shipbuilders and ship brokers, and regularly released market information to provide value-added services to the customers. COSCO Ship Trading also seized the opportunities to develop the second-hand vessel and retired vessel markets, of which the second-hand vessel business achieved a breakthrough. COSCO Ship Trading consummated transactions for the sale and purchase (including new build vessels and second-hand vessels) of 64 vessels in 2009, increased by 5 vessels compared with 59 vessels in 2008.

During the year, segment revenue from ship trading agency services increased by 16% to HK$151,953,000 (2008: HK$131,111,000), as compared to 2008, and segment profit before income tax was HK$116,167,000 (2008: HK$89,305,000), representing an increase of 30% as compared to 2008.

# Marine Insurance Brokerage Services

COSCO Insurance Brokers made great achievements in the development of hull and machinery co-insurance business in China Mainland and successfully concluded business for COSCO Group's 54 vessels registered in China. COSCO Insurance Brokers also actively procured new customers outside COSCO Group and successfully secured 5 new customer bases in 2009, including regional shipping companies and power companies in China.

## 1.2 Marine Insurance Brokerage Services

HK COSCO Insurance Brokers, a wholly-owned subsidiary of the Company, is accredited with the qualification Lloyd's broker accreditation and mainly operates intermediary businesses in relation to marine insurance and shipowners' liability insurance outside China Mainland. SZ COSCO Insurance Brokers, a non-wholly owned subsidiary of the Company, is engaged in provision of insurance brokerage services to the vessels registered in China Mainland.

The global marine insurance market was significantly affected under the financial crisis. Insurance companies generally raised premium and shipping enterprises took stringent measures to control costs, which presented difficulties for marine insurance brokerage business. The downturn in shipping market also led to a considerable decrease in vessel chartering volume, which greatly reduced charterers' liability insurance business, one of the major businesses of the marine insurance brokerage. Confronted with the difficulties, HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers (collectively the "COSCO Insurance Brokers") retained existing customers with their devoted efforts by provision of value-added services as an enhanced service, and innovated their operation model with great achievements in the development of hull and machinery co-insurance business in China Mainland. COSCO Insurance Brokers successfully concluded business for COSCO Group's 54 vessels registered in China. COSCO Insurance Brokers also actively procured new customers outside COSCO Group and successfully secured 5 new customer bases in 2009, including regional shipping companies and power companies in China. By exploring new customers and new businesses, the negative effect brought by the prevailing market predicament has been offset. COSCO Insurance Brokers achieved good results.

During the year, segment revenue from marine insurance brokerage services was HK$67,140,000 (2008: HK$65,682,000), representing a slight increase of 2% as compared to 2008. Segment profit before income tax was HK$47,659,000 (2008: HK$43,684,000), up by 9% as compared to 2008.

Management Discussion and Analysis

# Supply of Marine Equipment and Spare Parts

Yuantong was well positioned for further business development by successfully stepping into the port machinery spare parts supply market. In addition, some deliveries of the new build vessel equipment business in 2009 based on the orders of previous years did offset the effect of the decrease in the spare parts business.

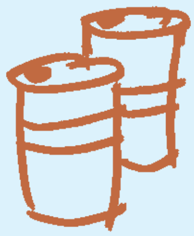
## 1.3 Supply of Marine Equipment and Spare Parts

Yuantong, a wholly-owned subsidiary of the Company, is principally engaged in the sale and installation of marine equipment and spare parts for existing and new build vessels, as well as oil drilling projects at sea, communications systems, shore-based AIS systems, vessel traffic management systems and information management systems for land users.

During the year, Yuantong faced pressure from both a sluggish market and increasingly keen competition. On the one hand, various shipping companies implemented a policy of stringent cost control in 2009 and spare parts were most severely affected as procurement volume was reduced sharply. On the other hand, many equipment manufacturers set up sales outlets in China Mainland for the sake of direct sale due to high business pressure. In this regard, Yuantong carried out research and analysis to implement a series of effective measures in response to the situation. They included maintaining and increasing its market share with every effort by forging closer communication and relationship with big customers and further understanding customers' needs; actively developing its sales channels to promote domestic-made spare parts to overseas market; and expanding into new markets for new business opportunities. Yuantong was well positioned for further business development by successfully stepping into the port machinery spare parts supply market. In addition, some delivery of the new build vessel equipment business in 2009 based on the orders of previous years did offset the effect of the decrease in the spare parts business.

During the year, segment revenue from supply of marine equipment and spare parts was HK$445,063,000 (2008: HK$455,182,000), representing a slight decrease of 2% as compared to 2008. Segment profit before income tax was HK$37,139,000 (2008: HK$25,551,000), representing an increase of 45% as compared to 2008. During the year, Yuantong recorded fair value gains on investment properties of HK$4,000,000 (2008: fair value losses of HK$3,600,000) and reversal of provision for impairment of trade receivable, net of provision, of HK$855,000 (2008: provision for impairment of trade receivables, net of reversal, of HK$5,451,000) upon collection of trade debts.

# Production and Sale of Coatings



Although revenue from coatings business decreased due to a steep decline in the sale of container coatings, sales results and profit contribution of marine coating business grew impressively over 2008 and led to an increase of 15% of the segment profit before income tax.

## 1.4 Production and Sale of Coatings

The coating business of the Company primarily includes production and sale of container coatings, industrial heavy-duty anti-corrosion coatings and marine coatings. COSCO Kansai Companies, all being non-wholly owned subsidiaries of the Company, are principally engaged in the production and sale of container coatings and industrial heavy-duty anti-corrosion coatings. Jotun COSCO, the 50/50 joint venture formed by the Company and the international coating producer Jotun A/S, Norway, is principally engaged in the production and sale of marine coatings.

During the year, segment revenue from production and sale of coatings was HK$399,971,000 (2008: HK$1,381,076,000), representing a decrease of 71% as compared to 2008. The decrease was due to a steep decline in the sale of container coatings. Although revenue decreased, sales results and profit contribution of marine coating business were more satisfactory than 2008, segment profit before income tax was HK$113,114,000 (2008: HK$98,199,000), representing an increase of 15% as compared to 2008.

### 1.4.1 Container Coatings

COSCO Kansai Companies have established coating plants in Zhuhai, Shanghai and Tianjin respectively. These three coating plants are located in the three most economically developed regions in China, respectively the Pearl River Delta, the Yangtze River Delta and the Pan-Bohai Rim Area with a total production capacity of 100,000 tonnes. Hampered by the sustained depression in the container shipping market, orders for new containers in 2009 decreased sharply and some container manufacturing plants stopped their production because of lack of orders. In 2009, only about 270,000 TEUs of containers were produced by container manufacturers in China, representing a decrease of 89% as compared with 2008. The sharp fall in demand for containers led to a significant drop in demand for container coatings, which resulted in a steep decline in container coating orders placed with COSCO Kansai Companies in 2009. During the year, total sales volume of container coatings for COSCO Kansai Companies amounted to 3,835 tonnes, representing a significant decrease of 92% as compared with 51,034 tonnes in 2008.

### 1.4.2 Industrial Heavy-Duty Anti-Corrosion Coatings

The industrial heavy-duty anti-corrosion coatings of COSCO Kansai Companies are primarily involved with the industries of bridges, oil storage tanks, port machinery and equipment, nuclear energy, wind energy and specialised vehicles. Confronted with a crisis, COSCO Kansai Companies formulated the objectives to accelerate the pace of adjustment in product mix and make greater effort to explore the industrial coating market in 2009 and commenced many preliminary works. COSCO Kansai Companies secured the confidence of some long term customers, thus laying a solid foundation for future development. Nevertheless, COSCO Kansai Companies recorded sales volume of industrial heavy-duty anti-corrosion coatings of 7,087 tonnes (2008: 10,091 tonnes) during the year, representing a decrease of 30% as compared to 2008, as a result of some industrial coating projects were suspended or delayed due to recession in the global economy and reduction of the export equipment in China, as well as intensified competition in the industry.

In addition, the independent research base and analysis centre set up by COSCO Kansai (Tianjin) was awarded a "High-tech Enterprise Certificate" during the year. COSCO Kansai (Tianjin) was entitled to a preferential enterprise income tax rate of 15% commencing 2009 for a term of three years.

### 1.4.3 Marine Coatings

Jotun COSCO is principally engaged in production and sale of marine coatings in China including China Mainland, Hong Kong and Macau Special Administrative Region. During the year, despite a reduced demand for coatings for repair and maintenance as a result of the vessel repairing business being affected by the market conditions of the shipping market, numerous new build vessels were delivered owing to the prosperous development in the China shipbuilding market over the past few years, while market exploration efforts paid off in a relatively significant scale. Both boosted the sales volume of marine coatings of Jotun COSCO to 64,000,000 litres (equivalent to approximately 92,800 tonnes) (2008: 49,665,000 litres, equivalent to approximately 72,014 tonnes), representing an increase of 29% as compared to 2008. Among which, sales volume of new build vessel coatings amounted to 46,480,000 litres, which fulfilled the supply of coatings to new build vessels aggregating 9,550,000 dead weight tonnages, representing an increase of 54% in sales volume as compared to 2008. Sales volume of coatings for repair and maintenance was 14,850,000 litres, dropped by 10% as compared to 2008. As at 31st December 2009, Jotun COSCO had coating contracts on hand for new build vessels with 34,000,000 dead weight tonnages pending for delivery.

During the year, share of result of Jotun COSCO was HK$101,488,000 (2008: HK$43,787,000), increased by 132% as compared to 2008, which offset the negative impact of reduced demands for container coatings on results from production and sale of coatings segment.

Management Discussion and Analysis

# Trading and Supply of Marine Fuel and Related Products

Oil

By acquiring 18% equity interest in Double Rich and establishing Sinfeng in Singapore, we expect the new segment of trading and supply of marine fuel and related products will rapidly expand and further increase the revenue base of the Group.

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

Sinfeng, a wholly-owned subsidiary of the Company established in Singapore, is primarily engaged in provision of marine fuel supply, trading of marine fuel and related products and broker services for customers which are mainly members of non-COSCO Group. Sinfeng has established extensive and good business cooperation relationship with the famous international oil companies, shipping companies and shipowners of which have representative offices in the region. Currently, its business network primarily covers Singapore and Malaysia, major ports in the Far East region such as Hong Kong, Shanghai and Qingdao; as well as major ports in European and American regions, such as Rotterdam, New York, Long Beach, etc. The setting up of Sinfeng signifies that the Group is determined to expand into the business of marine fuel supply and trading, which will further enlarge the size and scope of the shipping services of the Group.

Since Sinfeng has been established on 18th November 2009, its total sales volume of marine fuel and related products amounted to 11,960 tonnes. Segment revenue from trading and supply of marine fuel and related products was HK$45,565,000. Segment profit before income tax was HK$10,666,000.

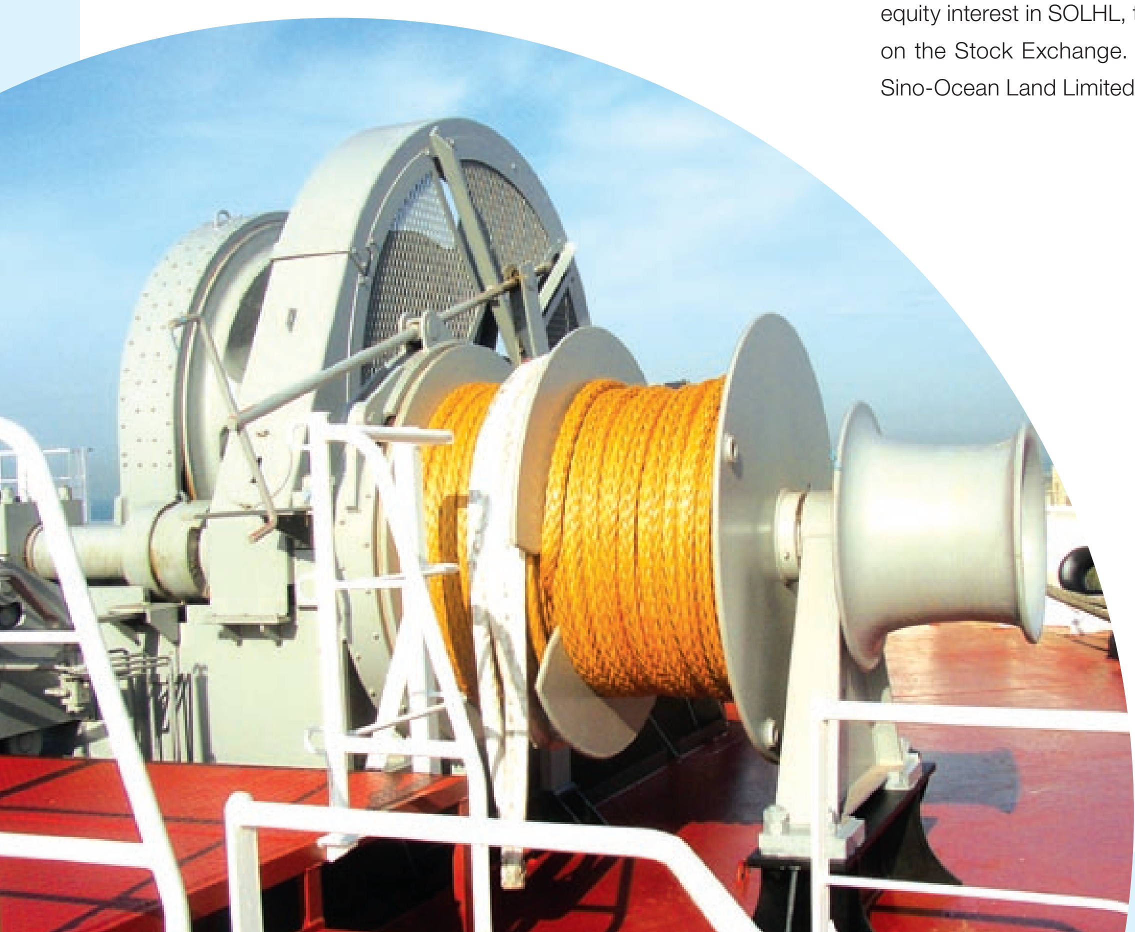
In addition, the Group completed the acquisition of 18% equity interest in Double Rich by the end of April 2009. Double Rich is principally engaged in trading of fuel oil and oil products and provision of bunker oil supply services in Hong Kong, and is specialised in sourcing products like light diesels and fuel oil. Its main customers or end users are shipowners and ship operators. During the year, the profit of Double Rich attributable to the Group was HK$10,522,000.

# Management Discussion and Analysis

## 2. General Trading

CITC became a wholly-owned subsidiary of the Company since December 2008. CITC is principally engaged in trading of asphalt, trading of general marine equipment and marine supplies, as well as other comprehensive trading. CITC is familiar with the China Mainland's market and the market operations and has abundant experience in international trade. It has steady suppliers and stable market share, which will generate synergies with the Group's shipping services business, serving an important platform for the Group to tap into the China Mainland's market.

In 2009, as both global and China economies gradually recovered from the financial crisis, international crude oil price and fuel oil price showed upward trends with big volatility. With buoyant market demands in 2009, the price of domestic manufactured and imported asphalt was significantly boosted accordingly. This led to an enormous price pressure and profit uncertainty with regard to asphalt bidding business. Besides, the huge demand for resources in the asphalt market drained supply and added to the already intensified competition in the market. CITC managed to maintain its existing market share and actively explored new markets under this unprecedentedly keen market competition and resources pressure, and achieved solid sales volume of asphalt in 2009 despite adverse market conditions. During the year, segment revenue from general trading was HK$515,366,000. Segment profit before income tax was HK$731,000.



## 3. Property Investments

In 2009, the segment revenue from property investments was HK$4,997,000 (2008: HK$67,886,000), decreased by 93% as compared to 2008, which was derived from the sale of 12 carparking spaces in Fragrant Garden in Shanghai. However, the Group had a significant and stable share of profit from the equity investment in SOLHL. As a result, segment profit before income tax was HK$636,149,000 (2008: HK$379,315,000), which mainly came from the profit contribution of SOLHL, an associated company of the Company, representing an increase of 68% as compared to 2008.

### 3.1 Investment in SOLHL

As at 31st December 2009, the Group held 16.85% equity interest in SOLHL, the shares of which were listed on the Stock Exchange. SOLHL held 100% interest in Sino-Ocean Land Limited ("SOLL").

SOLL is one of the well known property developers in China Mainland and is principally engaged in the development of medium to high-end residential properties and premium grade office buildings, retail properties, serviced apartments and hotels. Besides with a leading position in Beijing and the Pan-Bohai Rim Area, SOLL also expands into the regions with rapid economic growth such as the Pearl River Delta and the Yangtze River Delta. Benefited from the PRC Government's implementation of appropriately loose monetary policy which supported credit extension, and with the influx of international funds into China's real estate market, the boom in property price was further accelerated, and the year 2009 saw a significant increase in sales area and sales volume of commodity housing throughout China Mainland. During the year, the Group's share of profit from SOLHL was HK$354,481,000 (2008: HK$319,184,000), increased by 11% as compared to 2008.

## PROSPECTS

The global economy is expected to step out of recession in the year 2010, while international trade volumes shall regain growth momentum as world economy recovers. Despite this, there are still uncertainties lurking in the path of a general recovery of the world economy and the recovery will be limited in pace and cautious-minded. Full economic recovery is therefore expected to be a long journey. In China, the upward trend of its economy continues to flourish, accompanied by the reinforced efforts and further implementation of government policies to boost domestic demands and improve people's livelihood. People's confidence in the China market will gradually be reinforced. However, there are still many factors that influence and complicate the situation and many difficulties and challenges remain. In conclusion, although a number of uncertainties still exists, the overall market trend is nonetheless favourable.

In the first year of the post-financial crisis era, the imbalance in supply and demand of the shipping market is estimated to continue. The large number of new build vessels ordered by shipowners in the previous few years when the shipping market was at its peak, has begun to be delivered in recent years. The resulting overcapacity creates an imbalance situation that is likely to extend over a period of time longer than that required for the recovery of international trade volumes. Owing to this, new shipbuilding contracts around the world in 2010 may not increase significantly compared to 2009, they are expected to stay at certain low levels for some time. The overall shipping market may continue to recover, but this will be accompanied by intensifying competition. Nevertheless, the PRC Government's continued initiatives to stimulate the economy and the promulgation of policies such as the "Plan for Readjustment and Revitalization of the Shipping Building Industry" may help stabilise the shipping industry and shipbuilding industry in a broader context. In addition, given the backlogs of orders from previous times, this and the coming year will be the peak period for new build vessel delivery. These factors shall be favourable to the Group, as the core businesses are based upon the shipping services industry.

Under such uncertainties, the prospects of the industry are challenging but not short of opportunities. There will be difficulties as well as favourable conditions. The Group, together with its various shipping services subsidiaries, will closely monitor the relevant market dynamics and carry out timely adjustments in an appropriate manner in order to create larger value for shareholders. Specific measures are as follows:

For ship trading agency services, as affected by the credit crunch and overcapacity of shipping sector, the slump in shipbuilding market around the world will continue. Meanwhile, the revival in the shipping market and optimistic views concerning future economic development led to increasingly active trading in second-hand vessels and new vessel resale markets. The "Plan for Readjustment and Revitalization of the Shipping Building Industry" announced by the PRC Government in June 2009 is expected to relieve the current difficulties in ship financing and such efforts will prove beneficial to the stable development of the shipbuilding market. Confronted with this difficult situation in the global ship trading market of 2010, COSCO Ship Trading will, on the one hand, coordinate with the shipowners and shipyards with every effort to ensure effective execution of the existing contracted orders. On the other hand, it will seize the new opportunities arising in the active markets of new vessel resale, second-hand vessels and vessel dismantling. In the meantime, exploration of business activities with non-COSCO Group companies will develop new business channels and business drivers. Our overall service quality will be improved by further enhancing and strengthening internal management. COSCO Ship Trading will continue to expand into new businesses in ship trading agency to create better operating results.

For marine insurance brokerage services, despite a slight improvement in the global shipping market, where signs of rental reversal and bottoming out of vessel price have appeared, such improvements are still insufficient to induce shipowners to consider raising their insured sums. Therefore, commission income from existing business is not expected to increase in 2010. Nevertheless, demand for marine insurance will increase in line with the increased volume of new build vessel delivery. Confronted with intensifying market competition, COSCO Insurance Brokers will, while consolidating its existing business with stable development, strengthen efforts in expanding business and procuring new customers, strive to breakthrough

with respect to hull and machinery co-insurance, and actively pursue markets for new insurance products. COSCO Insurance Brokers will also enhance marketing capabilities, strengthen risk management and reduce costs, in order to achieve greater operating results. Furthermore, COSCO Insurance Brokers will continue to position itself appropriately for the development of insurance brokerage business of newly delivered vessels of COSCO Group, and put more efforts in developing business with potential customers such as regional shipping companies.

For supply of marine equipment and spare parts, shipping companies around the world are still confronted with varying degrees of cost pressure. As such, their policy of stringent cost control is expected to continue in 2010 and the procurement of spare parts will reduce accordingly, which means market demand for marine spare parts will hardly recover. In order to maintain market share under the market downturn and keen competition, Yuantong will further optimise its customer management policy to strengthen efforts in maintaining and expanding customer base, while improving the level and efficiency of its services. Apart from designated marine equipment and spare parts supply services, Yuantong will take initiative in providing various integrated services, including technological solution, procurement planning, product portfolio, technological service, delivery logistics, etc., with a view to gaining additional competitive advantages. At the same time, Yuantong plans for the setting up of new network for overseas spare parts supply business and will forge closer relationship with shipowners and shipyards in order to explore more business opportunities outside COSCO Group. Manufacturers' discounts will be sought on the principle of mutual benefits in order to effectively enhance the gross profit margin of its businesses, thus maximising its profit. In addition, Yuantong will be integrated with other businesses of the Group for better synergies in order to further explore business opportunities in the China Mainland's market.

For production and sale of coatings, international trade volumes will gradually grow in 2010 as a slow recovery in the real economies of many countries is underway. The idle rate of container vessels may still be high, but actual utilisation volumes of containers have already bottomed out. Given the concerns over trading prospects, container owners remain cautious. Therefore, the manufacture volume of containers will gradually increase but there will not be any manufacturing plans with considerable volume. As the competition in the container coating market become more intense, COSCO Kansai Companies will strive to reduce procurement costs, strengthen internal management, optimise business operation process and enhance market competitiveness. In addition, COSCO Kansai Companies will well prepare themselves for quick capture of opportunities once the market regains momentum by continuously maintaining a close relationship with key customers and excelling at expanding their market share. For industrial heavy-duty anti-corrosion coatings, it is expected that the industrial heavy-duty anti-corrosion coating market in China will steadily grow driven by China's economic recovery and the implementation of a series of domestic demand boosting and infrastructure policies in China Mainland. The larger infrastructure construction scale will drive the demands for industrial coatings used in machinery equipment and ancillary industries. Furthermore, new energy industry is expected to go through a period of rapid growth under China's new policy planning on the development of that industry, demands for coatings used in nuclear power and wind power generation will ramp up significantly. COSCO Kansai Companies will focus on development of industrial heavy-duty anti-corrosion coating products by enhancing technological absorption as well as research and development, while efforts will be made to increase technological reserve. COSCO Kansai Companies will also monitor market changes closely to carry out timely adjustments on its product mix, while putting in more efforts on new featured businesses such as industry heavy-duty anti-corrosion coatings for bridges, oil storage tanks as well as

wind and nuclear power generators. For marine coatings, after taking into account the supply and demand dynamics in the international shipping market, an extended period of time is still required for the shipping market to recover. Generally speaking, it is expected that overall market demand for coatings for new build vessels will be relatively stable, since new build vessels ordered in the past are scheduled to be delivered in the coming two to three years. Facing keen market competition, risks of order cancellation and requests for delay in vessel delivery, Jotun COSCO will grasp the contracted orders for coatings for new build vessels, at the same time it will improve upon its marketing and customer relationship maintenance, enhance the quality of its service teams and enhance marketing efforts to seek new orders. Leveraging on the new establishment of Jotun COSCO Marine Coatings (Qingdao) Co. Ltd. (中遠佐敦船舶塗料（青島）有限公司), Jotun COSCO will properly schedule its orders and production capacity. By imposing strict control on production quality and continuous improvement of service quality, Jotun COSCO's position in China's marine coating market will be further consolidated and enhanced.

The Group commenced its business of trading and supply of marine fuel and related products in 2009, the development of such business will further enhance the existing shipping services business segments of the Group. In 2010 and in the foreseeable future, the Group will strengthen its efforts in expanding its core customer base and increase the market share of Sinfeng in the trading supply of marine fuel oil market, in order to make it an integral part of the Group's shipping services platform.

The "dual-wheel driven (雙輪驅動)" development strategy employed by the Group seeks to excel at the production and operation of various business units and consolidate existing businesses. At the same time, strategic research and development will be conducted to explore future development direction based on the development strategies of the Group. The Group will also explore quality projects to establish its core competitiveness, actively implement proactive capital management and identify opportunities to expand into the market inside and outside COSCO Group, with the aim of expanding the operation scale of the Group's core business in shipping services. Through expanding the service network and enhancing the overall competitive strength of the shipping services business, the Group will realise sustainable and better development.

In addition, the Group will strengthen its safety management to ensure stable and safe production throughout the year. Establishment of a comprehensive risk management system will be promoted and implemented to enhance internal control, and to enhance quality of risk monitoring. Furthermore, the Group will further strengthen its corporate management and enhance its corporate governance level, while the quality of its products and services will be improved to consolidate its core competitiveness. We will also strive to further strengthen the synergies between business units through business restructuring within the Group. Therefore, the overall capability of creating profit of the Group can be enhanced.

Overall, under the full support of COSCO and COSCO (Hong Kong) Group Limited, the Group aims to build a strong reputation and outstanding brand awareness in shipping services industry on the backup of a steadily growing China shipping services industry, and become a specialized and leading shipping services provider in the industry by providing customers with diversified professional services.

# Investor Relations

COSCO international believes that investor relations management is a long-term task. Given that, we did not cut down on investor relations work in the face of the instability in capital market. Instead, we took this opportunity to increase communications with more sell-side analysts and different types of investors to further fortify investor confidence.

## RENEWED MECHANISM TO IMPROVE INFORMATION DISCLOSURE

The investor relations policy of COSCO International has always been based on the grounds of proper information disclosure, strengthening two-way communications with the shareholders and investors, and enhancement of transparency and corporate governance level of the Company, with the aim of increasing the investment value of the Company. Under the requirements of laws and regulations, we have formulated the Regulations for Investor Relations Management and the Information Management Policy to provide a clear guidance for the investor relations personnel to conduct investor presentations, categorise the various types of information and regulate the disclosure procedures in order to sufficiently safeguard the "right to know" of the investors and shareholders. We communicate with the shareholders and investors in an honest, equal and active manner through fair, just and open channels. The investment value of the Company could be enhanced through promoting better understanding and recognition of the Company among the investors and shareholders.

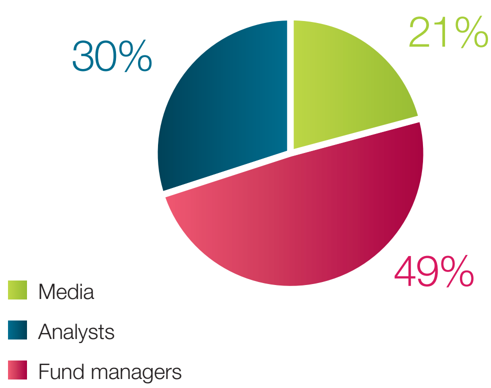
In 2009, information disclosure of COSCO International reached new heights. Through participating in the 2009 IR Global Rankings activity organised by MZ Consult, a renowned global investor relations and financial public relations company, we reviewed information disclosure on our corporate website and benchmarked with the best practices on the outstanding investor relations website of other enterprises around the world. We revamped our corporate website, which enriched the information disclosure qualitatively and quantitatively to the stakeholders such as the shareholders, investors, the financial media and the public and further enhanced the transparency of the Company. In addition, a brand-new layout and interactive technology were used in the website to attract the eyeballs of site visitors and bring investors closer to the Company. Meanwhile, we amended the Website Management Policy of the Company to improve regulatory information disclosure on timeliness and accuracy, so as to ensure that the shareholders and investors can obtain timely, accurate and complete information through our corporate website.


## INITIATING COMMUNICATIONS WITH INVESTORS TO BOOST THEIR CONFIDENCE

The management of COSCO International believes that good investor relations management is an important element of corporate strategic management. Therefore, the investor relations personnel of the Company are responsible for setting up a bridge for sharing discloseable information between the Company and the shareholders and the investors. Through this bridge, on one hand, the Company can promptly disclose accurate and complete information to the shareholders, investors, analysts and fund managers, enabling them to assess the investment value of the Company effectively. On the other hand, through the communication with the shareholders and investors, the Company can also learn about their expectations and opinions on the development of the Company as valuable reference information for the management when formulating decisions, thereby further enhancing its corporate governance and transparency in order to build up a solid foundation for greater investment value of the Company.

Global economy suffered from a serious blow in 2009 as affected by the financial tsunami and many companies had to struggle for survival under these adverse circumstances. While market outlook remained uncertain, the investors around the world had worries about corporate operating conditions, and therefore adopted conservative investment strategies. Many companies reduced the frequency and size of their roadshow activities in view of fewer target audiences. However, knowing that investor relations management is a long-term task, COSCO International is convinced that not only we should promote the business opportunities of the Company in buoyant market condition, we should also, even in times of unstable economy, take the initiative to explain to investors the competitive edges of the Company as well as the potential values of the Company in the time of adversity. This helped ease the concerns of investors, and, more importantly, boosted their confidence towards the Company prospects and, in turn, enhanced the investment value of the Company. During the year, the Company met fund managers, analysts and the media for 138 attendances, 84 attendances and 59 attendances respectively, representing a total of 281 attendances (2008: 263 attendances), through multiple channels and active communication in the annual general meeting, results press conferences, analyst presentations, conferences organised by securities firms, company visits, conference calls and individual meetings, as well as luncheons with the media. The increase in number of attendances over the year reflected that the Company did not cut down on investor relations work in the face of the instability in capital market; instead, we took this opportunity to increase communications with more sell-side analysts and different types of investors to further fortify investor confidence.

## BREAKDOWN OF ATTENDANCES AT MEETING WITH THE MANAGEMENT OF THE COMPANY BY PERCENTAGE IN 2009



# Investor Relations

## VARIOUS ACTIVITIES TO DEVELOP INVESTOR RELATIONS

Conducting press conferences and analyst presentations to announce the Company's interim and annual results and answer questions raised by the media and analysts. Webcast of the press conferences have also been posted on the Company's website in 24 hours afterwards to allow access by the shareholders and the investors whenever.

Introducing shareholders' participation in important decisions making of the Company through polling at general meetings, and arranging direct communications between directors, management and the shareholders of the Company.

Arranging regular meetings and conference calls with analysts and fund managers to introduce the operating conditions and future development strategies of the Company.

Participating in corporate presentation conferences organised in different areas by securities firms to present the development strategies and operating conditions of the Company to the investors from various regions.

Communicating with the investment community to learn about more up-to-date information concerning the industry, in order to facilitate future capital operations or financing projects of the Company.

Posting the financial statistics for the recent years, latest investor relations activities and the latest discloseable information of the Company in the investor relations section on the website of the Company.

Dispatching the media, the analysts and the investors, such as fund managers, the latest news of the Company through emails on a timely basis and also simultaneously posting such information on the website of the Company to enhance its transparency.

Arranging financial media gatherings and media interviews with the management of the Company regularly to enhance media relations and increase media coverage on the Company, hence helping the investors and the public better understand the positioning and business activities of the Company as well as its latest news.

## LIST OF INVESTOR RELATIONS AND MEDIA RELATIONS ACTIVITIES IN 2009

| Month | Events |
|---|---|
| Feb | Organising a luncheon for the management to exchange views with the financial media |
| Mar | Organising a press conference and an analyst presentation to announce 2008 annual results of COSCO International<br>Attending the 2008 annual results roadshow organised by DBS Vickers in Hong Kong<br>Attending the 2008 annual results roadshow organised by Nomura International in Hong Kong |
| Sep | Organising a press conference and an analyst presentation to announce 2009 interim results of COSCO International<br>Attending the 2009 interim results roadshow organised by Bank of America Merrill Lynch in Hong Kong<br>Attending the 2009 interim results roadshow organised by DBS Vickers in Hong Kong |
| Oct | Attending the Asia Shipping Corporate Day organised by Goldman Sachs in Hong Kong<br>Attending the Asia 16th Annual China Conference organised by BNP Paribas in Changsha, Hunan Province, China<br>Attending the China Export Day organised by Bank of America Merrill Lynch in Hong Kong |
| Nov | Attending the China Investment Frontier Conference 2009 organised by Goldman Sachs and Gao Hua in Beijing, China<br>Attending the China Investment Summit organised by Bank of America Merrill Lynch in Beijing, China |
| Dec | Attending the Investment Conference organised by Daiwa Securities SMBC in Hong Kong |

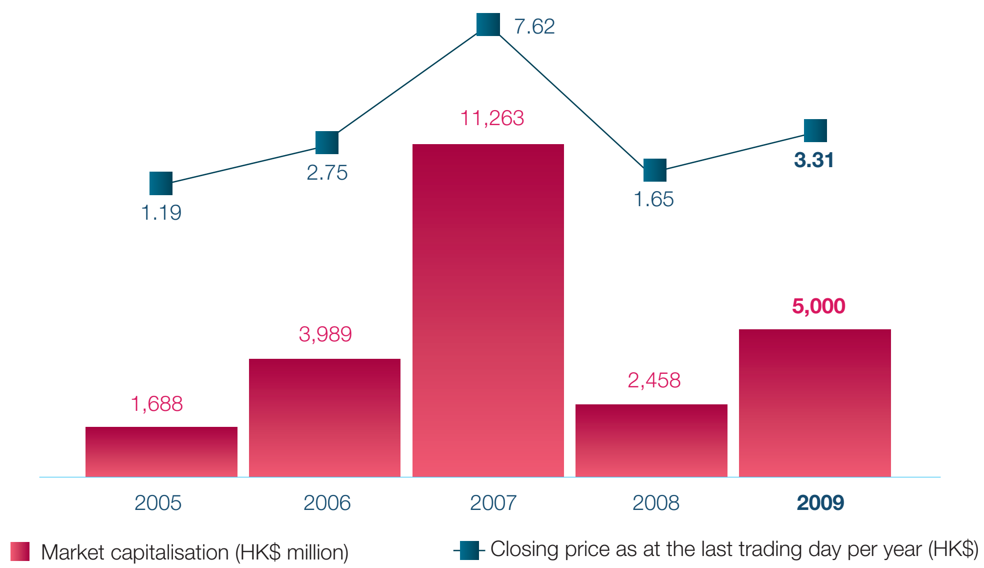
# Investor Relations

## PERFORMANCE OF SHARE PRICE AND TRADING TURNOVER IN 2009

As at 31st December 2009, the closing price of the shares of COSCO International was HK$3.31 (2008: HK$1.65) per share, representing a year-on-year increase of 101%. The shares in issue of COSCO International were 1,510,697,429 shares (2008: 1,489,671,291 shares). The market capitalisation of the Company was HK$5,000,408,000 (2008: HK$2,457,958,000), representing a year-on-year increase of 103%. During the year, the highest share price was HK$4.17 and the lowest share price was HK$1.35. The monthly average closing price, monthly average trading volume and monthly average trading turnover were HK$2.92, 72,562,000 shares and HK$216,412,000 respectively.

## SHARE PRICE AND TRADING TURNOVER PERFORMANCE IN 2009

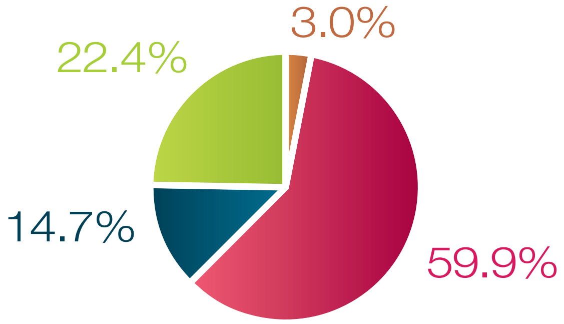

## PERFORMANCE OF SHARE PRICE AND MARKET CAPITALISATION FOR THE PAST FIVE FINANCIAL YEARS



## SHAREHOLDING AND EQUITY STRUCTURE

As at 31st December 2009, approximately 40.1% of shares in issue of the Company was held by the public independent shareholders. According to the register of members of the Company and the participants' shareholding report prepared by CCASS on 31st December 2009, the details of shareholding and equity structure of the Company are set out as follows:

## SHAREHOLDING STRUCTURE BY PERCENTAGE IN 2009




*Note: The major controlling shareholder of the Company is True Smart International Limited, therefore the interests of True Smart International Limited are deemed to be the interests owned by COSCO Hong Kong and in turn the interests of COSCO Hong Kong are deemed to be the interests owned by COSCO under the Securities and Futures Ordinance.*

## EARNINGS PER SHARE AND DIVIDENDS PER SHARE

The basic earnings per share of the Group for 2009 was 56.25 HK cents (2008: 33.18 HK cents). A stable dividend policy has been adopted by the Company to maintain a dividend payout ratio (on recurrent operating profit) of not less than 25%. The Board has recommended a final dividend of 8.40 HK cents (2008: 6.40 HK cents) per share, together with the interim dividend of 1.00 HK cent (2008: 1.00 HK cent) per share paid for 2009, making total dividends of 9.40 HK cents (2008: 7.40 HK cents) per share for the whole year and a dividend payout ratio of approximately 36% (2008: 25%) for the whole year in terms of recurrent operating profit.

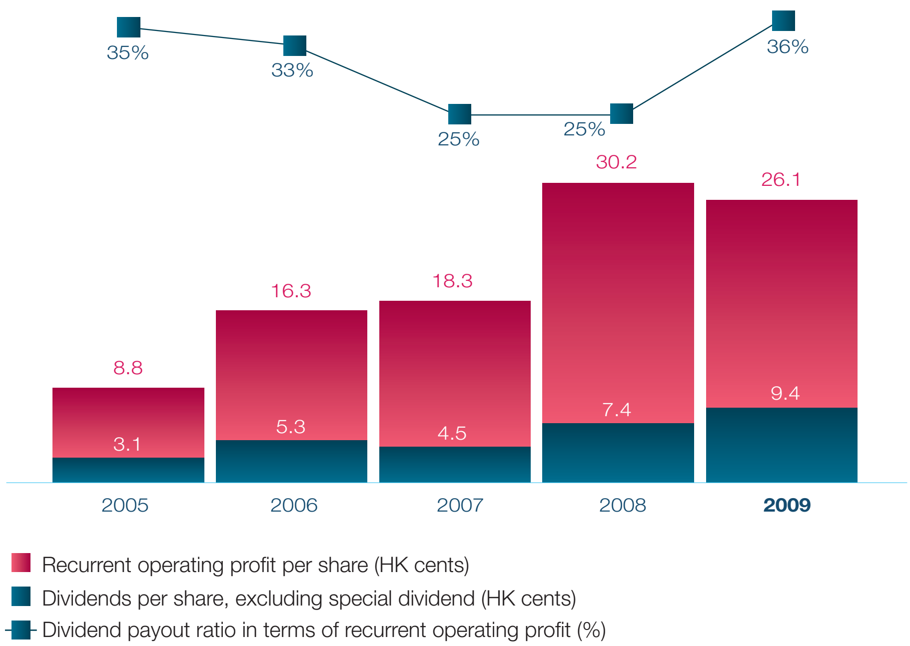
## BASIC EARNINGS PER SHARE, DIVIDENDS PER SHARE AND DIVIDEND PAYOUT RATIO FOR THE PAST FIVE FINANCIAL YEARS

| | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| Basic earnings per share (HK cents) | 35.04 | 42.90 | 175.95 | 33.18 | **56.25** |
| Recurrent operating profit per share (HK cents) | 8.80 | 16.30 | 18.30 | 30.20 | **26.10** |
| Dividends per share (HK cents) | 4.50 | 5.30 | 6.30 | 7.40 | **9.40** |
| – Interim and final dividends per share (HK cents) | 3.10 | 5.30 | 4.50 | 7.40 | **9.40** |
| – Special dividend per share (HK cents) | 1.40 | – | 1.80 | – | **–** |
| Dividend payout ratio in terms of net profit (%) | 13 | 12 | 4 | 22 | **17** |
| Dividend payout ratio in terms of recurrent operating profit Note (%) | 35 | 33 | 25 | 25 | **36** |

*Note: The dividend payout ratio in terms of recurrent operating profit is calculated by dividing dividends per share (excluding special dividend) for the year by recurrent operating profit per share.*

# Investor Relations

## DIVIDEND PAYOUT RATIO IN TERMS OF RECURRENT OPERATING PROFIT FOR THE PAST FIVE FINANCIAL YEARS AT A GLANCE




## MARKET RECOGNITION

With the joint efforts of the management and all staff, through good investor relations and adequate information disclosure, COSCO International gradually obtains market support and recognition. Last year, COSCO International was awarded as one of the top five companies in the ranking of Financial Disclosure Procedures in the Greater China region in 2009 Investor Relations Global Rankings. Besides, the Company's 2008 Annual Report won four awards in the shipping services category of the 23rd International ARC Awards Competition, including the Silver Award for "Interior Design", the Bronze Award for "Financial Data", the Bronze Award for "Cover Photo/Design" and the Bronze Award for "Printing & Production". The revamped website of the Company won the Bronze Award in the category of the "Redesign/Relaunch: Stakeholders Communications" in the 9th International iNOVA Awards Competition. Such awards and honours represented that the public fully recognised the Company's continued efforts in information disclosure and investor relations. In the future, the Company will continue to put great efforts to further enhance the transparency and disclosure of the corporate information, enabling more investors to understand the development strategies, business model and the management culture of the Company, thus improving reputation and investment value of the Company.

## INVESTOR RELATIONS PROSPECTS

Looking forward, despite the challenges such as the rather uncertain global economic recovery and lack of investor confidence in the future, the Company strongly believes that maintaining effective and thorough communication with its shareholders and investors irrespective of the market conditions is a prerequisite for achieving a high level of investor relations. Through the high transparency and timely disclosure of information, COSCO International will continue to take the initiative to maintain two-way communication with the shareholders, investors, analysts and the media through fair, just and open channels to boost their confidence in the Company, and thus further optimising the shareholding structure of the Company and maximising the value for shareholders. The specific measures include:

1. Continuing to communicate and exchange views with its shareholders and investors in Hong Kong and overseas as well as the potential investors in an honest and equal manner to help them fully understand the development strategies of the Company in order to attract more long-term institutional investors, thus optimising the shareholding structure.

2. In line with the development of the Company, maintaining close relations with securities firms, and actively participating in roadshows organised by securities firms in order to increase the Company's transparency and attract more sell-side analysts to cover the Company, thus raising the public awareness towards the Company.

3. Obtaining more industry latest news and investors' opinions and suggestions on the Company by reinforcing the communication with the investment community, so as to provide valuable references for corporate strategic decisions making and future development plans.

4. In compliance with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), actively studying the feasibility of disclosing more information on the operating conditions of the Company which enables the public to receive the timely and accurate information of the Company through adequate information disclosures, so as to improve their understanding of and recognition towards the Company.

5. Further making use of the website of the Company as a medium to release the latest news of the Company to the public; releasing more timely and accurate information on the website so as to facilitate investors' search and access of information of the Company.

## FREQUENTLY ASKED QUESTIONS

### 1. What are the development strategies of COSCO International in 2010?

**ANS:** Looking forward in 2010, the global economy in the post-financial crisis period sees a gradual increase in demand for trade by ocean and an improvement in the operating conditions of the shipping industry. The overall situation will be better than that of 2009. However, it is expected that the shipping industry still face difficulties to achieve a full recovery in the short run. In face of various challenges and opportunities, COSCO International will continue to consistently uphold its established strategic development position by taking an active approach for opportunity management and enhancement of innovative development model. By optimising and strengthening its existing businesses and reinforcing capital operation, COSCO International will try to realise a striding development in its core shipping services. In order to further uplift its operating profitability during the post-financial crisis period, COSCO International will keep a close eye on the launch of and the amendment to the shipping service-related policies, and will make corresponding timely adjustments to its operating strategies. Meanwhile, with the support of COSCO and COSCO Hong Kong, the Group will take an aggressive approach to discover and explore the resources inside and outside COSCO Group in the domestic and overseas markets. Through continuous consolidation and restructuring as well as capital operation with a view to strengthening and developing its shipping services, and enhancing its corporate core competitiveness, COSCO International will strive to become the global leading shipping services provider, thus making greater contribution to the maximisation of the shareholders values.

### 2. What is COSCO International's policy on dividend payout? Does it have a stable dividend payout ratio or does it depend on the business situation?

**ANS:** To fulfil its commitment to providing maximum returns to our shareholders, the Board is pleased to share our fruitful results with them. Our usual practice is to distribute not less than 25% of the recurrent operating profits as dividend. The payment of future dividend will be subject to the market changes and capital requirement of the development projects of the Company in the future.

### 3. Will the Company place new shares to finance the payment for its potential acquisitions?

**ANS:** As at the end of December 2009, the total liabilities to total assets ratio was at a healthy level of 11.9%. At such level, the Company could finance its projects through various means of fund raising such as borrowing from banks, issuing bonds, disposing of the non-core assets and placing new shares. The Company will review these methods from time to time and select the appropriate one according to the prevailing market conditions so as to maximise the corporate profitability and the shareholders' values.

## 4. Amongst COSCO Group, what kind of non-listed businesses are related to shipping services?

**ANS:** COSCO Group is a diversified and multinational conglomerate which focuses on shipping businesses. Other than shipping, logistics and ship building businesses, the rest of COSCO Group's assets are relating to shipping services. COSCO International has been interested in all kinds of shipping services businesses under its parent company and will fully cooperate on the reorganisation of COSCO Group's businesses to realise the consolidation of existing businesses and the expansion of new businesses. COSCO International will achieve the sustainable development and further enhance its overall core competencies.

## 5. Amongst shipping services, what is the revenue proportion from COSCO group customers?

**ANS:** In 2009, revenue from COSCO Group's customers accounted for about 42% (2008: 26%) of the segment revenue from shipping services, of which the proportions of the segment revenues from ship trading agency, marine insurance brokerage and supply of marine equipment and spare parts businesses derived from COSCO Group's customers were relatively high, i.e. 69%, 72% and 69% respectively. Segment revenue from sale and production of coatings from COSCO Group's customers accounted for about 2%.

## 6. Will the shipping services business be affected by the cyclical change of the shipping industry?

**ANS:** The cyclical change of the shipping industry mainly involve the fluctuations on transportation fees which have no direct impact on the income of shipping services. In addition, during the depression of the shipping industry, some ship owners will order additional new vessels at lower prices and replace equipment. So that, when the market recovers they will be well positioned to cope with the higher demand and expand market shares. Therefore, in principle, the demand for shipping services is relatively stable and less volatile than the shipping industry and its cycle is not the same as the shipping industry. However, a sustained downturn in the shipping market will cause ship owners to aggressively cut costs, which in turn triggers pressure to reduce commission income rate of shipping services industry and lower demands for shipping services.

## 7. Many shipping enterprises still halt or reduce their shipbuilding plans for 2010, cancel or delay new build ship orders in view of the forecast supply-demand imbalance in the shipping market. To what extent will this affect the ship trading agency business of COSCO International?

**ANS:** Affected by the declining shipping market, the phenomenon of cancellation or delay in new build ship orders does exist. Benefited from the prosperous development of the shipbuilding market in the previous few years and the delayed delivery from the ship owners, a significant amount of new build vessels will be delivered in the forthcoming two consecutive years (according to the estimates from Clarkson Research Services Limited, the new build vessel delivery volume will amount to 130 million dead weight tonnages in 2010 and 2011 respectively). It is expected that such positive aspects will have positive effect on the Group's ship trading agency business. Presently, a majority of the new build agency businesses of COSCO Ship Trading comes from companies of COSCO Group. Although the credit crunch and decline in the shipping market will affect the business opportunities of new build orders contracts to be received by COSCO Ship Trading in 2010, COSCO Group has always maintained stable plans for building new vessels and the impact on COSCO Ship Trading will not be substantial. In respect of dockyards, even though certain small shipbuilders may experience difficulties due to financing and technical problems, it is expected that the risks of order cancellation are relatively low because COSCO Ship Trading placed most of the new build ship orders under its agency services to relatively large dockyards with strong financial position. Besides, plenty of new build ship contracts ordered through COSCO Ship Trading before the financial crisis are to be delivered in the coming three to four years; the second-hand vessels and new vessel resale markets are active and the price of second-hand vessels has already bottomed out and tended to stabilise. We expect these businesses will bring forth steady income to the Company in the coming years.

### 8. When will the commission revenue derived from ship trading agency services be recognised?

**ANS:** Agency commission is the major revenue of COSCO Ship Trading. Though agency commission revenue of COSCO Ship Trading is collected in stages based on the ship building schedule, such commission revenue on new vessels will only be recognised upon the delivery of the new vessels. Commission revenue on trading of second-hand vessels is payable within a specified period commencing from the delivery of the vessels by the vendor to the buyer and will be booked by the end of that period.

### 9. What are the prospects of the marine insurance brokerage market in Hong Kong and in China Mainland?

**ANS:** In early 2010, though the price of second-hand vessels has already bottomed out and tended to stabilise, the price is still relatively low and the ship owners do not raise their insured sums. Therefore, the growth of insured sums of the related hull insurance and value-added insurance is limited and, in turn, that of the related commission revenues is limited. As the ship charter market is not active, commission revenue from charterer's liabilities insurance is also likely facing reduction. However, as more new vessels will be delivered and put into operation, the increased fleet size will be beneficial to the development of marine insurance brokerage business.

The marine insurance businesses for vessels registered in China Mainland are currently operating under traditional practice, i.e. insurance issues are being negotiated directly by the insurance companies with the ship owners, rather than through a more professional, independent insurance broker with stronger bargaining power as usually practicing internationally. With the liberation of the insurance market in China Mainland, the demand for insurance services has been on the rise and the need to seek advice in relation to vessels registered in China Mainland from professional insurance brokers has been increasing. Currently, over two-third of the vessels of COSCO Group's fleet are registered in China Mainland. Therefore, the Company will take proactive strategies in 2010 to expand its insurance brokerage businesses to the vessels registered in China Mainland within COSCO Group, in order to offset the negative effects from the decrease in insured sums resulted from fall in vessel prices.

### 10. Jotun COSCO recorded a significant increase in sales volume of marine coatings in 2009. What are the prospects of the marine coatings market?

**ANS:** It is anticipated that the international shipping market will continue to recover in 2010. As it is expected that 2010 will still be the peak year for the deliveries of new vessels, the demand for new build vessel coatings will be stable. Unless a large number of new build ship orders are cancelled, the sale of new build vessel coatings in 2010 will be similar to or slightly higher than that in 2009.

### 11. COSCO Kansai Companies plan to focus on the industrial coatings business. What are the prospects of the industrial coatings market? Which type of industrial coatings products will be the focus of the companies?

**ANS:** It is expected that the market demand for the industrial heavy-duty anti-corrosion coatings in China will grow steadily due to the global economic recovery and the sustainable growth of China economy, together with the policies to expand domestic demand and infrastructure projects in China Mainland. The expansion of the infrastructure projects will boost the demand for the industrial coatings for the machinery equipment and accessories industries. Moreover, under the national planning of the new energy development, it is expected that new energy industry will grow at a rapid pace, in which the demand for coatings for nuclear and wind power generators will see a solid growth. To cope with the demand of different industries, COSCO Kansai Companies will carry out an in-depth research on the industrial coatings market to improve their sales and marketing strategies, and devote themselves to developing the southern China market and gaining greater market share of industrial coatings. They will focus on the sale of the coatings for bridges and machinery equipment and accessories such as road building machines, water conservancy machines, electric power machines, as well as for oil storage tanks, wind and nuclear generators.

## 12. What are the major ingredients of the coating products?

**ANS:** The refined oil products and metal products are the main ingredients of the coating products. The oil-refined products such as epoxy resin, methylbenzene and solvent account for approximately 64% of the total production cost, while the metal products, including titanium dioxide and zinc dust, account for approximately 31% of the total production cost.

## 13. Will there be significant increase in demand for container coatings in 2010?

**ANS:** The demand for container coatings mainly depends on the number of new containers. It is expected the international trade volume in 2010 will gradually grow as the real economies of various countries have slowly recovered. Despite the idle rate of container vessels remains high, the actual containers usage volume has bottomed out. In addition, inventories of container manufacturers have basically been consumed. Thus, it is necessary to manufacture new containers, which leads to a gradual growth of container production. According to the estimates of the industry, the demand for new containers shall be approximately 1,000,000 TEUs in 2010, representing a significant increase over 2009 (approximately 270,000 TEUs) but still much lower than the annual container production volume of more than 2,000,000 TEUs in the previous years.

## 14. What are the business particulars of Sinfeng? In what way does the setting up of this company help the future business development of COSCO International?

**ANS:** Sinfeng will focus on the public services of oil related products, in particular, bunker oil supply service, trading of bunker oil and oil related products (such as asphalt) agency business. The business network of Sinfeng primarily covers Singapore and Malaysia and other major ports in the Far East region, such as Hong Kong, Shanghai and Qingdao; and the major ports in Europe and the United States of America, such as Rotterdam, New York, and Long Beach. By acquiring 18% equity interest in Double Rich in April 2009 and establishing Sinfeng in Singapore, COSCO International comprehensively develops the trading and supply of marine fuel and related products business. It is expected such business will rapidly expand, which will further increase the revenue base and profitability of COSCO International.

## 15. How does the increase in oil prices affect the gross profit and the gross profit margin of the oil supply business, trading of oil and asphalt business? Are there any other factors which will lead to a change in their gross profit margins?

**ANS:** The profit made by Sinfeng falls within a reasonable market level and also depends on the demand of customers as its profit model is built on the profits made on the spread between contracted transaction amounts. The gross profit of Sinfeng is generally calculated by multiplying the business volume by a fixed spread. Thus, a change in oil prices has little direct impact on the unit gross profit but only affects the calculation of the gross profit margin. An increase in oil prices will exert downward pressure on the gross profit margin, but the gross profit margin may rise if oil prices decrease. However, escalating oil prices may hamper the global economic recovery, and in turn affect the future business expansion of Sinfeng, and may affect its profit.

## 16. What will be the market share of the oil supply business of Sinfeng in Singapore accounted for if according to the business volume of marine fuel provided for COSCO Group's existing non-COSCO customers[note]?

**ANS:** The bunker oil volume of Singapore market in 2009 amounted to approximately 35 million tonnes, of which the market share of the marine fuel sales volume of COSCO Group's existing non-COSCO customers accounted for approximately 2.3%. Thus, from the perspective of market share, Sinfeng has great development potential in future.

*(Note: Sinfeng's current businesses come from a subsidiary of COSCO Group which has ceased operation already.)*

17. How does Sinfeng hedge the risks resulting from a change in oil prices in its operation?

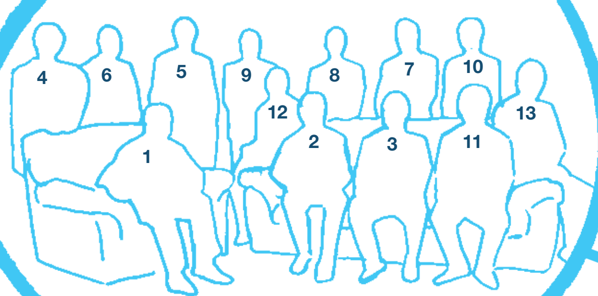
**ANS:** It is unnecessary for Sinfeng engaged in the oil supply business to carry out any hedging activities if the fuel oil suppliers provide it with a fixed price quote. Nevertheless, Sinfeng has to carry out hedging activities through a fellow subsidiary to avoid the risk of price fluctuation if the fuel oil suppliers provide it with a variable price quote but it provides its clients with a fixed price quote. Hedging activities are carried out through a fellow subsidiary in the form of non-deliverable papers with a view to locking up the fuel oil costs and profits. A prevailing non-deliverable fuel oil paper in the international market is an OTC Swap agreement which exchanges a variable price and a fixed price. The settlement price of the variable price in the agreement is generally based on the average spot price of the settlement month of three major ports, i.e. Singapore, Rotterdam or East Coast of the United States of America. Whether the oil suppliers provide a variable price quote or a fixed price quote depends on the length of delivery time and the market price fluctuations.

## A GLANCE AT FIVE-YEAR FINANCIAL STATISTICS

| For the year ended and as at 31st December | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| Total number of shares issued (million) | 1,418 | 1,451 | 1,478 | 1,490 | **1,511** |
| Closing price Note (HK$) | 1.19 | 2.75 | 7.62 | 1.65 | **3.31** |
| Market capitalisation Note (HK$ million) | 1,688 | 3,989 | 11,263 | 2,458 | **5,000** |
| Basic earnings per share (HK cents) | 35.04 | 42.90 | 175.95 | 33.18 | **56.25** |
| Price/earning ratio Note (times) | 3.40 | 6.40 | 4.33 | 4.97 | **5.88** |
| Dividends per share (HK cents) | 4.50 | 5.30 | 6.30 | 7.40 | **9.40** |
| Dividend payout ratio (by net profit) (%) | 13% | 12% | 4% | 22% | **17%** |
| Dividend payout ratio (by recurrent operating profit) (%) | 35% | 33% | 25% | 25% | **36%** |
| Net asset value per share (HK$) | 1.12 | 1.52 | 3.32 | 3.72 | **4.25** |
| Return on total assets (%) | 17.1% | 18.9% | 51.9% | 7.3% | **11.4%** |
| Return on shareholders' equity (%) | 36.6% | 32.5% | 72.5% | 9.4% | **14.1%** |
| Net cash-to-shareholders' equity ratio (%) | 73.3% | 35.6% | 16.6% | 21.2% | **19.66%** |
| Current ratio (times) | 2.40 | 1.90 | 1.97 | 1.87 | **2.43** |
| Quick ratio (times) | 1.80 | 1.40 | 1.61 | 1.63 | **2.04** |
| Interest coverage (times) | 9.10 | 47.30 | 60.50 | 39.76 | **78.7** |

*Note: As at the last trading day per year*

# Profile of Directors and Senior Management




**1** Mr. ZHANG Fusheng
*(Chairman)*
*Executive Director*

**2** Mr. WANG Futian
*(Vice Chairman)*
*Executive Director*

**3** Mr. LI Jianhong
*Non-executive Director*

**4** Mr. JIA Lianjun
*Non-executive Director*

**5** Mr. LIANG Yanfeng
*Executive Director*

**6** Mr. WANG Xiaoming
*Executive Director*

**7** Mr. WANG Xiaodong
*(Managing Director)*
*Executive Director*

**8** Mr. MENG Qinghui
*Non-executive Director*

**9** Mr. CHEN Xuewen
*Non-executive Director*

**10** Mr. LIN Wenjin
*Executive Director*

**11** Mr. KWONG Che Keung, Gordon
*Independent Non-executive Director*

**12** Mr. TSUI Yiu Wa, Alec
*Independent Non-executive Director*

**13** Mr. JIANG, Simon X.
*Independent Non-executive Director*

## DIRECTORS

### 1. Mr. ZHANG Fusheng

*(Chairman)*

aged 60, has been an Executive Director and the Chairman of the Board of the Company since July 2008. He is also the Secretary of the CPC sub-committee and an Executive Vice President of China Ocean Shipping (Group) Company, the Vice Chairman and a Non-executive Director of China COSCO Holdings Company Limited (listed in Hong Kong and the PRC), a Director of COSCO Container Lines Company Limited and China Bohai Bank Co., Ltd., the Chairman of COSCO Oceania Pty Limited. Mr. Zhang had been a Deputy Director of the No.1 division of Tianjin Port Authority, a Deputy Director of Personnel and Labour Department of the Ministry of Communications of the PRC ("MOC"), a Director of Institutional Reform and Regulatory Department of the MOC (spokesman of MOC), and Vice-president of the Beijing branch of Bank of Communications, the Secretary of the CPC sub-committee of COSCO Container Lines Company Limited and Shanghai Ocean Shipping Company. Mr. Zhang has over 30 years of experience in the administrative management and operational management of shipping business, and also has experience in financial management and business operation. Mr. Zhang is an expert in management, his extensive experience has enabled him to demonstrate outstanding leadership qualities throughout the course of development of COSCO Group. Mr. Zhang has a Master degree in Transportation Management and Engineering from Wuhan University of Communications Science, and is a Senior Engineer and Senior Political Officer. Mr. Zhang is a member of the 10th and 11th National People's Congress of the People's Republic of China, and is a member of the Foreign Affairs Committee of the 11th National People's Congress of the People's Republic of China.

### 2. Mr. WANG Futian

*(Vice Chairman)*

aged 60, has been an Executive Director of the Board of the Company since March 2007 and appointed as Vice Chairman since October 2008. Mr. Wang is a director of various subsidiaries of the Company, the Executive Vice Chairman and President of COSCO (Hong Kong) Group Limited, the Vice Chairman of the Tenth Term of Office of The Hong Kong Chinese Enterprises Association and the Vice Chairman of executive committee of Hong Kong Shipowners Association. Mr. Wang graduated from Dalian Maritime University of the PRC, in Navigation and graduated from Capital University of Economics and Business in Postgraduate Studies in Business Administration and has the Senior Engineer qualification awarded by the Ministry of Communications of the PRC. Mr. Wang had been a Marine Captain, Vice President and Chief Legal Counsel of China Ocean Shipping (Group) Company, Executive Director of COSCO Pacific Limited, Chairman of the Supervisory Committee and Director of COSCO Container Lines Company Limited and a member of senior management of Dalian Ocean Shipping Company. Mr. Wang has rich experience in the operation and management of large-scale shipping enterprises. Mr. Wang previously served as Non-executive Director of China COSCO Holdings Company Limited (listed in Hong Kong and the PRC) until his resignation in January 2007.

We are committed to moving the company forward.

# Profile of Directors and Senior Management

## 3. Mr. LI Jianhong

aged 53, has been an Executive Director of the Board of the Company since March 2002 and re-designated as Non-executive Director since July 2008. He is also an Executive Vice President, Chief Risk Officer and Chief Information Officer of China Ocean Shipping (Group) Company, Non-independent and Non-executive Director and Chairman of COSCO Corporation (Singapore) Limited (listed in Singapore), Chairman of COSCO Shipyard Group Co., Ltd., COSCO International Ship Trading Company Limited, Dalian COSCO Shipbuilding Industry Co., Ltd. and Chinese-Tanzanian Joint Shipping Company; Vice Chairman of China International Marine Containers (Group) Co., Ltd. (listed in the PRC), Suzhou Industrial Park Company Limited and Nantong COSCO KHI Ship Engineering Co., Ltd.; Non-executive Director of China COSCO Holdings Company Limited (listed in Hong Kong and the PRC); Executive Director of COSCO Pacific Limited (listed in Hong Kong) and Director of COSCO Logistics Co., Ltd., Boao COSCO Co., Ltd. and COSCO Pacific Investment Holdings Limited. Mr. Li is the Vice Chairman of Chinese Society of Naval Architecture & Marine Engineering and China Association of the National Shipbuilding Industry. Since 1986, Mr. Li had been the General Manager of Nantong Shipyard, Managing Director of COSCO Industry Company (presently known as COSCO Shipbuilding Industry Company), Sino Ocean Real Estate Development Co., Ltd. (presently known as Sino-Ocean Land Limited), and Assistant President and Chief Commercial Officer of China Ocean Shipping (Group) Company. Mr. Li was a Non-executive Director and Chairman of Sino-Ocean Land Holdings Limited (listed in Hong Kong) until his resignation in March 2010. Mr. Li possesses two Master Degrees in Business Administration from University of East London in the United Kingdom and Jilin University respectively. He is also a Senior Economist. Mr. Li possesses extensive experience in corporate management and capital operation.

## 4. Mr. JIA Lianjun

aged 49, has been an Executive Director of the Board of the Company since January 2006 and re-designated as Non-executive Director since July 2008. He is also the Deputy General Manager of Strategic Planning Division of China COSCO Holdings Company Limited, Director of COSCO (Hong Kong) Group Limited and Chinese-Tanzanian Joint Shipping Company. Mr. Jia graduated from Dalian Maritime University in Marine Mechanical Management and has Senior Engineer qualification awarded by the Ministry of Communications of the PRC. He had been the department officer, deputy department head, department head and manager of Corporate Management Office of Corporate Management Department of China Ocean Shipping (Group) Company. He has extensive experience in corporate management.

## 5. Mr. LIANG Yanfeng

aged 44, has been an Executive Director of the Board of the Company since August 2006. Mr. Liang had been the Managing Director of the Company from August 2006 to December 2009. He is also a director of various subsidiaries of the Company. He is the Vice President of COSCO (Hong Kong) Group Limited, the Non-executive Director and Non-executive Vice Chairman of Soundwill Holdings Limited (listed in Hong Kong), the Non-executive Director of Sino-Ocean Land Holdings Limited (listed in Hong Kong). Mr. Liang has a Master's degree in Laws from the Department of Social Science of Tsinghua University and a degree of Executive Master of Business Administration from the School of Economics and Management of Tsinghua University. He was also awarded the Senior Economist qualification by Ministry of Communications of the PRC. Mr. Liang had been the deputy general manager of Human Resources Division and the general manager of Capital Operations Division of China Ocean Shipping (Group) Company, the Director of COSCO (Hong Kong) Group Limited, the Executive Director of COSCO Pacific Limited and the Director of COSCO Corporation (Singapore) Limited, the general manager of COSCO Human Resources Development Company. While temporary posted in the local government, he had been the Deputy Mayor of Luzhou municipal government, Sichuan Province of the PRC. He has extensive experience in corporate management and capital market operation.

## 6. Mr. WANG Xiaoming

aged 54, has been an Executive Director of the Board of the Company since January 2006. Mr. Wang is also the Director of COSCO (Hong Kong) Group Limited, Non-executive Director of Chong Hing Bank Limited (listed in Hong Kong) and Chief Financial Officer of COSCO (H.K.) Shipping Co., Limited. Mr. Wang graduated from Shanghai Maritime University of the PRC, major in Financial Accounting and has Senior Accountant qualification awarded by the Ministry of Communications of the PRC. Mr. Wang had been the deputy manager of the Audit Department and deputy general manager of Finance Division of China Ocean Shipping (Group) Company, the financial controller of COSCO (Hong Kong) Group Limited, the finance manager of COSCO Bulk Carrier Co., Ltd. and the general manager of COSCO Finance Co., Ltd.. He has extensive experience in corporate financial management.

## 7. Mr. WANG Xiaodong

*(Managing Director)*

aged 51, has been an Executive Director of the Board of the Company since January 2006 and was appointed as the Managing Director of the Company on 11th December 2009. He is also a director of various subsidiaries of the Company and the Non-executive Director of Sino-Ocean Land Holdings Limited (listed in Hong Kong). Mr. Wang leads overall management and operation, strategic development, corporate governance, legal and financial management of the Company. He has a Bachelor's degree in Marine Mechanical Management from Dalian Maritime University of the PRC, a Master's degree in Business Administration from China Europe International Business School and has Senior Engineer qualification awarded by the Ministry of Communications of the PRC. He had been the deputy general manager of the Trade Division and head of the Consolidated Trade Department of China Ocean Shipping (Group) Company, the deputy general manager of COSCO International Trading Company (presently known as COSCO International Trading Company Limited), the general manager of China Marine Bunker Supply Company (presently known as China Marine Bunker (PetroChina) Co., Ltd.) and the general manager of COSCO Industry Company (presently known as COSCO Shipbuilding Industry Company). Mr. Wang has extensive experience in the technical management, investment management and corporate operation in the business of bunker oil supply, shipbuilding industry and coating industry.

## 8. Mr. MENG Qinghui

aged 54, has been an Executive Director of the Board of the Company since March 2002 and re-designated as Non-executive Director since July 2008. He is a director of a subsidiary of the Company and is also the managing director of Finance Division of COSCO (Hong Kong) Group Limited, Non-executive Director of Chong Hing Bank Limited (listed in Hong Kong) and Soundwill Holdings Limited (listed in Hong Kong). Mr. Meng graduated from Central South University and has the PRC Accountant qualification. He has extensive experience in corporate financial management and accounting and is also familiar with corporate financial planning.

## 9. Mr. CHEN Xuewen

aged 45, has been an Executive Director of the Board of the Company since August 2006 and re-designated as Non-executive Director since July 2008. He is also the managing director of the Strategic Planning and Development Division of COSCO (Hong Kong) Group Limited. Mr. Chen graduated from the University of Peking in Economics and Management. He had been the department head of the Planning Department of Strategic Planning Division of China Ocean Shipping (Group) Company, general manager of Beijing Ocean Plaza Co., Ltd. and deputy general manager of COSCO HK (Beijing) Investment Co., Limited. Mr. Chen has extensive experience in corporate management and operation.

# Profile of Directors and Senior Management

## 10. Mr. LIN Wenjin

aged 51, has been an Executive Director of the Board of the Company since August 2006. He also serves as a Deputy Managing Director and a director of various subsidiaries of the Company. Mr. Lin is in charge of investor relations, administration and personnel management, business of marine equipment and spare parts of the Company. Mr. Lin has a Bachelor's degree in Engineering from Shanghai Maritime University of the PRC and Marine Chief Engineer certificate, Senior Engineer qualification awarded by the Ministry of Communications of the PRC. He had worked in China Ocean Shipping (Group) Company and had been the assistant manager of the Technical Department, chief of New Building Section in Japan, manager of the Development Department of Ocean Tramping Company Limited and had been the deputy general manager of Development Division and Strategic Planning Division, managing director of the Executive Division of COSCO (Hong Kong) Group Limited. He had participated in the acquisitions and financing activities of listed companies. Mr. Lin has extensive experience in shipping management, new shipbuilding, corporate management and planning and capital market operations.

## 11. Mr. KWONG Che Keung, Gordon

aged 60, has been an Independent Non-executive Director of the Board of the Company since September 2004. Mr. Kwong is also Independent Non-executive Director for a number of companies listed on the Stock Exchange, namely Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, OP Financial Investments Limited, China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Quam Limited, CITIC 1616 Holdings Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. He has a Bachelor's degree in Social Science from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. From 1984 to 1998, Mr. Kwong was a partner of Price Waterhouse. He was an independent member of the council of the Stock Exchange from 1992 to 1997, during which, he had acted as convener of both the compliance committee and the listing committee. He previously served as an Independent Non-executive Director of New World Mobile Holdings Limited (now known as Vision Values Holdings Limited) (listed in Hong Kong) until his resignation in February 2007, an Independent Non-executive Director of Tom Online Inc. (previously listed in Hong Kong), which was privatised in September 2007 and an Independent Non-executive Director of Ping An Insurance (Group) Company of China, Limited (listed in Hong Kong and the PRC) for two terms of three years to June 2009.

## 12. Mr. TSUI Yiu Wa, Alec

aged 60, has been an Independent Non-executive Director of the Board of the Company since February 2004. Mr. Tsui is also the Chairman of WAG Worldsec Corporate Finance Limited, Vice Chairman of China Mergers and Acquisitions Association, member of the Corporate Advisory Council of the Hong Kong Securities Institute; director of Hong Kong Professional Consultants Association Limited and independent director of AIG Huatai Fund Management Company Limited. He is also an Independent Non-executive Director of a number of listed companies in Hong Kong and NASDAQ, namely Industrial and Commercial Bank of China (Asia) Limited, China Power International Development Limited, China Chengtong Development Group Limited, China BlueChemical Ltd., Greentown China Holdings Limited, China Huiyuan Juice Group Limited, Pacific Online Limited, China Oilfield Services Limited, Melco Crown Entertainment Limited (formerly known as Melco PBL Entertainment (Macau) Limited), and ATA Inc.. Mr. Tsui graduated from the University of Tennessee, the United States and was awarded a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering and had completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University, the United States. He was the chairman of the Hong Kong Securities Institute from 2001 to 2004 and the chief operating officer of Hong Kong Exchanges and Clearing Limited in 2000 and the adviser and council member of the Shenzhen Stock Exchange from July 2001 to June 2002. He has numerous years of experience in finance and administration, corporate and strategic planning, information technology and human resources management. He previously served as Independent Non-executive Director of Synergis Holdings Limited (listed in Hong Kong) from January 2005 to September 2008; the Independent Non-executive Director of Vertex Group Limited (listed in Hong Kong) from March 2002 to April 2009.

### 13. Mr. JIANG, Simon X.

aged 56, has been an Independent Non-executive Director of the Board of the Company since April 2007. He is also the chairman of CyberCity International Limited, an Independent Non-executive Director of China Oilfield Services Limited (listed in Hong Kong) and SPG Land (Holdings) Limited (listed in Hong Kong). Mr. Jiang is also a director of China Foundation for Disabled Persons, a trustee of Cambridge China Development Trust and a senior associate at the Judge Business School of Cambridge University. He is currently a member of the CPPCC National Committee and the United Nations Investments Committee. Mr. Jiang received his Bachelor's degree from Beijing Foreign Studies University, Master's degree from Australian National University and Doctorate's degree in Economic from Cambridge University. Mr. Jiang was the deputy chief of United Nations Joint Staff Pension Fund Investment Management Service, executive director and chairman of Vision Century Corporation Limited (now known as Frasers Property (China) Limited) (listed in Hong Kong), a director of Zi Corporation and an advisory board member of Capital International Inc. and Rothschild Investment Bank. He has experience in fund management.

*The Directors' interests in shares and underlying shares of the Company and its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as at 31st December 2009 are disclosed in the section headed "DIRECTORS' INTERESTS IN SECURITIES" of the Directors' Report.*

*Mr. Wang Futian, Mr. Jia Lianjun and Mr. Wang Xiaoming are directors of COSCO (Hong Kong) Group Limited. Mr. Wang Xiaoming and Mr. Meng Qinghui are also directors of True Smart International Limited. True Smart International Limited has and COSCO (Hong Kong) Group Limited is deemed to have an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO respectively, the details of which are disclosed in section headed "SUBSTANTIAL SHAREHOLDERS" of the Directors' Report.*

*Save as disclosed in the Directors' respective biographical details under "Profile of Directors and Senior Management" section and other part in this Annual Report, the Directors (a) have not held any directorships in other publicly listed companies, whether in Hong Kong or overseas, during the last three years; (b) do not hold any other positions in the Company and its subsidiaries; and (c) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company as at the date of the Directors' Report.*

*The Directors (except Executive Directors) have entered into the letters of appointment with the Company for a specific term up to the forthcoming annual general meeting. However, all Directors are subject to retirement and eligible for re-election in each of the annual general meeting in accordance with the Bye-Laws of the Company.*

*The Directors (except (i) Non-executive Directors and (ii) Mr. Zhang Fusheng, Mr. Liang Yanfeng and Mr. Wang Xiaoming being Executive Directors) will receive the Directors' emoluments for the year 2010, in the amounts determined by the Board from time to time subject to shareholders' approval at the annual general meeting of the Company. The current amounts of the Directors' emoluments have been determined with reference to the prevailing market conditions, directors' experience, qualifications and responsibilities involved in the Company.*

*The details of the emoluments of the Directors on a named basis are disclosed in Note 29 to the Financial Statements.*

# Profile of Directors and Senior Management

## SENIOR MANAGEMENT

### Mr. LO Siu Leung, Tony

aged 46, has been the Financial Controller of the Company since September 2005. Mr. Lo is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He holds a Master's degree of Business Administration from the Hong Kong University of Science and Technology. Mr. Lo had previously worked for an international accounting firm, the Stock Exchange and several listed companies. He has extensive experience and expertise in corporate finance, corporate governance and financial planning.

### Ms. CHIU Shui Suet

aged 43, has been the Company Secretary of the Company since October 2005. Ms. Chiu obtained a Bachelor of Laws degree from the University of Wolverhampton and completed her Postgraduate Certificate in Laws at the City University of Hong Kong. Ms. Chiu was admitted as a solicitor in Hong Kong. Besides, she is also a fellow member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Prior to joining the Company, Ms. Chiu had worked for accounting firms, legal firm and various listed companies. She has extensive experience and solid knowledge in dealing with the company secretarial and legal matters of listed company.

### Mr. WANG Weibin

aged 46, joined the Company in January 2010, is the assistant to Managing Director of the Company. Mr. Wang graduated from Shanghai Maritime University, majoring in Marine Engineering in 1986. After graduation, Mr. Wang joined COSCO Group and worked on the ship as an engineer. From 1991 to 2001, he worked as a superintendent, division chief of the Maintenance Division, Equipment Division and Technology Management Division of Guangzhou Ocean Shipping Company. From 2002 to 2006, Mr. Wang was the head of the Marine Technology Department of China Ocean Shipping (Group) Company. From 2006 to 2009, Mr. Wang was the deputy general manager of COSCO International Ship Trading Company Limited. Mr. Wang is a member of Classification Committee of China Classification Society and has Senior Engineer and Certified Safety Engineer qualifications. He has been engaged in marine technology for years and has rich knowledge and extensive management experience in marine maintenance, technology management, spare parts and supplies management, fuel and lubricants management, energy conservation technology, anti-pollution, Port State Control, as well as ship trading.

### Mr. CHEN Daming

aged 53, joined COSCO International Ship Trading Company Limited since January 1998 and is the Managing Director of COSCO International Ship Trading Company Limited. Mr. Chen graduated from Dalian Maritime University majoring in Shipping Engineering Management and joined Tianjin Ocean Shipping Company after graduation. He had been the assistant engineer, fourth engineer, third engineer and traveled with COSCO's crews all over the world. In 1987, Mr. Chen was assigned to work in the Shipbuilding Division of China Ocean Shipping (Group) Company and in charge of the sale and purchase of second-hand vessels, scrap vessels and containers businesses. Mr. Chen was awarded with the professional qualification of Senior Engineer and has extensive experience in ship trading.

### Mr. SUN Guangcheng

aged 58, has been the Managing Director of COSCO (Hong Kong) Insurance Brokers Limited since November 2001. Following his graduation from Shanghai Maritime University majoring in Shipping Transportation, Mr. Sun joined Tianjin Ocean Shipping Company. From 1984 to 1988, he had been the head of Commercial Division and Insurance & Claim Division of Tianjin Ocean Shipping Company. Later, he had been appointed as the chief representative of China Ocean Shipping (Group) Company in Syria and Cyprus from 1988 to 1991. Having returned to China in September 1991, Mr. Sun had been the deputy general manager of COSCO Tianjin Freight & Forwarding Co., Ltd., the general manager of COSCO Tianjin Container Lines Freight & Forwarding Co., Ltd. in Tianjin, the deputy general manager cum corporate legal advisor of Tianjin COSCO International Freight & Forwarding Co., Ltd. Mr. Sun is a Senior Economist and he has sound knowledge in marine insurance and extensive experience in the management of marine and commercial legal cases.

### Mr. QIU Ming

aged 49, has been the Managing Director of Yuantong Marine Service Co. Limited since January 2006. Mr. Qiu graduated from Shanghai Marine College, majoring in Marine Engineering in 1982. After graduation, he worked as a member, deputy division chief and division chief of the Safety and Technology Division of the Second Department and as division chief of Equipment Division of the Technology Department of Shanghai Ocean Shipping Company. In 1999, Mr. Qiu worked as the general manager of Chung Lin Marine Service Company in Japan. He has much experience in managing the supply of marine equipment, spare parts, ship fuels as well as marine technology.

## Mr. DONG Zhaoming

aged 52, has been the General Manager of Jotun COSCO Marine Coatings (HK) Limited since January 2006. Mr. Dong graduated from Shanghai Coating Polytechnic, majoring in Chemistry in 1977, subsequently majored in English and Management respectively in Shanghai International Studies University and Shanghai Jiao Tong University, and obtained his Master's degree of Business Administration from the Macao University of Science and Technology in 2002. Mr. Dong worked as a manager of the Production Department and the Sales Department of International Paints Shanghai during the period from 1981 to 1996. Since 1998, he worked as the general manager of Jotun Paints (H.K.) Limited Shanghai Office. Mr. Dong has extensive experience in coatings technology, sales, marketing management and purchasing management.

## Mr. XIN Liwen

aged 44, has been the Managing Director of COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd., COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd. and COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd. since January 2010 respectively. Mr. Xin graduated from Wuhan University of Technology majoring in ship power engineering and obtained a Bachelor degree in engineering in July 1988. In July 2000, he obtained a Master's degree in Business Administration from Nankai University. In 1988, Mr. Xin joined Tianjin Ocean Shipping Company and worked on the ship. He worked as deputy division chief of Vessel Fleet Division of Technical Department of Tianjin Ocean Shipping Company, deputy division chief and division chief of Vessel Fleet Division of Technical Department of COSCO Bulk Carrier Co., Ltd., general manager of Marine Service Department of Hoi Tung Marine Machinery Suppliers Limited, managing director of Yuantong Marine Service Co. Limited and deputy manager of Jotun COSCO Marine Coatings (HK) Limited. Mr. Xin is a Senior Engineer and has extensive management experience in ship technology, marine coatings enterprises and trading in marine equipment and spare parts.

## Mr. LI Min

aged 46, has been the Managing Director of COSCO International Trading Company Limited since March 2008. Mr. Li graduated from Wuhan University of Technology major in Marine Mechanical and obtained his Master's degree in Economics from Renmin University of China. Mr. Li joined COSCO Group and served as officer of the Technical Department from 1984 to 1994. He had been designated by China Ocean Shipping (Group) Company to act as the general manager of Yuan Tong (Holland) Marine Service Company B.V. and the deputy general manager of Han Yuan (Germany) Technical Service GmbH from 1994 to 1999. Having returned to China in 1999, Mr. Li had been an assistant to general manager of China Marine Bunker Supply Company (now known as China Marine Bunker (PetoChina) Co., Ltd.), manager of General Trading Department, assistant to general manager, deputy general manager and general manager of COSCO International Trading Company (now known as COSCO International Trading Company Limited). Mr. Li was awarded with the professional qualification of Senior Engineer and he has sound knowledge in ship engineering and international trading and extensive experience in enterprise management.

## Mr. GUO Honglin

aged 39, has been the Managing Director of Sinfeng Marine Services Pte. Ltd. since November 2009. Mr. Guo graduated from Beijing Foreign Studies University and joined the COSCO Container Lines Division of China Ocean Shipping (Group) Company in 1995. Mr. Guo has experienced in port agency management, terminal business management and fuel oil costs management. In 2003, Mr. Guo joined Chimbusco (Singapore) Pte. Ltd. as the business manager of the United States and Europe Department and thereafter being the deputy managing director. In early 2008, Mr. Guo was appointed as the managing director of Chimbusco (Singapore) Pte. Ltd.. Mr. Guo has been involved in the whole process of implementing the centralised purchasing platform and pushed forward this strategic decision of COSCO Group over the past years. He possessed excellent knowledge and experience in the international oil market and has established strong relationships with many industry players and rich experience in managing international company.

# Corporate Social Responsibility

Although the economic environment has been challenging, the Group insists upon committing to its obligations to and sharing the burden in times of difficulties with its employees, customers, business partners and the people in need, thus fulfilling its social responsibility to all stakeholders.

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香港社會服務聯會頒發

COSCO International has always not only pursued sustainable development, increase in operating profitability and maximising the shareholders' value, but also, more importantly, performed its responsibilities to the environment and the society, so as to safeguard and balance the interests among its stakeholders including the shareholders, business partners, employees, customers and suppliers. In 2009, although the economic environment had been challenging, and under the pressure from implementation of strict cost control as well as energy saving and emission reduction policies, the Group insisted upon committing to its obligations to and sharing the burden in times of difficulties with its employees, customers, business partners and the people in need. The Company did not implement any salary cut or layoff plans as part of its cost control measures, on the contrary, actively strengthened team building to cater for development needs of the Company. Meanwhile, the Group further promoted environmental protection and participated in social charitable activities during the year, thus undertaking its corporate citizen responsibilities to both the environment and the society. In view of these efforts, the Company was awarded Caring Company Logo 2009/10 by the Hong Kong Council of Social Service again, in recognition of the contributions and commitments of the Company made to the society over the year as a good corporate citizen.

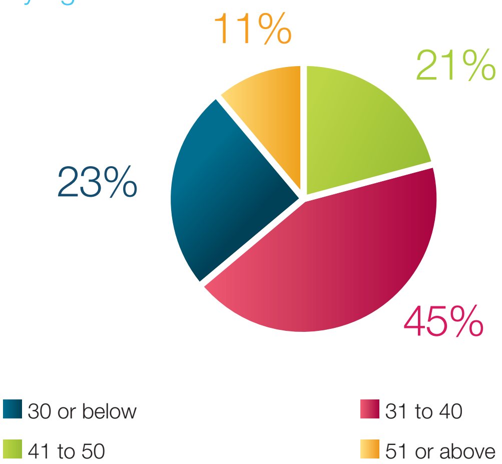
## VALUING TALENTS

COSCO International always believes that quality talents are important assets of an enterprise and, at the same time, the cornerstone for sustaining development of a company. Each year, through enhancing the mechanism on management of compensation packages, performance appraisals as well as incentives and restraints, the Group has been able to attract and retain quality talents; and by providing various advancement opportunities, the Group has succeeded in stimulating working motivation and creativity in its senior management and employees. These help steer the Company towards new heights and achieve more important milestones. As at 31st December 2009, the Company and its subsidiaries had a total of 646 staff (2008: 662), of which 109 (2008: 107) were based in Hong Kong and 537 (2008: 555) were based in China Mainland [Note].

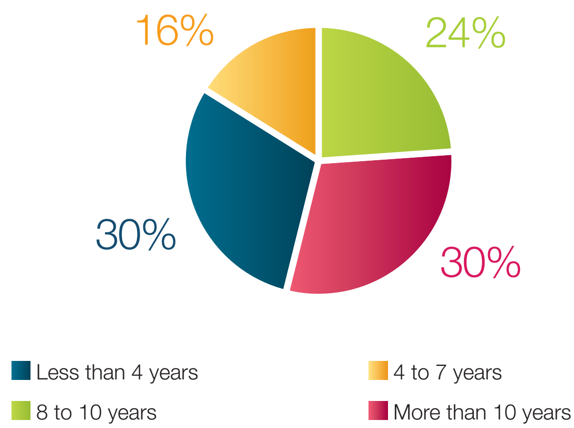
*Note: Employees of the Group in China Mainland do not include the employees of the jointly controlled entities and the associated companies.*

## EMPLOYEES PARTICULARS IN 2009

### By age




### By years of employment




The Company's management believes that if the company is to expand and consolidate its position, it has to recruit professionals with different areas of expertise. As such, COSCO International took advantage of the period of instability in the external labour markets last year to actively enrich its talents reserves. Our comprehensive salary and benefits system, comfortable working environment and cohesive corporate culture were incentives that attracted professionals from a wide range of fields to join the Company. In addition, the Company appropriately rewarded the outstanding employees and selected and promoted the remarkable junior staff to the middle management of the Company. By adjusting the staff structure of various capacities, talented staff could earn themselves more learning and development opportunities, which highlighted the "employee-oriented" management philosophy of the Group.

### Training and Development

The management of COSCO International places strong emphasis on the career development of individual employees. Employees are encouraged to keep abreast of the changing world and pursue continuing education, so as to cope with the rapidly changing society and meet the evolving corporate development needs. The Group makes a review of its human resources training system each year, which sets up annual training objectives and plans, designs various types of training programs and encourages and subsidies its employees to participate in individual continuing education programs which are related to their job duties, with a view to strengthening the professional training standards of its staff teams, promoting professional expertise of management teams and stimulating the potential abilities of employees. In 2009, training courses organised by the Company and

courses recommended to employees included relevant business and skills training, taxation, management, financial auditing, occupational safety and information security, etc. During the year, training programs related to management or their respective professional fields attended by the senior management and professionals of the Group recorded 399 attendances; training programs attended by employees of the Group relating to other professional skills or business-related topics recorded 199 attendances. In addition, managerial staff of the Group has passed qualification accreditations organised by the PRC Government and the municipal governments with a passing rate of 99%. The Company has also set up a vetting and monitoring mechanism which regularly tracks and reviews on training effectiveness to ensure a fair and reasonable use of training resources. In future, the Company will continue to step up individual training efforts and provide more advancement opportunities by further systemisation of training management, in order to motivate each employee to grow together with COSCO International.

## Promoting Integrity

As a socially responsible company, the Group upholds the principles of fairness, righteousness and openness, and safeguards and balances the interests of the stakeholders, including suppliers, contractors and customers, in an honest, clean and trustworthy manner. In 2009, the Company continued to review the implementation status of the Staff Code of Conduct ("the Code") through a self-inspection process, in order to ensure that the contents of the Code had been applied throughout the actual operations and management practices of the Group. Besides, during the year the Company organised seminars on risk management in listed companies, in order to enhance risk management awareness of staff at each level of management and eliminate loopholes related to integrity issues that may arise in the course of performing duties, with the aim of further enhancing the professional conduct and integrity management of its management team, and promoting a management culture with high values of business ethics and incorruptibility.

## Enhancing Team Communications

The management of the Company values mutual communications between the management and employees; therefore, they regularly convey messages on corporate development strategies and work objectives through various channels, such as weekly or monthly meetings and regular meal gatherings. In addition, the Company has set up an internal information management system, which acts as a platform for the management and all staff to share information, operation and management as well as corporate culture, etc., and has become an effective tool for information sharing and real-time opinion exchange. Meanwhile, the Company's management endeavoured to understand the staff's needs and collect their opinions on the Company through, among other things, non-scheduled views exchange meetings, one-on-one surveys and corporate activities; by reflecting on these opinions, the Company may improve its operations and accelerate the overall development progress of the company. In 2009, the Company organised a team building programme in Qingyuan, Guangdong Province for over 20 middle and senior management staff. The experience-based training activities aimed at stimulating the creativity and potential abilities of the participants and allowed the staff to learn teamwork, and build up cooperation and mutual trust, so as to strengthen communications and trusts among themselves. The activity received unanimous praise from the staff and boosted the work morale and sense of belonging to the Company.


## Caring for Physical and Mental Developments of Employees

The management of the Company understands that each employee spends at least one-third of his/her day on the job every day. Therefore, the management are concerned about the physical and mental health of the employees, as well as whether the employees can strike a balance between work and life. The Company has always striven to provide an employee-friendly working environment, and concerns the balanced development of employees' careers and family lives. During the year, the Company formulated flexible work arrangements and provided leave options, so that its employees can handle their personal and family emergency matters more flexibly. The Company also concerns its employees' physical health. During the year, in addition to continuation of the free annual medical check-up arrangement for its staff, medical insurance coverage was appropriately increased. Furthermore, the Company organises a variety of activities every year, including annual dinner, staff sports day, group hiking and recreational ball games, as well as exchange and learning tours to China Mainland. These activities not only strengthen the communication and understanding among its employees, but also enable the participation of both employees and their family members, which not only fortify employees' sense of belongings and corporate cohesion, but also are conducive to employees' physical and mental health and balanced family lives.

# SAFETY MANAGEMENT

As an enterprise operating various inflammable petrochemical coatings businesses, the management and employees of COSCO International both pay much attention to safety management. We believe ensuring safe production is a fundamental social responsibility that an enterprise has to fulfil to its employees and the community it operates in; therefore, safety management is the most important task of the Company's featured objectives every year. A Safety Management Committee of the Company, with the mission of "Safety First, Prevention Top Priority and Integrated Management", performs unified guidance, inspection, assessment, supervision, education and promotion on safe production of its subsidiaries in accordance with the Safety Act of the People's Republic of China and the relevant safety management regulations of the HKSAR Government. Through comprehensive regulation and management on the safety management work of each coatings company, employees of all levels shall gain heightened awareness in production safety and hence a culture of safety management can be cultivated.

## Cultivating Safety Culture Through a Three-pronged Approach

The year 2009 was named as the "Year of Safe Production" of COSCO International. Under the leadership of the management of the Company, subsidiaries in Hong Kong and China Mainland centered their work on "ensuring safety" as the objective of the year. All employees from top to bottom levels worked together to strictly implement safety management in various important aspects, such as accountability, production and construction, education and promotion, as well as entirely check for potential hazards and emergency trainings, all with absolute stringency. During the year, COSCO International organised a number of special activities. About 80 projects, including "Safe Production Month" (安全生產月) and "Hundred Day Campaign for Entire Check and Rectification of Potential Hazards" (百日隱患排查治 理), were carried out to promote safety management with innovative means. In the meantime, a system for identifying production risks commenced full operation to track and rectify identified hazards in different seasons and different working environment at an early stage. By organising safety management exchange activities and learning from the advanced safety management experiences of different units inside COSCO Group, COSCO International was able to reflect on its own safety management system by benchmarking with the advanced management models as yardsticks, in a way which the knowledge and level of governance of our safety management personnel can be enhanced. Furthermore, our diverse promotion and education activities in the form of competition, outdoor development trainings, seminars as well as speeches and essay-writing, etc., had heightened the awareness and improved the habits of all employees in terms of safety, environmental protection and health at work. A good corporate culture based on the "I Want Safety" (我要安全) mindset had gradually been set up. In addition, unannounced emergency drills had been carried out to enhance employees' skills and abilities in dealing with contingency procedures during emergencies. During the year, the Group held a total of 26 (2008: 23) emergency drills with 1,509 (2008: 1,256) attendances, the highest number of participants ever recorded. By three-pronged approach,



including supervision and checks, training and education as well as emergency drills, many potential hazards had been avoided and the probabilities of production accidents have been significantly reduced. More importantly, a corporate culture for safety had been promoted comprehensively to provide good conditions for high-efficiency and stable production.

In 2009, the Group recorded no significant accident regarding production safety and information security.

## ENVIRONMENTAL PROTECTION

Environmental protection has become a major issue for the governments and enterprises around the world which care over sustainable development as the problem of global warming becomes more and more serious. The management of COSCO International believe that an enterprise has to perform its obligation to protect the environment while it is entitled to the right to use the environmental resources when it intends to achieve sustainable development. As a result, the Company has been concerned with its responsibilities to protect the environment in the course of production. It takes the initiatives to implement various measures to minimise the effect on the environment in the course of operation and production in response to the call for "energy saving and emission reduction" made by the United Nations and the PRC government. It also encourages all staff to practise what the Company preaches for the sake of environmental protection to fulfil the work objective of "building a resource-efficient and green enterprise".

### Green Office

In 2009, COSCO International fulfilled its work objective of lean management in a time of difficulties under the impact of the financial tsunami. Based on the premise of strict cost control, the Company proposed all the staff to uphold the virtue of thrift. An environmental friendly campaign of "saving water, power and paper" was held in the holding company. A series of guidelines on using resources were formulated against the practices of easily consuming resources by the staff during office hours and successfully promoted a culture of thrift and built up green office. The measures included: saving the office consumables, using recycled stationery and supplies; switching off the electrical appliances and equipment if unnecessary, using "energy saving bulbs" and adjusting the air-conditioning thermostat in the office to 25 degrees Celsius; implementation of a paperless office, documentation in electronic format, minimising photocopying and printing; encouraging conference call, video call or email communication to replace business travels and to reduce carbon emission when using public transportation. The Company also cooperated with Christian Action, a charitable organisation, to organise a "Green Collection Campaign" in the office to persuade the staff to donate recycled items such as electrical appliances, toys and clothes for the people in need to enhance the virtue of recycling among the staff. The above measures not only provided the staff with a chance to develop green concepts in the workplace, but also helped control costs and enhance management efficiency so as to create more benefits for the Company.

### Energy Saving and Emission Reduction

At present, various governments in the world have actively formulated their action plans to tackle with climate change. Many enterprises also try their best to minimise the greenhouse gas emission. COSCO International has paid attention to the control of the environmental impact in the course of production. It has established the systems such as "Management Policy on Environmental Protection", "Safety Management Procedures on Hazardous Chemical Substances" and "Safety Management Procedures on Waste Substances" to provide for a thorough management and supervision on the procurement, transportation, and storage of hazardous chemical substances and disposal of waste substances along the whole production process. In addition, the two coatings companies of the Group strictly require their suppliers to hold recognised PRC business licenses in respect of safety and green production, while transportation contractors should hold recognised PRC qualifications for hazardous chemical substances transportation. The Group also complies with requirements of municipal environmental protection bureaus to employ recyclers with qualifications obtained therefrom to provide disposal services on waste substances, hence to minimise potential pollution to the environment during the production process. In 2009, the Group was not involved in any major accidents relating to environmental pollution.

### Research and Development of Environmental Friendly Marine Products

While strictly implementing environmental protection supervision, the Group also enhances its production equipment and improves its technology with a view to minimising the impact of the operation and production on the environment. The Group also makes an effort to develop and promote environmental friendly products. Jotun COSCO, a jointly controlled entity of the Company, is actively promoting a kind of marine coatings which can reduce pollution to the ocean, protect aquatic habitat and increase energy saving and accelerate speed of vessels, i.e. known as the Sea Quantum series of anti-fouling coatings. During the year, Jotun COSCO actively held technology seminars for dockyards, ship owners, vessel classification societies and design and research institutions to promote the advanced environmental friendly marine technologies and their concepts to the stakeholders and the related industries. As a result, the market and the customers better recognised and understood the advanced technology of the products of the Group, thus enhancing the professional image of the Group in terms of environmental protection and increasing the brand awareness and reputation of the Group.

## COMMUNITY CARE

COSCO International believes that when it actively enhances its efficiency and expands in operational scale, it should proactively give back to the society and motivate its staff to participate in various social charitable activities, in a way that fulfill its obligations as a corporate citizen to "giving back to the community with what they get from the community" and as a means to contributing to the country and the community, and providing assistance the people in need.

### Support to Education in Mountainous Areas

COSCO International has been supporting the education in China. COSCO International believes that knowledge can improve one's living conditions and even transform the society and help the country thrive. Therefore, with the aim of helping students living in mountainous areas return to school, COSCO International continued to support Sowers Action and made a donation of approximately HK$170,000 to Sowers Action in 2009 to support the living and learning expenses of the students living in mountainous areas such as Yunnan province, Gansu province and Sichuan province of China Mainland. In addition, the Company also sponsored its staff to participate in the annual fund-raising activity "Sowers Action Challenging 12 Hours Charity Marathon 2009" organised by Sowers Action. 28 members of the staff of the Company formed 7 teams to participate in the 10 KM Open Cup for fund raising. All the charity donations raised were to fund the learning expenses of the students living in mountainous areas.

In addition, the Company supported its staff to participate in "the Community Chest Green Day" organised by the Community Chest during the year with a view to encouraging them to support a green life through donation with free travel on public transport. The Company set up an incentive mechanism to encourage more members of the staff to participate in the campaign by subsidising the donation of the staff in the ratio of 1 to 1, i.e. HK$1 to HK$1. The raised funds were used to foster medical and healthcare services.

Going forward, the Company will continue to actively perform its corporate social responsibilities, act responsibly to its shareholders and fulfill its obligations to all stakeholders. By establishing partnership with social services institutions, the Company will encourage employees to participate in more charitable activities and contribute their efforts in building up team spirit and constructing a harmonious society.

# Corporate Governance Report

## THE COMMITMENT AND COMPLIANCE OF THE COMPANY

The Board is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standard of accountability and protect shareholders' interest in general. The Board has adopted a Corporate Governance Statement of Policy (available on the Company's website www.coscointl.com) which gives guidance on how corporate governance principles are applied to the Company.

The Company had applied the principles and complied, throughout the year ended 31st December 2009, with all the applicable code provisions and, where appropriate, the applicable recommended best practices of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules.

In addition to complying with applicable statutory requirements, the Company aims to continually review and enhance its corporate governance practices in light of local and international best practices.

## THE BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. The Board is currently composed of six Executive Directors (including the Chairman, the Vice Chairman and the Managing Director of the Company), four Non-executive Directors and three Independent Non-executive Directors, whose biographical details are set out in "Profile of Directors and Senior Management".

### Board Proceedings

The Board met regularly and held four regular meetings in 2009. Notice of each meeting was sent to the Directors at least 14 days prior to a regular Board meeting, and the Directors were invited to include any matters which they thought appropriate in the agenda for regular Board meetings. The Board conducted the following principal activities in the four Board meetings during the year:

- adoption of the recommendations of the Audit Committee;
- approval of the amendments of the code of conduct regarding securities transactions of directors and employees in accordance with the amendments of the Listing Rules;
- interim and annual review of the report on the business operations;
- approval of interim and final results, announcements, interim and annual report, determining dividends; matters to be considered at annual general meeting; approval of directors' fee of Independent Non-executive Directors;
- adoption of the recommendations of the Risk Management Committee; and
- approval of annual operation plan and budget, management results and performance updates against annual operating plan and budget, together with business reports and presentation from the senior management.

Directors had access to the services of the Company Secretary who is responsible for ensuring the compliance of the Board procedures, and all applicable rules and regulations are followed. Directors were permitted to seek independent professional advice, if necessary, at the Company's expense.

Minutes of the Board meetings (including minutes of all Board Committees meetings) had been kept by the Company Secretary that are available for directors' inspection at the Company's principal place of business. Minutes of the Board meetings and the Board Committees meetings were recorded in detail and were sent to the Directors for their review and comment within a reasonable time (generally within 7 days) after each meeting. Final version of minutes of respective meetings had been sent to the Directors for records.

Where a substantial shareholder or a Director had a conflict of interest in a matter to be considered by the Board which the Board had determined to be material, a Board meeting was held instead of by way of circulation and with the presence of Independent Non-executive Directors.

**There was in place a Directors' and Officers' Liabilities Insurance cover in respect of legal actions against the Directors and senior management arising out of corporate activities.**

**All Board Committees have adopted broadly the same principles and procedures as stated in A.1.1 to A.1.8 of the CG Code.**

## Chairman and Managing Director

The position of the Chairman, the Vice Chairman and the Managing Director are currently held by Mr. Zhang Fusheng, Mr. Wang Futian and Mr. Wang Xiaodong respectively. In order to reinforce their respective independence, accountability and responsibility, the roles of the Chairman and the Vice Chairman have been separated from that of the Managing Director. The Chairman and the Vice Chairman are responsible for formulating the overall strategies and policies of the Company and the Managing Director is responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval. Division of responsibilities between the Chairman, the Vice Chairman and the Managing Director is clearly defined and set out in writing.

The Chairman has a clear responsibility to ensure that all Directors being properly briefed on issues arising at the Board meetings and given adequate, accurate, complete and reliable information in a timely manner.

**The Chairman also ensures that the Board works effectively and discusses all key and appropriate issues in a timely manner.**

**Meeting between the Chairman and Independent Non-executive Directors without Executive Directors presence, held at least once a year. Such meeting was held in March 2009. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters may be openly discussed.**

## Board Composition

The Board currently comprises thirteen Directors, namely, Mr. Zhang Fusheng (Chairman), Mr. Wang Futian (Vice Chairman), Mr. Liang Yanfeng, Mr. Wang Xiaoming, Mr. Wang Xiaodong (Managing Director) and Mr. Lin Wenjin as Executive Directors; Mr. Li Jianhong, Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen as Non-executive Directors; and Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X. as Independent Non-executive Directors. The composition of the Board, by category of Executive Directors, including names of the Chairman, the Vice Chairman and the Managing Director, Non-executive Directors and Independent Non-executive Directors, was disclosed in all corporate communications.

During the year, the Board at all times met the requirements of the Listing Rules relating to having at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received annual written confirmation from each of the Independent Non-executive Directors confirming his independence in accordance with Rule 3.13 of the Listing Rules. The Board has accessed their independence and concluded that all the Independent Non-executive Directors are independent within the definition of the Listing Rule.

**Biographies of Directors, including clear designation of their roles and responsibilities are maintained on the Company's website.**

## Appointments, Re-election and Removal

All Non-executive Directors (including Independent Non-executive Directors) have entered into the letters of appointment with the Company for a specific term up to the forthcoming annual general meeting of the Company.

Pursuant to the Bye-Laws of the Company, all Directors are subject to retirement and shall be eligible for re-election in each annual general meeting of the Company. The Company believed that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

# Corporate Governance Report

In order to enable shareholders of the Company to make an informed decision on the re-election of Directors, the biographical details demonstrating qualifications, experience, expertise, skills and other directorships held in listed companies of the retiring Directors were set out in the circular which was dispatched to the shareholders of the Company accompanied with Annual Report 2008.

### Responsibilities of Directors

The Company ensures that every newly appointed Director should receive a comprehensive information package containing an introduction to the operation of the Group, the Director's responsibilities and duties and other statutory requirements upon his appointment. The Company Secretary is responsible for keeping all Directors updated on the Listing Rules and other statutory requirements.

Non-executive Directors were well aware of their functions and had been actively performing their functions including but not limit to bring an independent judgment at the Board meeting, take the lead where potential conflicts of interests arise and scrutinise the Company's performance. Independent Non-executive Directors are also members of the Audit, Remuneration and Nomination Committees. There were satisfactory attendances and active participations at the Board meetings, the Board Committees meetings and the general meetings by the Directors.

### Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions of Directors and employees (the "Securities Code") (available on the Company's website) no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. The Securities Code has been revised, inter alia, in accordance with the relevant amendments of the Model Code with effect from 1st January 2009 in relation to the imposition of a time limit on an listed issuer to respond to a director's request to deal and on the director to deal (if he so chooses) once clearance is given and with effect from 1st April 2009 regarding an extension of the black out period. In order to ensure Directors' dealing in the securities of the Company are conducted in accordance with the Securities Code, a committee comprising the Chairman, the Vice Chairman, the Managing Director and the Deputy Managing Director(s) of the Company was set up to deal with such transactions. The Company had made specific enquiry of all Directors regarding any non-compliance with the Securities Code during the year of 2009, all Directors confirmed that they had complied with the required standards set out in the Securities Code during the year.

**Directors disclosed their other directorships at the time of appointment and, subsequently, at least once every year confirmed to the Company. Independent Non-executive Directors had during the year contributed to the Board their constructive and valuable advice to the Company in the development of the Company's strategy, in particular the internal controls of the Company.**

### Supply of and Access to Information

The Company Secretary assists the Chairman to prepare the agenda of the regular Board meetings. Agenda and accompanying board papers were sent to all Directors at least 3 days (generally at least 7 days) before the meeting unless it was on urgent basis in order to ensure that they had sufficient time to review the papers and be adequately prepared for the meeting. Queries raised by the Directors would be responded promptly by the management.

The senior management worked closely with the Board and met each other on regular basis. They provided the Board with adequate and sufficient information on the Company's operation through financial reports, business operation reports, business plan and financial budgets on a regular basis so that the Board could discharge its responsibilities.

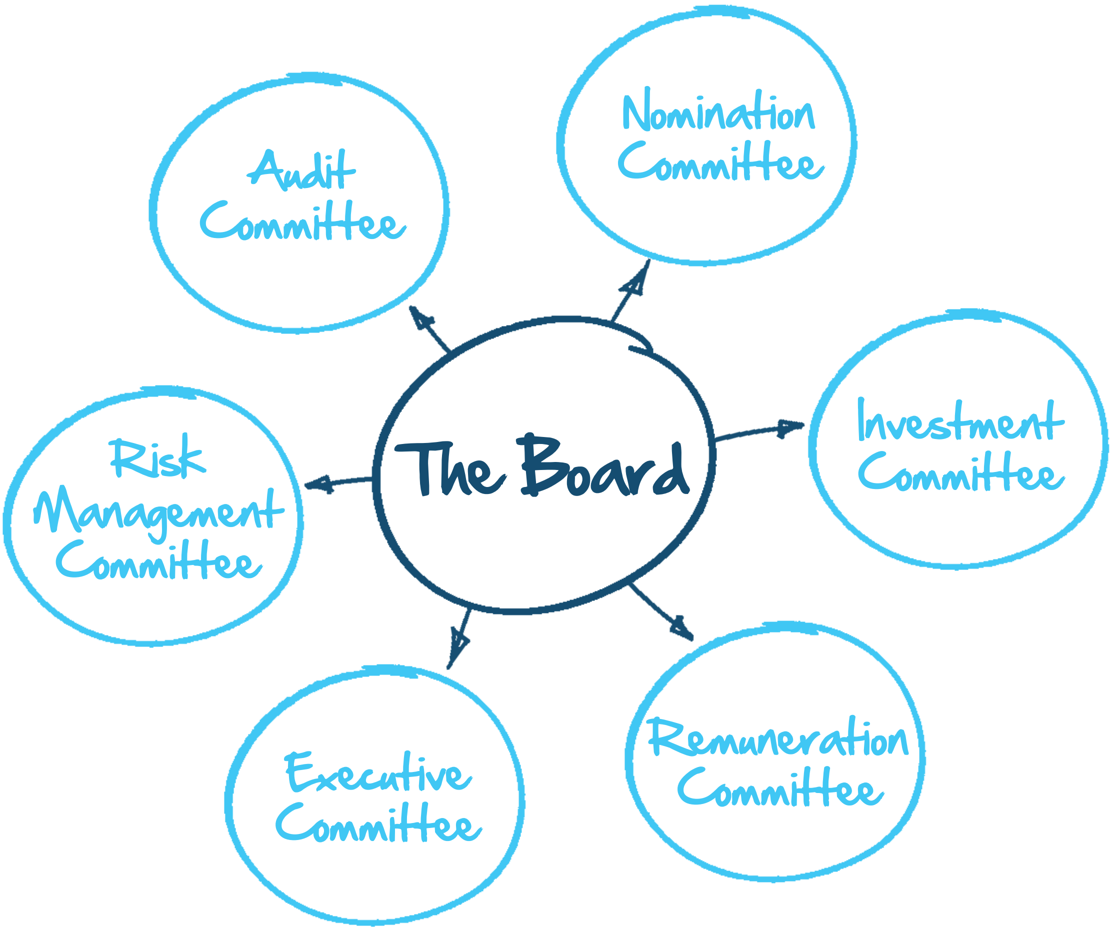
## DELEGATION BY THE BOARD

### Management Functions

The segregation of duties and responsibilities between the Board and the management has been defined and provided as internal guidelines of the Company.

The duties of the Board include:

- formulating the Company's operational strategies and management policies and establishing corporate governance and internal control system;




- setting the objectives and targets with a view to enhance shareholders' value to management; and
- monitoring performance of management and providing guidance to the management.

The duties of the management include:
- reviewing the business and operation performance;
- ensuring adequate fundings; and
- monitoring performance of the management of the Group.

## Board Committees

In order to assist the Board in the execution of its duties, the Board has established the Audit Committee, the Remuneration Committee, the Nomination Committee, the Investment Committee, the Risk Management Committee and the Executive Committee with respective terms of reference which clearly defined its authority and duties. All Board Committees are provided with sufficient resources to discharge their duties. The Chairmen of the Board Committees reported to the Board their work, findings and recommendations at the Board meetings.

### *Remuneration Committee*

The Remuneration Committee was established in March 2005 with specific written terms of reference in accordance with the requirements of the CG Code. The terms of reference of the Remuneration Committee is available on the Company's website. A majority of members of the Remuneration Committee is Independent Non-executive Director. The Remuneration Committee currently comprises all Independent Non-executive Directors, namely Mr. Jiang, Simon X. (chairman of the Remuneration Committee), Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec; and two Executive Directors, namely Mr. Liang Yanfeng and Mr. Lin Wenjin.

The main duties of the Remuneration Committee include:
- making recommendation on the policy for the remuneration of the Company; and
- ensuring the remuneration offered is appropriate for the duties and in line with market practice.

The Remuneration Committee would consult the Chairman or the Vice Chairman the proposals relating to the remuneration of other Executive Directors, if any. The Remuneration Committee may have access to external professional advice if considered necessary at the Company's expenses.

During the year, the Remuneration Committee held two meetings in July and December 2009 to carry out annual review of the remuneration report of the Company for the year 2008/2009 as well as to review the Directors' fees of Independent Non-executive Directors with reference to the market survey and to consider the Directors' emoluments in relation to the change of Managing Director respectively.

# Corporate Governance Report

**Details of remuneration of the Vice Chairman, the Managing Director and Deputy Managing Director(s) who are also the Executive Directors, and the Independent Non-executive Directors are disclosed on an individual basis in this Annual Report.**

## *Audit Committee*

The Audit Committee was established in September 1998 with specific written terms of reference which clearly defined its authority and duties. The terms of reference has coverage on the scope of duties as required in the code provisions of the CG Code and is available on the Company's website. In December 2008, the terms of reference was revised in the light of the amendments of the Listing Rules, which became effective from 1st January 2009, to reflect the new oversight role of the Audit Committee in the review of the adequacy of resources, qualifications and experiences of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

**Other than covering the scope of duties as required in the code provisions of the CG Code, the Audit Committee's scope of duties were extended to include reviewing the compliant and deciding how the investigation should proceed under the whistleblowing policy adopted by the Company:**

**(1) to approve and monitor procedures enabling the following, and ensuring the fair and independent investigation and appropriate follow-up of such matters:**

**(a) receipt, retention and treatment of complaints received by the Company regarding accounting, financial reporting, internal control, auditing and other matters; and**

**(b) anonymous submission by the employees of the Company of concerns regarding questionable accounting, financial reporting, internal control, auditing and other matters.**

**The Company has adopted a whistleblowing policy in September 2008 under which employees have been provided a channel and guideline to report any misconduct, malpractice or impropriety concerns within the Group. The policy includes the establishment of an electronic reporting mailbox and a hotline. All reporting are treating as confidential and sensitive manner. The chairman of the Audit Committee will review the compliant and decide how the investigation should proceed. Details of the whistleblowing policy are available on the Company's website. Up till now, no compliant from the employee was received.**

**(2) the Audit Committee acts as the key representative body of the Company and is responsible to oversee the relationship between the Company and the external auditor, include the relationships involving the provision of non-audit services.**

The Audit Committee currently comprises all Independent Non-executive Directors, namely Mr. Kwong Che Keung, Gordon who is a certified public accountant (chairman of the Audit Committee), Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X. Except Mr. Kwong Che Keung, Gordon, the Independent Non-executive Director, who was a partner of Price Waterhouse from 1984 to 1998, none of the members of the Audit Committee are former partners of the Company's existing auditing firm.

The main duties of the Audit Committee include:

- reviewing the important accounting policies and supervising the Company's financial reporting process;
- monitoring the performance of both the internal and external auditors;
- reviewing and examining the effectiveness of the financial reporting procedures and internal controls; and
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board.

Draft minutes of the Audit Committee meetings prepared by the secretary of the Committee were circulated to the Committee members for comments after respective meetings. Full minutes of the meetings were kept by the secretary of the Committee.

During the year, the Audit Committee held two meetings with the external auditors and the senior management of the Company, in March and August 2009 respectively. The major works performed by the Audit Committee in 2009 included:

- reviewing and making recommendation for the Board's approval on the draft 2008 Annual Report as well as the audited consolidated financial statements for the year ended 2008 and 2009 Interim Report and the unaudited consolidated financial statements for the period ended 30th June 2009;
- reviewing the effectiveness of the internal control and risk management system;
- reviewing the continuing connected transactions of the Group for the year ended 31st December 2008 and the period ended 30th June 2009;
- reviewing the cash flow forecast and financial budget for the year of 2009;
- making recommendation to the Board that, subject to the shareholders' approval at the forthcoming annual general meeting, PricewaterhouseCoopers would be re-appointed as the external auditor of the Company; and
- reviewing the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

## Nomination Committee

The Nomination Committee was established in March 2005 with specific written terms of reference and comprising a majority of Independent Non-executive Directors. The Nomination Committee currently comprises all Independent Non-executive Directors, namely Mr. Tsui Yiu Wa, Alec (chairman of the Nomination Committee), Mr. Kwong Che Keung, Gordon and Mr. Jiang, Simon X.; and an Executive Director, Mr. Liang Yanfeng. The terms of reference of the Nomination Committee is available on the Company's website.

The Nomination Committee is mainly responsible for reviewing the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

The Company has adopted a Director Appointment Policy in December 2008 (available on the Company's website) to provide a framework and set standards for the appointment of high quality directors who should have the capacity and ability to lead the Company towards achieving sustainable development.

During the year, the Nomination Committee held a meeting in December 2009 to discuss the change of Managing Director. Having considered the qualification and experience of Mr. Wang Xiaodong, the Executive Director of the Company, the Nomination Committee recommended to the Board to appoint Mr. Wang Xiaodong as the Managing Director of the Company. The appointment was effective on 11th December 2009.

## Executive Committee

The Executive Committee was established in March 2005, with specific written terms of reference. The Executive Committee currently comprises Mr. Wang Xiaodong (chairman of the Executive Committee), Mr. Wang Futian, Mr. Liang Yanfeng, Mr. Wang Xiaoming and Mr. Lin Wenjin, all being Executive Directors. The terms of reference of Executive Committee is available on the Company's website.

The Executive Committee is mainly responsible for implementing the strategies, reviewing the business performance and monitoring performance of the management of the Group.

During the year, the Executive Committee held a meeting in December 2009 to review the business operations, strategic development, corporate governance and performance of safety production for the period ended 30th November 2009.

## Investment Committee

The Investment Committee was established in March 2005, with specific written terms of reference. The Investment Committee currently comprises Mr. Wang Xiaoming (chairman of the Investment Committee), Mr. Wang Futian, Mr. Liang Yanfeng, Mr. Wang Xiaodong and Mr. Lin Wenjin, all being Executive Directors. The terms of reference of Investment Committee is available on the Company's website.

The Investment Committee is mainly responsible for reviewing the investment policies, reviewing and concurring with any major investment project(s) and advising the Board on the investment of the Company.

# Corporate Governance Report

During the year, the Investment Committee held two meetings in March and November 2009 respectively in relation to the acquisition of 18% of the issued share capital of Double Rich and the establishment of Sinfeng in Singapore.

## *Risk Management Committee*

The Risk Management Committee was established in March 2005, with specific written terms of reference. The Risk Management Committee currently comprises Mr. Liang Yanfeng (chairman of the Risk Management Committee), Mr. Wang Futian, Mr. Wang Xiaoming and Mr. Wang Xiaodong, all being Executive Directors. The terms of reference of the Risk Management Committee is available on the Company's website.

The Risk Management Committee is mainly responsible for formulating and reviewing the risk management procedure and internal control system and monitoring the implementation of risk control.

During the year, the Risk Management Committee held a meeting in December 2009 to discuss a report submitted by the Internal Audit Department. The report was about the implementation of risk management and internal control of the Group, content of which include risk management analysis on the Group's financial, operational and compliance controls and provides recommendations on areas of improvement. The Board was satisfied with the said report submitted to the 4th regular Board meeting in 2009.

## Attendance Record at the Board and Board Committee Meetings

During the year, the attendance records of the individual Directors at the Board meetings and Board Committee meetings are set out in the following table:

| | Board | Audit Committee | Executive Committee | Investment Committee | Nomination Committee | Remuneration Committee | Risk Management Committee |
|---|---|---|---|---|---|---|---|
| *Executive Directors* | | | | | | | |
| Mr. Zhang Fusheng | 4/4 | N/A | N/A | N/A | N/A | N/A | N/A |
| Mr. Wang Futian | 4/4 | N/A | 1/1 | 2/2 | N/A | N/A | 1/1 |
| Mr. Liang Yanfeng Note (1) | 4/4 | N/A | 1/1 | 2/2 | 1/1 | 2/2 | 1/1 |
| Mr. Wang Xiaoming | 4/4 | N/A | 1/1 | 2/2 | N/A | N/A | 1/1 |
| Mr. Wang Xiaodong Note (2) | 4/4 | N/A | 1/1 | 2/2 | N/A | N/A | 1/1 |
| Mr. Lin Wenjin | 3/4 | N/A | 1/1 | 2/2 | N/A | 2/2 | N/A |
| *Non-executive Directors* | | | | | | | |
| Mr. Li Jianhong | 4/4 | N/A | N/A | N/A | N/A | N/A | N/A |
| Mr. Jia Lianjun | 4/4 | N/A | N/A | N/A | N/A | N/A | N/A |
| Mr. Meng Qinghui | 4/4 | N/A | N/A | N/A | N/A | N/A | N/A |
| Mr. Chen Xuewen | 4/4 | N/A | N/A | N/A | N/A | N/A | N/A |
| *Independent Non-executive Directors* | | | | | | | |
| Mr. Kwong Che Keung, Gordon | 4/4 | 2/2 | N/A | N/A | 1/1 | 2/2 | N/A |
| Mr. Tsui Yiu Wa, Alec | 4/4 | 2/2 | N/A | N/A | 1/1 | 2/2 | N/A |
| Mr. Jiang, Simon X. | 4/4 | 2/2 | N/A | N/A | 1/1 | 2/2 | N/A |

*Notes*

*(1) Mr. Liang Yanfeng resigned as committee chairman but remained as committee member of Executive Committee on 11th December 2009.*

*(2) Mr. Wang Xiaodong was appointed as committee chairman of Executive Committee on 11th December 2009.*

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

Management was required to provide detailed report(s) and explanation to enable the Board to make an informed assessment of the financial and other information put before for approval.

The Directors acknowledged their responsibility for preparing the financial statements of the Group. The Directors were not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern. The Company aimed to present a clear and balanced assessment of its financial position and prospects. The Board must ensure that the financial statements of the Group are prepared so as to give a true and fair view of the financial status of the Group. Audited financial statements are published within four months after the end of the financial year.

The Board aimed at presenting a balanced, clear and understandable assessment of the Company's position to its shareholders and the public. Press conferences had been held twice a year. Information in relation to the Company had also been uploaded to the Company's website.

The reporting responsibilities of the Directors and the external auditor are further set out in the Independent Auditor's Report in this Annual Report. For the announcement relating to the price-sensitive information and other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

### Risk Management and Internal Control

The Board had overall responsibility for the system of internal controls and for reviewing its effectiveness to safeguard the Company's assets and the shareholders' interests.

The Board has always regarded risk management as an important task and believes that effective corporate risk management is an essential element of good corporate governance. The Risk Management Committee and Audit Committee have been established under the Board, which are responsible for setting up, monitoring and reviewing the risk management procedures and internal control system of the Group.

The Group has always adopted the risk management framework formulated by the Committee of Sponsoring Organisations of the Treadway Commission in the United States of America as recommended by the Hong Kong Institute of Certified Public Accountants. When formulating risk management procedures, the Group appropriately takes into account the five elements of this risk management framework: the environmental control, risk assessment, control activities, information and communication, and monitoring.

At beginning of each year, the Group would identify and analyse the existing or potential risks over the course of business operation by taking into account the production and operation conditions of each business unit. The Group then assesses the possibilities that such risks may actualise and their impacts. Based on the result of analysis, the Group identifies the main risk and the management target. The management of the Group is responsible for managing their respective day-to-day operating risks, and is responsible for implementing measures to reduce such risks. In addition, independent functional departments carry out monitoring on the implementation of risk management, and continuously review and assess the efficiency and adequacy of action plans. Such assessment results are regularly communicated and reported to the Risk Management Committee and the Board.

#### *Internal Audit*

The Internal Audit Department assists the Audit Committee in ensuring a sound and effective system of internal controls maintained by the Company. The Internal Audit Department performs regular review of the Group's internal controls based on the annual internal audit plan approved by the Audit Committee. The annual internal audit plan is arrived by using a risk-based approach to determine the priorities of the internal audit activity. The Audit Committee assesses the effectiveness of the internal control system by reviewing the work of the Internal Audit Department and its findings.

# Corporate Governance Report

Management is responsible for ensuring the recommendations made by the Internal Audit Department are implemented within an appropriate and reasonable timeframe and the confirmation in relation to the implementation of recommendations had been provided. Management must also confirm annually to the Internal Audit Department that business units under their control have taken or are in process of taking the appropriate actions to deal with all significant recommendations made by external auditors following their inspections.

During the year, the Internal Audit Department had performed reviews on all major aspects of the Group's operations in Hong Kong and the PRC according to the approved internal audit plan. Findings and recommendations on internal control deficiencies were well communicated with the management such that action plans were developed by the management to address the issues identified. Post-audit reviews were scheduled to ensure the action plans were executed as designed. Key findings of each internal control review assignment were reported to and reviewed by the Audit Committee.

### *Internal Control*

The chairman of the Audit Committee reported to the Board on key findings regarding internal audit work at least twice a year and the chairman of the Risk Management Committee reported to the Board on key findings regarding internal controls at least once a year. The Board had conducted an annual review on the effectiveness of its internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management functions. The Board believed that the internal control systems of the Group are effective and adequate.

The annual review of the adequacy of resources, qualifications or experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget was conducted by the Audit Committee in August 2009. The chairman of the Audit Committee reported to the Board the results of the review in September 2009. The Board believed that the Company has sufficient resources of staff and training on the accounting and financial reporting function.

## COMMUNICATION WITH SHAREHOLDERS

### Effective Communication

The Chairman of the Board attended the annual general meeting of the Company held on 2nd June 2009 (the "2009 AGM") and the chairmen of the Audit, Remuneration and Nomination Committees were available to answer questions at the 2009 AGM. Moreover, the chairman of the independent board committee attended the special general meetings of the Company held in 2009 to approve the connected transactions.

At the 2009 AGM, a separate resolution for each substantially separate issue was proposed, including election of individual Directors. Separate resolutions were also proposed at the other general meetings on each substantially separate issue.

In accordance with the provision of Bye-laws of the Company and in order to comply with the revised CG Code with effect from 1st January 2009, all notices of general meetings to shareholders of the Company for meetings held on or after 1st January 2009 had been sent in the case of annual general meeting at least 20 clear business days before the meeting and at least 10 clear business days in the case of all other general meetings.

### Voting by Poll

All resolutions at the general meetings of the Company shall be decided by way of poll so as to allow shareholders of the Company to have one vote for every share held. The chairman of a meeting had ensured that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders regarding voting by way of poll. The poll voting results of the general meetings were published on the websites of the Stock Exchange and the Company on the same day after the general meetings respectively.

## AUDITOR'S REMUNERATION

During the year, the remuneration paid to the Company's external auditor, PricewaterhouseCoopers for audit services and non-audit services were approximately HK$3,051,000 and HK$1,892,000 respectively.

The above non-audit services include professional advisory on taxation, professional services in relation to shareholders' circulars and review on connected transactions.

## INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The Company adheres to high standards with respect to the disclosure of its financial statements. To foster regular and contribute two-way communications amongst the Company, its shareholders and potential investors, Corporate Communications Department is designated to respond to enquiries from its shareholders and the public. In addition, the Company is committed to maximising the use of its website as a channel to provide updated information in a timely manner and strengthen the communications with both the public and its shareholders.

## MANAGEMENT MEETINGS

Members of Executive Committee and the senior management meet together on a weekly basis to review, discuss and make decisions on financial and operational matters. These meetings chaired by the Managing Director, enhance and strengthen departmental communications and cooperation within the Group.

## CONNECTED TRANSACTIONS

The Company committed to ensuring compliance with regulatory requirements under the Listing Rules and applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are approved by Independent Non-executive Directors, conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the independent shareholders of the Company in accordance with the Listing Rules. The connected persons were required to abstain from voting in the general meetings. Details of the connected transactions during the year are set out in the Directors' Report.

## INCENTIVE SCHEME AND CORPORATE CULTURE

The Company maintains an employee handbook providing guidance to employees on matters such as employee dealings on the Company's securities, ethical standards, business conduct, employees conduct and reporting any misconduct within the Group. The employee handbook applies to all employees of the Group who must ensure strict compliance with the policies therein. Through the establishment of a performance charter for the senior management, appropriate appraisal mechanisms, and the granting of share options, the Company has been able to align the interests of the senior management and entire staff with the growth and performance of the Company. The Company pays particular attention to the establishment of an optimal corporate culture. With the support of all staff, the Company has identified, formulated and implemented a corporate culture that is considered appropriate for its special circumstances, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Group.

By order of the Board

**CHIU Shui Suet**
*Company Secretary*
Hong Kong, 23rd March 2010

**Recommended Best Practices complied by the Company**

# Directors' Report

The board of directors of the Company (the "Directors" or the "Board") presents this Directors' Report (the "Report") together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December 2009.

## PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding. The principal activities of the Group include shipping services, general trading and property investments. An analysis of the revenue and segment information of the Group for the year is set out in note 5 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2009 are set out in the consolidated income statement on page 104 of this Annual Report. The Board recommended the payment of a final dividend of 8.40 HK cents (2008: 6.40 HK cents) per share for the year ended 31st December 2009 subject to the shareholders' approval at the annual general meeting of the Company to be held on Tuesday, 1st June 2010. Approximately HK$126,899,000 will be payable on or before Wednesday, 30th June 2010 to the shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 1st June 2010.

The register of members of the Company will be closed from Friday, 28th May 2010 to Tuesday, 1st June 2010, both days inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend for the year ended 31st December 2009, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 27th May 2010.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 7 to the financial statements.

## DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2009 calculated under Companies Act of Bermuda amounted to HK$1,652,432,000.

## BORROWINGS

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the borrowings are set out in note 25 to the financial statements.

## RESERVES

Details of the movements in reserves of the Group during the year are set out in note 23 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the financial statements.

## DONATIONS

Donations made by the Group during the year amounted to approximately HK$175,000 (2008: HK$100,000).

## FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on pages 193 and 194.

## DIRECTORS

The Directors during the year and up to the date of the Report were:

### Executive Directors

Mr. Zhang Fusheng *(Chairman)*
Mr. Wang Futian *(Vice Chairman)*
Mr. Liang Yanfeng
*(resigned as Managing Director on 11th December 2009)*
Mr. Wang Xiaoming
Mr. Wang Xiaodong *(Managing Director)*
*(appointed as Executive Director and Managing Director on 25th January 2006 and 11th December 2009 respectively)*
Mr. Lin Wenjin

### Non-executive Directors

Mr. Li Jianhong
Mr. Jia Lianjun
Mr. Meng Qinghui
Mr. Chen Xuewen

### Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.

In accordance with Bye-Law 99 of the Company's Bye-Laws, all Directors shall retire from office at the forthcoming annual general meeting of the Company and be eligible for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Li Jianhong, Mr. Jia Lianjun, Mr. Meng Qinghui, Mr. Chen Xuewen, Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X. has entered into the letter of appointment with the Company on 8th July 2009 for a specific term up to the forthcoming annual general meeting of the Company.

Saved as disclosed above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with any member of the Group which is not determinable within one year without the payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the section "DIRECTORS' INTERESTS IN SECURITIES", at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, or party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

# Directors' Report

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of the Report, the following Directors are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as set out as follows:

| NAME OF DIRECTOR | NAME OF THE ENTITIES WHICH WERE CONSIDERED TO COMPETE OR LIKELY TO COMPETE WITH THE BUSINESSES OF THE GROUP | DESCRIPTION OF BUSINESSES OF THE ENTITIES WHICH WERE CONSIDERED TO COMPETE OR LIKELY TO COMPETE WITH THE BUSINESSES OF THE GROUP | NATURE OF DIRECTOR'S INTEREST IN THE ENTITIES |
|---|---|---|---|
| Mr. Zhang Fusheng | Companies controlled by 中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company) ("COSCO") | – Shipping services<br>– Property investments | director |
| Mr. Wang Futian | COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") and companies controlled by COSCO Hong Kong | – Shipping services<br>– Property investments | director |
| Mr. Li Jianhong* | Companies controlled by COSCO | – Shipping services<br>– Property investments | director |
| | Sino-Ocean Land Holdings Limited ("SOLHL") | – Property investments | chariman and non-executive director |
| Mr. Jia Lianjun | Companies controlled by COSCO | – Shipping services<br>– Property investments | director |
| Mr. Liang Yanfeng | Soundwill Holdings Limited ("Soundwill") | – Property investments | non-executive vice chairman |
| | SOLHL | – Property investments | non-executive director |
| Mr. Wang Xiaoming | COSCO Hong Kong and companies controlled by COSCO Hong Kong | – Shipping services<br>– Property investments | director |
| Mr. Wang Xiaodong# | SOLHL | – Property investments | non-executive director |
| Mr. Meng Qinghui | Companies controlled by COSCO Hong Kong | – Shipping services<br>– Property investments | director |
| | Soundwill | – Property investments | non-executive director |
| Mr. Chen Xuewen | Companies controlled by COSCO Hong Kong | – Shipping services<br>– Property investments | director |

** Mr. Li Jianhong resigned as chairman and non-executive director of SOLHL on 23rd March 2010.*

*# Mr. Wang Xiaodong was appointed as non-executive director of SOLHL on 23rd March 2010.*

As the Board is independent from the board of directors of the aforesaid companies, and as none of the above Directors controls the Board, the Group is capable of carrying on their businesses independently of, and at arm's length from, the businesses of these companies.

## CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions and/or continuing connected transactions of the Group are required to be disclosed in this Annual Report.

### 1. Ship Trading Continuing Connected Transactions

On 30th November 2007, a conditional master agreement was entered into between the Company, COSCO (Hong Kong) Group Limited, an intermediate holding company of the Company ("COSCO Hong Kong"), and COSCO International Ship Trading Company Limited, currently an indirect wholly-owned subsidiary of the Company (“COSCO Ship Trading”) (the “Ship Agency Services Master Agreement”), pursuant to which COSCO Ship Trading and its subsidiaries agreed to provide ship agency services to 中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company), the ultimate holding company of the Company ("COSCO") and its subsidiaries and other associates (“COSCO Group”) (the “Ship Trading Continuing Connected Transactions”) for the three financial years ending 31st December 2010 on normal commercial terms and on terms no less favourable than terms available to independent third parties. The aggregate amount of the Ship Trading Continuing Connected Transactions for each of the financial years ending 31st December 2008, 2009 and 2010 will not exceed the relevant cap amounts set out below (the “Ship Trading Cap Amounts”) as disclosed in the announcement of the Company dated 30th November 2007. The Ship Agency Services Master Agreement and the Ship Trading Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 8th January 2008.

| CAP FOR THE YEAR ENDING 31ST DECEMBER 2008 | **CAP FOR THE YEAR ENDING 31ST DECEMBER 2009** | CAP FOR THE YEAR ENDING 31ST DECEMBER 2010 |
|---|---|---|
| HK$330,000,000 | **HK$330,000,000** | HK$330,000,000 |

The Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2009 amounted to HK$145,366,099.

As set out in note 38(a)(iii) to the Group’s financial statements, these related party transactions also constituted continuing connected transactions as disclosed above.

### 2. Yuantong Continuing Connected Transactions

On 30th November 2007, a conditional master agreement was entered into between the Company, COSCO Hong Kong and Yuantong Marine Service Co. Limited, an indirect wholly-owned subsidiary of the Company (“Yuantong”) (the “Supply and Installation Services Master Agreement”), pursuant to which Yuantong and its subsidiary(ies) agreed to provide the supply and installation services to COSCO Group (the “Yuantong Continuing Connected Transactions”) for the three financial years ending 31st December 2010 on normal commercial terms and on terms no less favourable than terms available to independent third parties. The aggregate amount of the Yuantong Continuing Connected Transactions for each of the financial years ending 31st December 2008, 2009 and 2010 will not exceed the relevant cap amounts set out below (the “Yuantong Cap Amounts”) as disclosed in the announcement of the Company dated 30th November 2007. The Supply and Installation Services Master Agreement and the Yuantong Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 8th January 2008.

| CAP FOR THE YEAR ENDING 31ST DECEMBER 2008 | **CAP FOR THE YEAR ENDING 31ST DECEMBER 2009** | CAP FOR THE YEAR ENDING 31ST DECEMBER 2010 |
|---|---|---|
| HK$410,000,000 | **HK$450,000,000** | HK$495,000,000 |

The Yuantong Continuing Connected Transactions for the financial year ended 31st December 2009 amounted to HK$309,923,664.

As set out in note 38(a)(ii) to the Group’s financial statements, certain related party transactions also constituted continuing connected transactions as disclosed above.

## 3. COSCO Kansai Continuing Connected Transactions

Technology transfer agreements were entered into between each of 中遠關西塗料化工(天津)有限公司 (COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd.) ("COSCO Kansai (Tianjin)", formerly known as 天律中遠關西塗料化工有限公司 Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.), 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.) ("COSCO Kansai (Shanghai)", formerly known as 上海中遠關西塗料化工有限公司 Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.) and 中遠關西塗料化工(珠海)有限公司 (COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd.) ("COSCO Kansai (Zhuhai)", formerly known as 珠海中遠關西塗料化工有限公司 Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd.) (collectively "COSCO Kansai Companies", all being non-wholly owned subsidiaries of the Company) and Kansai Paint Co., Ltd., a substantial shareholder of certain non-wholly owned subsidiaries of the Company ("Japan Kansai"), in relation to the provision of technology and know-how on 18th December 1991, 19th January 1996 and 28th February 2006 respectively (collectively the "Technology Transfer Agreements").

On 30th November 2007, the following agreements were entered into for the three financial years ending 31st December 2010 on normal commercial terms:

(A) master agreements were entered into between each of COSCO Kansai Companies and Japan Kansai in relation to the purchase of raw materials by each of COSCO Kansai Companies from Japan Kansai;

(B) a conditional master agreement was entered into between COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and NKM Coatings Co., Ltd. in which Japan Kansai holds more than 50% of its equity interest and thus being an associate of Japan Kansai ("NKM"), in relation to the purchase of raw materials from NKM;

(C) a master agreement was entered into between COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and NKM in relation to the sale of coatings to NKM;

(D) a conditional master agreement was entered into between the Company, COSCO Kansai Companies and COSCO Hong Kong in relation to the sale of coatings by COSCO Kansai Companies to COSCO Group and the introduction of businesses by COSCO Group to COSCO Kansai Companies; and

(E) a conditional master agreement was entered into between COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) and NKM or its subsidiaries in relation to the introduction of businesses by NKM to COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai).

(The agreements set out in items (A), (B), (C), (D) and (E) are collectively called "the Agreements" and the transactions contemplated under the Technology Transfer Agreements and the Agreements are collectively called the "COSCO Kansai Continuing Connected Transactions".)

The aggregate amount of the COSCO Kansai Continuing Connected Transactions for each of the financial years ending 31st December 2008, 2009 and 2010 will not exceed the relevant cap amounts set out below (the "COSCO Kansai Cap Amounts") as disclosed in the announcement of the Company dated 30th November 2007. The Agreements and the COSCO Kansai Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 8th January 2008.

| | CAPS FOR THE YEAR ENDING 31ST DECEMBER 2008 RMB | **CAPS FOR THE YEAR ENDING 31ST DECEMBER 2009 RMB** | CAPS FOR THE YEAR ENDING 31ST DECEMBER 2010 RMB |
|---|---|---|---|
| Technology usage fees payable by COSCO Kansai Companies to Japan Kansai under the Technology Transfer Agreements | 11,000,000 | **14,000,000** | 18,000,000 |
| Purchase of raw materials by COSCO Kansai Companies from Japan Kansai and by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) from NKM | 12,000,000 | **15,000,000** | 18,000,000 |
| Sale of coatings by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) to NKM | 10,000,000 | **10,000,000** | 10,000,000 |
| Sale of coatings by COSCO Kansai Companies to COSCO Group | 29,000,000 | **35,000,000** | 42,000,000 |
| Commission payable to NKM by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for business referral | 9,000,000 | **9,000,000** | 9,000,000 |
| Commission payable to COSCO Group by COSCO Kansai Companies for business referral | 19,000,000 | **21,000,000** | 23,000,000 |

The COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2009 were as follows:

| | **RMB** |
|---|---|
| Technology usage fees payable by COSCO Kansai Companies to Japan Kansai under the Technology Transfer Agreements | 1,623,429 |
| Purchase of raw materials by COSCO Kansai Companies from Japan Kansai and by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) from NKM | 10,538,764 |
| Sale of coatings by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) to NKM | 2,754,902 |
| Sale of coatings by COSCO Kansai Companies to COSCO Group | 8,230,071 |
| Commission payable to NKM by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for business referral | – |
| Commission payable to COSCO Group by COSCO Kansai Companies for business referral | 465,212 |

As set out in notes 38(a)(i), 38(b)(ii), (iii) and (vi) to the Group's financial statements, certain related party transactions also constituted continuing connected transactions as disclosed above.

## 4. COSCO Insurance Brokers Continuing Connected Transactions

On 10th November 2006, the Company, COSCO (Hong Kong) Insurance Brokers Limited, an indirect wholly-owned subsidiary of the Company ("HK COSCO Insurance Brokers"), 深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited), an indirect non-wholly owned subsidiary of the Company ("SZ COSCO Insurance Brokers"), and COSCO Hong Kong entered into a conditional master agreement (the "COSCO Insurance Master Agreement"), pursuant to which the Group agreed to provide marine and general insurance brokerage services to COSCO Group (the "COSCO Insurance Brokers Continuing Connected Transactions") for the three financial years ending 31st December 2009 on normal commercial terms and on terms no less favourable than terms available to or from (as appropriate) independent third parties. The aggregate amount of the COSCO Insurance Brokers Continuing Connected Transactions for each of the financial years ending 31st December 2007, 2008 and 2009 will not exceed the relevant cap amounts set out below (the "Insurance Cap Amounts") as disclosed in the announcement of the Company dated 10th November 2006. The COSCO Insurance Master Agreement and the Insurance Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 21st December 2006.

| CAP FOR THE YEAR ENDING 31ST DECEMBER 2007 | CAP FOR THE YEAR ENDING 31ST DECEMBER 2008 | **CAP FOR THE YEAR ENDING 31ST DECEMBER 2009** |
|---|---|---|
| US$5,740,000 | US$6,320,000 | **US$6,960,000** |

The COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2009 was US$6,281,875.

On 18th November 2009, a conditional master agreement was entered into between the Company, HK COSCO Insurance Brokers, SZ COSCO Insurance Brokers and COSCO Hong Kong (the "2010-2012 COSCO Insurance Master Agreement"), pursuant to which the Group will provide marine and general insurance brokerage services to COSCO Group (the "2010-2012 COSCO Insurance Brokers Continuing Connected Transactions") for the three financial years ending 31st December 2012 on normal commercial terms and on terms no less favourable than terms available to or from (as appropriate) independent third parties. The aggregate amount of the 2010-2012 COSCO Insurance Brokers Continuing Connected Transactions for each of the financial years ending 31st December 2010, 2011 and 2012 will not exceed US$7,900,000, US$9,600,000 and US$11,600,000 respectively (the "2010-2012 Insurance Cap Amounts") as disclosed in the announcement of the Company dated 18th November 2009. The 2010-2012 COSCO Insurance Master Agreement and the 2010-2012 Insurance Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 23rd December 2009.

As set out in note 38(a)(iv) to the Group's financial statements, certain related party transactions also constituted continuing connected transactions as disclosed above.

## 5. Tenancy Continuing Connected Transactions

On 30th November 2007, the following tenancy agreements were entered into between:

(a) the Company as tenant and Tian Lee Property Limited, an indirect wholly-owned subsidiary of COSCO Hong Kong as landlord in respect of Units 4701-3 and 4706 of the 47th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong for a period of three years from 3rd August 2008 to 2nd August 2011 (the "1st Tenancy Agreement");

(b) COSCO Ship Trading as tenant and Velu Exports Limited, an indirect wholly-owned subsidiary of COSCO Hong Kong as landlord in respect of Unit 4802 of the 48th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong for a period of three years from 3rd August 2008 to 2nd August 2011 (the "2nd Tenancy Agreement");

(c) Yuantong as tenant and Thien Poh Engineering Limited, an indirect wholly-owned subsidiary of COSCO Hong Kong as landlord in respect of Unit 4601 of the 46th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong for a period of three years from 1st January 2008 to 31st December 2010 (the "3rd Tenancy Agreement"); and

(d) 中遠國際船舶貿易(北京)有限公司 (COSCOSHIP Beijing Company Limited), currently an indirect wholly-owned subsidiary of the Company as tenant and 中遠幸福(北京)大廈有限公司 (COSCO Happiness (Beijing) Mansion Ltd.), an indirect wholly-owned subsidiary of COSCO Hong Kong as landlord in respect of Rooms 1103, 1108 and 1110 of the 11th Floor of Block A of Lucky Tower, No. 3 North Dongsanhuan Road, Chao Yang District, Beijing, the PRC for a period of three years from 1st January 2008 to 31st December 2010 (the "4th Tenancy Agreement").

(The 1st Tenancy Agreement, the 2nd Tenancy Agreement, the 3rd Tenancy Agreement and the 4th Tenancy Agreement are collectively called the "Tenancy Agreements" and the transactions contemplated under the Tenancy Agreements are collectively called the "Tenancy Continuing Connected Transactions".)

The aggregate amount of the Tenancy Continuing Connected Transactions for each of the financial years ending 31st December 2008, 2009 and 2010 will not exceed the relevant cap amounts set out below (the "Tenancy Cap Amounts"). The Tenancy Agreements and the Tenancy Cap Amounts were exempted from the independent shareholder's approval requirement pursuant to Chapter 14A of the Listing Rules. Details of which were disclosed in the announcement of the Company dated 30th November 2007.

| CAP FOR THE YEAR ENDING 31ST DECEMBER 2008 | **CAP FOR THE YEAR ENDING 31ST DECEMBER 2009** | CAP FOR THE YEAR ENDING 31ST DECEMBER 2010 |
|---|---|---|
| HK$16,000,000 | **HK$18,000,000** | HK$18,000,000 |

The Tenancy Continuing Connected Transactions for the financial year ended 31st December 2009 was HK$15,844,611.

As set out in note 38(b)(i) to the Group's financial statements, certain related party transactions also constituted continuing connected transactions as disclosed above.

## 6. CITC and Financial Services Continuing Connected Transactions

Upon the completion of the acquisition of 中遠國際貿易有限公司 (COSCO International Trading Company Limited) ("CITC") in December 2008, CITC became an indirect wholly-owned subsidiary of the Company. The following agreements were entered into on 5th December 2008 for the three financial years ending 31st December 2010 on normal commercial terms:

(A) asphalt master agreement was entered into between CITC and Chimbusco (Singapore) Pte Ltd., an associate of COSCO ("Chimbusco Singapore"), in relation to the supply of asphalt by Chimbusco Singapore to CITC and the provision of services by Chimbusco Singapore to CITC to carry out hedging arrangement against the risk of fluctuation in the purchase price of asphalt;

(B) supplying services and transportation services master agreement was entered into between the Company, COSCO Hong Kong and CITC in relation to the supply of ship facilities and accessories and the provision of agency services in connection with the aforesaid and in connection with ship trading (the "Supplying Services") by CITC and its subsidiaries ("CITC Group") to COSCO Group and the shipping transportation services (the "Transportation Services") by COSCO Group to CITC Group; and

(C) financial services master agreement was entered into between the Company, COSCO Hong Kong and CITC in relation to a range of financial services provided by 中遠財務有限責任公司 (COSCO Finance Co. Limited), a non-wholly owned subsidiary of COSCO ("COSCO Finance"), to the Group.

(The agreements set out in items (A), (B) and (C) are collectively called the "Master Agreements" and the transactions contemplated under the Master Agreements are collectively called the "CITC and Financial Services Continuing Connected Transactions".)

The aggregate amount of the CITC and Financial Services Continuing Connected Transactions for each of the financial years ending 31st December 2008, 2009 and 2010 will not exceed relevant cap amounts set out below (the "CITC and Financial Services Cap Amounts") as disclosed in the announcement of the Company dated 5th August 2008. The Master Agreements and the CITC and Financial Services Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 5th September 2008.

| | CAPS FOR THE YEAR ENDING 31ST DECEMBER 2008 | **CAPS FOR THE YEAR ENDING 31ST DECEMBER 2009** | CAPS FOR THE YEAR ENDING 31ST DECEMBER 2010 |
|---|---|---|---|
| Consideration for asphalt supply and services fees payable by CITC to Chimbusco Singapore for hedging arrangement | US$22,000,000 | **US$89,000,000** | US$106,000,000 |
| Consideration for Supplying Services payable by COSCO Group to CITC Group | RMB50,700,000 | **RMB76,500,000** | RMB78,000,000 |
| Consideration for Transportation Services payable by CITC Group to COSCO Group | RMB730,000 | **RMB3,600,000** | RMB6,000,000 |
| Daily cash balance in all cash deposits accounts of the Group maintained with COSCO Finance (including all interests accrued thereon and all fees (including service fees) payable by the Group to COSCO Finance) | RMB150,000,000 | **RMB150,000,000** | RMB150,000,000 |

The CITC and Financial Services Continuing Connected Transactions for the financial year ended 31st December 2009 were as follows:

| | |
|---|---|
| Consideration for asphalt supply and services fees payable by CITC to Chimbusco Singapore for hedging arrangement | US$26,716,600 |
| Consideration for Supplying Services payable by COSCO Group to CITC Group | RMB10,623,892 |
| Consideration for Transportation Services payable by CITC Group to COSCO Group | RMB83,000 |
| Daily cash balance in all cash deposits accounts of the Group maintained with COSCO Finance (including all interests accrued thereon and all fees (including service fees) payable by the Group to COSCO Finance) | within RMB150,000,000 |

As set out in notes 38(a)(v), 38(a)(vi) and 38(b)(iv) to the Group's financial statements, these related party transactions also constituted continuing connected transactions as disclosed above.

## 7. COSCO Kansai (Shanghai) Guarantee Continuing Connected Transactions

On 25th November 2008, COSCO Kansai (Zhuhai), as borrower entered into a facility agreement with COSCO Finance, as lender in respect of a revolving loan facility of up to RMB32,000,000 provided by COSCO Finance to COSCO Kansai (Zhuhai) (the "Facility Agreement"). As a term of the Facility Agreement, the guarantee was executed by COSCO Kansai (Shanghai) as guarantor, COSCO Kansai (Zhuhai) as borrower and COSCO Finance as lender (the "Guarantee") on 25th November 2008 whereby COSCO Kansai (Shanghai) guarantees the payment of all sums due from COSCO Kansai (Zhuhai) to COSCO Finance under the Facility Agreement ("COSCO Kansai (Shanghai) Guarantee Continuing Connected Transactions"). As Japan Kansai is a substantial shareholder of COSCO Kansai (Zhuhai) and COSCO Kansai (Shanghai), the non-wholly owned subsidiaries of the Company and thus a connected person of the Company. As COSCO Kansai (Shanghai) is owned as to more than 30% equity interest by Japan Kansai, COSCO Kansai (Shanghai) is an associate of a connected person. The Guarantee and the transactions contemplated thereunder constitute continuing connected transaction of the Company. The COSCO Kansai (Shanghai) Guarantee Continuing Connected Transactions for the period from 8th December 2008 to 31st December 2008 and for each of the financial years ending 31st December 2009 and 2010 are subject to the relevant cap amounts set out below (the "Guarantee Cap Amounts"). The Guarantee and the Guarantee Cap Amounts were exempted from the independent shareholder's approval requirement pursuant to Chapter 14A of the Listing Rules. Details of which were disclosed in the announcement of the Company dated 25th November 2008.

| CAP FOR THE PERIOD FROM 8TH DECEMBER 2008 TO 31ST DECEMBER 2008 | **CAP FOR THE YEAR ENDING 31ST DECEMBER 2009** | CAP FOR THE YEAR ENDING 31ST DECEMBER 2010 |
|---|---|---|
| RMB34,600,000 | **RMB34,600,000** | RMB34,600,000 |

The maximum outstanding amount of the revolving loan covered by the Guarantee for the financial year ended 31st December 2009 was RMB32,448,400 (approximately HK$36,849,810). All amounts outstanding under the facility had been fully repaid on 30th March 2009 and the facility expired on 8th December 2009.

As set out in note 38(c) to the Group's financial statements, this related party transaction also constituted a continuing connected transaction as disclosed above.

## 8. COSCO Kansai Purchase Continuing Connected Transactions

On 19th February 2009, COSCO Kansai Companies entered into (a) a master agreement pursuant to which COSCO Kansai Companies will purchase and sell raw materials for the manufacturing of coatings from and to one another for a period from 19th February 2009 to 31st December 2011 (the "Raw Materials Agreement"); and (b) a master agreement pursuant to which COSCO Kansai (Shanghai) will purchase coating products manufactured by COSCO Kansai (Tianjin) and COSCO Kansai (Zhuhai) for a period from 19th February 2009 to 31st December 2011 (the "Products Agreement").

(The Raw Materials Agreement and the Products Agreement are collectively called the "COSCO Kansai Purchase Agreements" and the transactions contemplated under the COSCO Kansai Purchase Agreements are collectively called the "COSCO Kansai Purchase Continuing Connected Transactions").

As each of COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and COSCO Kansai (Zhuhai) is owned as to more than 30% equity interest by Japan Kansai, each of COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and COSCO Kansai (Zhuhai) is an associate of a connected person. The COSCO Kansai Purchase Agreements and the transactions contemplated thereunder constitute continuing connected transaction of the Company.

The aggregate amount of the COSCO Kansai Purchase Continuing Connected Transactions for each of the financial years ending 31st December 2009, 2010 and 2011 will not exceed the relevant cap amounts set out below (the "COSCO Kansai Purchase Cap Amounts"). The COSCO Kansai Purchase Agreements and the COSCO Kansai Purchase Cap Amounts were approved by an independent shareholder's written approval in lieu of holding a general meeting as waiver was granted by the Stock Exchange. Details of which were disclosed in the announcement and circular of the Company dated 19th February 2009 and 10th March 2009 respectively.

| | **CAPS FOR THE YEAR ENDING 31ST DECEMBER 2009** | CAPS FOR THE YEAR ENDING 31ST DECEMBER 2010 | CAPS FOR THE YEAR ENDING 31ST DECEMBER 2011 |
|---|---|---|---|
| The transaction amount of COSCO Kansai Companies under the Raw Materials Agreement | **RMB150,000,000** | RMB150,000,000 | RMB150,000,000 |
| The transaction amount of COSCO Kansai Companies under the Products Agreement | **RMB800,000,000** | RMB1,000,000,000 | RMB1,200,000,000 |

The COSCO Kansai Purchase Continuing Connected Transactions for the financial year ended 31st December 2009 were as follows:

| | |
|---|---|
| The transaction amount of COSCO Kansai Companies under the Raw Materials Agreement | RMB16,234,102 |
| The transaction amount of COSCO Kansai Companies under the Products Agreement | RMB34,186,291 |

## 9. Sinfeng Continuing Connected Transactions

On 1st December 2009, Sinfeng Marine Services Pte. Ltd., an indirect wholly-owned subsidiary of the Company ("Sinfeng"), and COSCO Petroleum Pte. Ltd., a wholly-owned subsidiary of COSCO Hong Kong ("COSCO Petroleum") entered into (a) an agreement in relation to the purchase or sale of fuel oil and related products by Sinfeng from or to COSCO Petroleum (the "Fuel Oil Transactions") and the provision of services by COSCO Petroleum to Sinfeng to carry out arrangements for and on behalf of Sinfeng to enter into fuel oil and/or related products swap contracts and/or derivatives with independent third parties to facilitate Sinfeng to hedge against the risk of fuel oil and related products price fluctuation under the fuel oil and related products transactions (the "Financial Services") for a term from 1st December 2009 to 31st December 2009 (both dates inclusive) (the "Fuel Oil Agreement"); and (b) a conditional master agreement in relation to the Fuel Oil Transactions and Financial Services for a term commencing from the date on which the Condition Precedent (as defined in the announcement and the circular of the Company on 1st December 2009 and 18th December 2009 respectively) is satisfied up to 31st December 2011 (both dates inclusive) (the "Fuel Oil Master Agreement") ((a) and (b) collectively called the "Sinfeng Continuing Connected Transactions"). The aggregate amount of the Sinfeng Continuing Connected Transactions for the financial year ending 31st December 2009 (the "2009 Sinfeng Cap Amount") and for the financial years ending 31st December 2010 and 2011 (the "2010-2011 Sinfeng Cap Amounts") will not exceed the relevant cap amounts set out below. The Fuel Oil Agreement and the 2009 Sinfeng Cap Amount were exempted from the independent shareholder's approval requirement pursuant to Chapter 14A of the Listing Rules. Details of which were disclosed in the announcement of the Company dated 1st December 2009. The Fuel Oil Master Agreement and the 2010-2011 Sinfeng Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 7th January 2010.

| | **CAP FOR THE YEAR ENDING 31ST DECEMBER 2009** | CAP FOR THE YEAR ENDING 31ST DECEMBER 2010 | CAP FOR THE YEAR ENDING 31ST DECEMBER 2011 |
|---|---|---|---|
| The transaction amount of the Fuel Oil Transactions and the Financial Services | **US$6,700,000** | US$400,000,000 | US$520,000,000 |

The Sinfeng Continuing Connected Transactions for the financial year ended 31st December 2009 amounted to US$2,710,348.

As set out in note 38(b)(v) to the Group's financial statements, certain related party transactions also constituted continuing connected transactions as disclosed above.

## 10. Management Continuing Connected Transactions

On 1st December 2009, the Company and COSCO Hong Kong entered into a master agreement in relation to the provision of administrative services including information technology and fixed line network support, manpower resources, technical support and other administrative and ancillary support by COSCO Hong Kong and its subsidiaries to the Group and sharing of office premises by the Group for a term from 1st December 2009 to 31st December 2011 (both dates inclusive) (the "Management Agreement"). (The transactions contemplated under the Management Agreement are called the "Management Continuing Connected Transactions"). The aggregate amount of the Management Continuing Connected Transactions for each of the financial years ending 31st December 2009, 2010 and 2011 will not exceed the relevant cap amounts set out below (the "Management Cap Amounts"). The Management Agreement and the Management Cap Amounts were exempted from the independent shareholder's approval requirement pursuant to Chapter 14A of the Listing Rules. Details of which were disclosed in the announcement of the Company dated 1st December 2009.

| | **CAP FOR THE YEAR ENDING 31ST DECEMBER 2009** | CAP FOR THE YEAR ENDING 31ST DECEMBER 2010 | CAP FOR THE YEAR ENDING 31ST DECEMBER 2011 |
|---|---|---|---|
| The transaction amount of the Management Services | **US$500,000** | US$2,900,000 | US$3,100,000 |

The Management Continuing Connected Transactions for the financial year ended 31st December 2009 amounted to US$305,243.

As set out in note 38(b)(vii) to the Group's financial statements, these related party transactions also constituted continuing connected transactions as disclosed above.

The Independent Non-executive Directors had reviewed 1) the Ship Trading Continuing Connected Transactions; 2) the Yuantong Continuing Connected Transactions; 3) the COSCO Kansai Continuing Connected Transactions; 4) the COSCO Insurance Brokers Continuing Connected Transactions; 5) the Tenancy Continuing Connected Transactions; 6) the CITC and Financial Services Continuing Connected Transactions; 7) the COSCO Kansai (Shanghai) Guarantee Continuing Connected Transactions; 8) the COSCO Kansai Purchase Continuing Connected Transactions; 9) the Sinfeng Continuing Connected Transactions and 10) the Management Continuing Connected Transactions (collectively called "the Company's Continuing Connected Transactions") and were of the opinion that the Company's Continuing Connected Transactions for the financial year ended 31st December 2009 had been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company was instructed to perform specific procedures on the Company's Continuing Connected Transactions on a sample basis (where applicable) and confirmed that the Company's Continuing Connected Transactions:

(a) had received the approval of the Board;

(b) which involved provision of goods or services had in accordance with the pricing policies of the Group;

(c) had been entered into in accordance with the relevant agreements governing them; and

(d) had not exceeded the relevant cap amounts for the financial year ended 31st December 2009.

### 11. Acquisition of Double Rich

On 3rd March 2009, COSCO Trading and Supply Investments Limited, a wholly-owned subsidiary of COSCO Hong Kong ("COSCO Trading"), and New Renown Limited, a wholly-owned subsidiary of the Company ("New Renown"), entered into a conditional share transfer agreement, (the "Share Transfer Agreement") pursuant to which New Renown will acquire 15,840,000 shares of Double Rich Limited ("Double Rich"), representing 18% of the issued share capital of Double Rich from COSCO Trading at the total consideration of US$4,905,484. The acquisition was approved by the independent shareholders of the Company at the special general meeting held on 21st April 2009.

In accordance with the Share Transfer Agreement, COSCO Trading has undertaken that COSCO Hong Kong will continue to provide the bank guarantees to the relevant banks after and notwithstanding completion of acquisition so long as any liabilities/indebtedness under the Facility 1 and Facility 2 (as both defined in the announcement and the circular of the Company dated 3rd March 2009 and 24th March 2009 respectively) (collectively called the "Facilities") remain outstanding until the relevant banks and New Renown (and/or its holding company or subsidiary(ies)) have reached agreement and executed all necessary documents in relation to the provision of such security by New Renown (and/or its holding company or subsidiary(ies)) in favour of the relevant banks towards Double Rich's liabilities/indebtedness under the Facilities (the "Proposed New Security Arrangement"). The Proposed New Security Arrangement was approved by the independent shareholders of the Company at the special general meeting held on 21st April 2009. However, the aforesaid bank guarantees were still provided by COSCO Hong Kong upto the date of the Report. Neither the Group nor New Renown has provided the bank guarantees to the relevant banks.

As set out in note 38(f) to the Group's financial statements, the transaction also constituted connected transaction as disclosed above.

## RELATED PARTY TRANSACTIONS

Significant related party transactions of the Group are set out in note 38 to the Group's financial statements. In relation to those related party transactions that constituted connected transactions or continuing connected transactions as defined in the Listing Rules, the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules had been complied.

## SHARE OPTIONS

The following is a summary of the Company's share option scheme approved and adopted by the shareholders of the Company on 17th May 2002 and with amendment approved by the shareholders of the Company at the special general meeting held on 5th May 2005 (the "Share Option Scheme") and disclosed in accordance with the Listing Rules:

### 1. Purpose of the Share Option Scheme

(a) The purpose of the Share Option Scheme is for the Group to attract, retain and motivate talented participants to strive for future development and expansion of the Group.

(b) The Share Option Scheme shall be an incentive to encourage the participants and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

### 2. Participants of the Share Option Scheme

(a) any director of the Group;

(b) any director of the substantial shareholder of the Company;

(c) any employee of the Group;

(d) any employee of the Company's substantial shareholder or any employee of such substantial shareholder's subsidiaries or associated companies;

(e) any business associate of the Group; and

(f) any business associate of any substantial shareholder of each member of the Group.

## 3. Total number of securities available for issue under the Share Option Scheme

The total number of shares which may be issued upon exercise of all share options to be granted under the share option scheme approved on 17th May 2002 is 139,438,929, being 10% of issued share capital of the Company as at the said date. A 10% limit refreshment was approved by shareholders of the Company at the general meeting held on 5th May 2005 which enabled the grant of further share options to subscribe up to 141,644,129 shares of the Company, being 10% of the issued share capital of the Company as at the said date.

As at the date of the Report, a total of 95,979,129 shares representing 6.35% of the issued share capital of the Company may be issued upon exercise of all share options which may be granted under the Share Option Scheme and a total of 76,038,000 shares representing 5.03% of the issued share capital of the Company may be issued upon exercise of all share options which had been granted and yet to be exercised under the Share Option Scheme.

## 4. Maximum entitlement of each participant under the Share Option Scheme

The maximum entitlement for each participant is that the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of issued shares of the Company. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the Share Option Scheme.

## 5. The period within which the securities must be taken up under an option

Share options granted on 2nd December 2004 are exercisable at any time from 29th December 2004 to 28th December 2014.

Share options granted on 10th May 2005 are exercisable at any time from 6th June 2005 to 5th June 2015.

Share options granted on 9th March 2007 are exercisable from 9th March 2009 to 8th March 2015 in the stipulated proportion at any time namely: (i) no share options shall be exercisable by the grantees within the first two years from 9th March 2007; (ii) up to a maximum of 30% of the share options can be exercised by the grantees from 9th March 2009 onwards; (iii) up to a maximum of 70% of the share options can be exercised by the grantees from 9th March 2010 onwards; and (iv) all share options can be exercised by the grantees from 9th March 2011 onwards.

## 6. The minimum period for which an option must be held before it can be exercised

There is and shall be no minimum period for which an option must be held before it can be exercised except the share options granted on 9th March 2007, details of which was disclosed in item 5 above.

## 7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

The share option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocably declined.

## 8. The basis of determining the exercise price

The exercise price is determined by the Board and shall be the highest of:

(a) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the offer date;

(b) the average closing price of shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date; and

(c) the nominal value of a share of the Company.

## 9. The remaining life of the Share Option Scheme

The Share Option Scheme is valid and effective for a period of 10 years, it commenced on 17th May 2002 and will expire on 16th May 2012.

# Directors' Report

Details of the movements of the share options granted under the Share Option Scheme during the year are set out below:

| CATEGORY | EXERCISE PRICE (HK$) | OUTSTANDING AS AT 1ST JANUARY 2009 | GRANTED DURING THE YEAR | CATEGORY CHANGED DURING THE YEAR | EXERCISED DURING THE YEAR | LAPSED DURING THE YEAR | OUTSTANDING AS AT 31ST DECEMBER 2009 | APPROXIMATE PERCENTAGE OF TOTAL ISSUED SHARE CAPITAL OF THE COMPANY | NOTES |
|---|---|---|---|---|---|---|---|---|---|
| *Directors* | | | | | | | | | |
| Mr. Wang Futian | 3.666 | 800,000 | – | – | – | – | 800,000 | 0.053% | (3),(4),(5) |
| Mr. Li Jianhong | 1.37 | 1,200,000 | – | – | – | – | 1,200,000 | 0.079% | (1),(4),(5) |
| Mr. Jia Lianjun | 3.666 | 800,000 | – | – | – | – | 800,000 | 0.053% | (3),(4),(5) |
| Mr. Liang Yanfeng | 3.666 | 1,100,000 | – | – | – | – | 1,100,000 | 0.073% | (3),(4),(5) |
| Mr. Wang Xiaoming | 3.666 | 800,000 | – | – | – | – | 800,000 | 0.053% | (3),(4),(5) |
| Mr. Wang Xiaodong | 1.37 | 800,000 | – | – | – | – | 800,000 | 0.053% | (1),(4),(5) |
| | 3.666 | 800,000 | – | – | – | – | 800,000 | 0.053% | (3),(4),(5) |
| Mr. Meng Qinghui | 1.37 | 800,000 | – | – | – | – | 800,000 | 0.053% | (1),(4),(5) |
| | 3.666 | 800,000 | – | – | – | – | 800,000 | 0.053% | (3),(4),(5) |
| Mr. Chen Xuewen | 3.666 | 800,000 | – | – | – | – | 800,000 | 0.053% | (3),(4),(5) |
| Mr. Lin Wenjin | 1.37 | 500,000 | – | – | – | – | 500,000 | 0.033% | (1),(4),(5) |
| | 3.666 | 800,000 | – | – | – | – | 800,000 | 0.053% | (3),(4),(5) |
| *Continuous contract employees of the Group and jointly controlled entities* | 1.37 | 6,350,000 | – | 150,000 | – | – | 6,500,000 | 0.430% | (1),(4),(5) |
| | 1.21 | 750,000 | – | – | – | – | 750,000 | 0.050% | (2),(4),(5) |
| | 3.666 | 15,900,000 | – | (400,000) | – | – | 15,500,000 | 1.026% | (3),(4),(5) |
| *Other participants* | 1.37 | 22,318,000 | – | (150,000) | (100,000) | – | 22,068,000 | 1.461% | (1),(4),(5) |
| | 1.21 | 400,000 | – | – | – | – | 400,000 | 0.026% | (2),(4),(5) |
| | 3.666 | 20,870,000 | – | 400,000 | (45,000) | (205,000) | 21,020,000 | 1.391% | (3),(4),(5) |

*Notes*

*(1) These share options were granted on 2nd December 2004 pursuant to the Share Option Scheme and are exercisable at HK$1.37 per share at any time between 29th December 2004 and 28th December 2014.*

*(2) These share options were granted on 10th May 2005 pursuant to the Share Option Scheme and are exercisable at HK$1.21 per share at any time between 6th June 2005 and 5th June 2015.*

*(3) These share options were granted on 9th March 2007 pursuant to the Share Option Scheme and are exercisable at HK$3.666 per share from 9th March 2009 to 8th March 2015 in the stipulated proportion at any time namely:*

*(i) no share options shall be exercisable by the grantees within the first two years from 9th March 2007;*

*(ii) up to a maximum of 30% of the share options can be exercised by the grantees from 9th March 2009 onwards;*

*(iii) up to a maximum of 70% of the share options can be exercised by the grantees from 9th March 2010 onwards; and*

*(iv) all share options can be exercised by the grantees from 9th March 2011 onwards.*

*(4) These share options represent personal interest held by the relevant participants as beneficial owner.*

*(5) Save as disclosed above, no share options were lapsed or cancelled during the year.*

*(6) During the year, the weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK$3.50.*

*(7) The relevant share options issued will be recorded by the Company as staff cost in the income statement at the fair value of the relevant share options over the vesting period. Upon the exercise of the share options, the shares to be issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Share options which have lapsed or been cancelled will be deducted from the outstanding options.*

*(8) The Company adopted Black-Scholes Options Pricing Model (a common valuation methodology for share options) to calculate the fair value of share options granted in 2005. The fair value for each of the share options granted in 2005 was HK$0.58 at the date of grant with assumptions as follows:*

*(i) interest rate of 10-year Exchange Fund Notes of 3.806% per annum as the risk-free interest rate;*

*(ii) expected life of 10 years; and*

*(iii) expected volatility of 50.2%, being the annualised volatility of the closing price of the share from 1st August 2004 to 30th November 2004.*

*(9) The Company adopted Binomial Lattice Valuation Model (a common valuation methodology for share options) to calculate the fair value of share options granted in 2007. The weighted average fair value for each of the share options granted in 2007 was HK$1.33 at the date of grant with the major assumptions as follows:*

*(i) 4% per annum for the first 3 years and 4.25% per annum for the next 5 years as risk-free rates;*

*(ii) expected life of 8 years;*

*(iii) expected volatility of 37% per annum;*

*(iv) annual dividend rate of 2.20% per annum; and*

*(v) black-out periods, being one month prior to the release of annual/interim results (April and August respectively) and holding of price sensitive information, applicable to certain option holders with regard to seniority of their positions.*

The fair value of the share options is subject to a number of assumptions and with regard to the limitation of the models. Therefore the value may be subjective and difficult to determine.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2009, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

### 1. Long Positions in the Shares of the Company

| NAME OF DIRECTOR | CAPACITY | NATURE OF INTEREST | TOTAL NUMBER OF ORDINARY SHARES OF THE COMPANY HELD | APPROXIMATE PERCENTAGE OF TOTAL ISSUED SHARE CAPITAL OF THE COMPANY |
|---|---|---|---|---|
| Mr. Liang Yanfeng | Beneficial owner | Personal | 1,222,000 | 0.081% |
| Mr. Wang Xiaodong | Beneficial owner | Personal | 916,000 | 0.061% |
| Mr. Meng Qinghui | Beneficial owner | Personal | 50,000 | 0.003% |
| Mr. Chen Xuewen | Beneficial owner | Personal | 101,941 | 0.007% |
| Mr. Lin Wenjin | Beneficial owner | Personal | 814,000 | 0.054% |

### 2. Long Positions in the Underlying Shares of Equity Derivatives of the Company

Details are set out in the section headed "SHARE OPTIONS" above.

### 3. Long Positions in the Shares of Associated Corporations

| NAME OF DIRECTOR | NAME OF ASSOCIATED CORPORATION | CAPACITY | NATURE OF INTEREST | TOTAL NUMBER OF ORDINARY SHARES OF ASSOCIATED CORPORATION HELD | APPROXIMATE PERCENTAGE OF TOTAL ISSUED SHARE CAPITAL OF ASSOCIATED CORPORATION |
|---|---|---|---|---|---|
| Mr. Li Jianhong | COSCO Corporation (Singapore) Limited ("COSCO SGP") | Beneficial owner | Personal | 1,300,000 | 0.058% |
| Mr. Kwong Che Keung, Gordon | COSCO Pacific Limited ("COSCO Pacific") | Beneficial owner | Personal | 250,000 | 0.011% |

## 4. Long Positions in the Underlying Shares of Equity Derivatives of Associated Corporations

### (a) Share Options

| NAME OF DIRECTOR | NAME OF ASSOCIATED CORPORATION | EXERCISE PRICE | OUTSTANDING AS AT 1ST JANUARY 2009 | GRANTED DURING THE YEAR | EXERCISED DURING THE YEAR | LAPSED DURING THE YEAR | OUTSTANDING AS AT 31ST DECEMBER 2009 | APPROXIMATE PERCENTAGE OF TOTAL ISSUED SHARE CAPITAL OF ASSOCIATED CORPORATION | EXERCISABLE PERIOD | NOTES |
|---|---|---|---|---|---|---|---|---|---|---|
| Mr. Zhang Fusheng | COSCO Pacific | HK$13.75 | 1,000,000 | – | – | – | 1,000,000 | 0.044% | 03.12.2004 – 02.12.2014 | (1),(3),(4) |
| Mr. Li Jianhong | COSCO Pacific | HK$13.75 | 1,000,000 | – | – | – | 1,000,000 | 0.044% | 02.12.2004 – 01.12.2014 | (1),(3),(4) |
| | COSCO SGP | SGD1.23 | 700,000 | – | – | – | 700,000 | 0.031% | 21.02.2007 – 20.02.2011 | (2),(3),(4) |
| Mr. Meng Qinghui | COSCO Pacific | HK$13.75 | 500,000 | – | – | – | 500,000 | 0.022% | 29.11.2004 – 28.11.2014 | (1),(3),(4) |

*Notes*

(1) *Pursuant to the share option scheme of COSCO Pacific, an associated corporation of the Company, adopted on 23rd May 2003, these share options were granted during the period from 25th November 2004 to 16th December 2004 and are exercisable at HK$13.75 per share at any time within ten years from their respective date on which an offer is accepted or deemed to be accepted.*

(2) *These share options were granted by COSCO SGP, an associated corporation of the Company, on 21st February 2006.*

(3) *These share options represent personal interest held by the relevant participants as beneficial owner.*

(4) *No share options mentioned above were lapsed or cancelled during the year.*

### (b) Share Appreciation Rights

| NAME OF DIRECTOR | NAME OF ASSOCIATED CORPORATION | EXERCISE PRICE (HK$) | OUTSTANDING AS AT 1ST JANUARY 2009 | UNITS GRANTED DURING THE YEAR | UNITS EXERCISED DURING THE YEAR | UNITS LAPSED DURING THE YEAR | OUTSTANDING AS AT 31ST DECEMBER 2009 | APPROXIMATE PERCENTAGE OF TOTAL ISSUED SHARE CAPITAL H SHARE OF ASSOCIATED CORPORATION | NOTES |
|---|---|---|---|---|---|---|---|---|---|
| Mr. Zhang Fusheng | China COSCO Holdings Company Limited ("China COSCO") | 3.195 | 600,000 | – | – | – | 600,000 | 0.023% | (1),(4),(5) |
| | | 3.588 | 800,000 | – | – | – | 800,000 | 0.031% | (2),(4),(5) |
| | | 9.540 | 780,000 | – | – | – | 780,000 | 0.030% | (3),(4),(5) |
| Mr. Li Jianhong | China COSCO | 3.195 | 450,000 | – | – | – | 450,000 | 0.017% | (1),(4),(5) |
| | | 3.588 | 600,000 | – | – | – | 600,000 | 0.023% | (2),(4),(5) |
| | | 9.540 | 580,000 | – | – | – | 580,000 | 0.022% | (3),(4),(5) |
| Mr. Jia Lianjun | China COSCO | 3.195 | 75,000 | – | – | – | 75,000 | 0.003% | (1),(4),(5) |
| | | 3.588 | 65,000 | – | – | – | 65,000 | 0.003% | (2),(4),(5) |
| | | 9.540 | 60,000 | – | – | – | 60,000 | 0.002% | (3),(4),(5) |

*Notes*

(1) *These share appreciation rights were granted by China COSCO ("Share Appreciation Rights") in units with each unit representing one H share of China COSCO on 16th December 2005 pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). Under the Plan, no share will be issued. These Share Appreciation Rights can be exercised at HK$3.195 per unit at any time between 16th December 2007 and 15th December 2015.*

(2) *These Share Appreciation Rights were granted in units with each unit representing one H share of China COSCO on 5th October 2006 pursuant to the Plan. Under the Plan, no share will be issued. These Share Appreciation Rights can be exercised at HK$3.588 per unit according to its terms between 5th October 2008 and 4th October 2016.*

(3) *These Share Appreciation Rights were granted in units with each unit representing one H share of China COSCO on 4th June 2007 pursuant to the Plan. Under the Plan, no share will be issued. These Share Appreciation Rights can be exercised at HK$9.540 per unit according to its terms between 4th June 2009 and 3rd June 2017.*

(4) *These Share Appreciation Rights represent personal interest held by the relevant participants as beneficial owner. The beneficial owners of these Share Appreciation Rights are entitled to the premium of the price of the issued shares of China COSCO over the exercise price of the Share Appreciation Rights.*

(5) *No Share Appreciation Rights mentioned above were lapsed or cancelled during the year.*

Save as disclosed above and in the section headed "SHARE OPTIONS" as at 31st December 2009, none of the Directors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December 2009, the following persons and entities, other than Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

| NAME OF SHAREHOLDER | CAPACITY | NATURE OF INTEREST | TOTAL NUMBER OF ORDINARY SHARES OF THE COMPANY HELD (LONG POSITIONS) | APPROXIMATE PERCENTAGE OF TOTAL ISSUED SHARE CAPITAL OF THE COMPANY |
|---|---|---|---|---|
| COSCO | Interest of controlled corporation | Corporate interest | 904,412,286 | 59.87% |
| COSCO Hong Kong | Interest of controlled corporation | Corporate interest | 904,412,286 | 59.87% |
| True Smart International Limited ("True Smart") | Beneficial owner | Beneficial interest | 904,412,286 | 59.87% |

*Note*

*Since True Smart is a wholly-owned subsidiary of COSCO Hong Kong which is in turn a wholly-owned subsidiary of COSCO, the interests of True Smart are deemed to be the interests of COSCO Hong Kong and in turn the interests of COSCO Hong Kong are deemed to be the interests of COSCO under the SFO.*

Save as disclosed above, as at 31st December 2009, the Company has not been notified of any person or entity who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## PUBLIC FLOAT

As at the date of the Report, the Board acknowledge that approximately 40% of the issued capital of the Company are held by the public.

## PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in Bermuda being the jurisdiction in which the Company is incorporated.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existing during the year.

## INDEPENDENT AUDITOR

The financial statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December 2009.

## CORPORATE GOVERNANCE

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

The Board believed that the Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the year.

The audit committee of the Company (the "Audit Committee") consists of three Independent Non-executive Directors and the chairman of which is a certified public accountant. The duties of the Audit Committee include reviewing the important accounting policies and supervising the Company's financial reporting process; monitoring the performance of both the internal and external auditors; reviewing and examining the effectiveness of the financial reporting procedures and internal controls; ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board. The Audit Committee has discussed the internal controls and financial reporting matters with management of the Company and reviewed the results announcement and the audited financial statements of the Group for the year ended 31st December 2009. The Company has received from each of the Independent Non-executive Director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent.

The Company has adopted a code of conduct regarding securities transactions of Directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code. The Securities Code has been revised, inter alia, in accordance with the relevant amendments of the Model Code with effect from 1st January 2009 in relation to the imposition of a time limit on an listed issuer to respond to a director's request to deal and on the director to deal (if he so chooses) once clearance is given and with effect from 1st April 2009 regarding an extension of the black out period. In order to ensure Directors' dealing in the securities of the Company are conducted in accordance with the Securities Code, a committee comprising the Chairman, the Vice Chairman, the Managing Director and the Deputy Managing Director(s) of the Company was set up to deal with such transactions.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Securities Code during the year ended 31st December 2009, all Directors confirmed that they have complied with the required standards set out in the Securities Code during the year.

By order of the Board

**WANG Xiaodong**
*Managing Director*
Hong Kong, 23rd March 2010

# Independent Auditor's Report

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
22/F, Prince's Building
Central, Hong Kong

**To the Shareholders of COSCO International Holdings Limited**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of COSCO International Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 102 to 191, which comprise the consolidated and company balance sheets as at 31st December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*
Hong Kong, 23rd March 2010

# Consolidated Balance Sheet

As at 31st December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 6 | 91,340 | 91,323 |
| Property, plant and equipment | 7 | 125,503 | 123,824 |
| Prepaid premium for land leases | 8 | 12,638 | 13,194 |
| Investment properties | 9 | 27,164 | 26,815 |
| Jointly controlled entities | 11 | 234,062 | 130,935 |
| Associated companies | 12 | 4,722,687 | 4,052,810 |
| Available-for-sale financial assets | 14 | 104,084 | 38,503 |
| Deferred income tax assets | 15(a) | 37,426 | 40,844 |
| | | 5,354,904 | 4,518,248 |
| **Current assets** | | | |
| Completed properties held for sale | 16 | 342 | 2,631 |
| Inventories | 17 | 342,079 | 356,735 |
| Trade and other receivables | 18 | 528,788 | 887,374 |
| Financial assets at fair value through profit or loss | 19 | 678 | 239 |
| Current income tax recoverable | | 2,888 | 897 |
| Restricted bank deposits | 20 | 7,104 | 118,963 |
| Deposits and cash and cash equivalents | 20 | 1,265,557 | 1,373,978 |
| | | 2,147,436 | 2,740,817 |
| Asset held for sale | 21 | 7,532 | – |
| | | 2,154,968 | 2,740,817 |
| **Total assets** | | 7,509,872 | 7,259,065 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 22 | 151,070 | 148,967 |
| Reserves | 23 | 6,136,891 | 5,301,389 |
| Proposed dividends | 23 | 126,899 | 95,339 |
| | | 6,414,860 | 5,545,695 |
| **Minority interests** | | 200,712 | 241,373 |
| **Total equity** | | 6,615,572 | 5,787,068 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 15(b) | 8,636 | 8,363 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | 846,077 | 1,128,321 |
| Current income tax liabilities | | 27,862 | 18,353 |
| Short-term borrowings | 25 | 11,725 | 316,960 |
| | | 885,664 | 1,463,634 |
| **Total liabilities** | | 894,300 | 1,471,997 |
| **Total equity and liabilities** | | 7,509,872 | 7,259,065 |
| **Net current assets** | | 1,269,304 | 1,277,183 |
| **Total assets less current liabilities** | | 6,624,208 | 5,795,431 |

**Wang Xiaodong**
*Managing Director*

**Lin Wenjin**
*Deputy Managing Director*

# Balance Sheet

As at 31st December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 1,950 | 2,561 |
| Subsidiaries | 10(a) | 161,765 | 161,765 |
| Jointly controlled entity | 11 | 42,808 | 42,808 |
| | | 206,523 | 207,134 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 10(b) | 1,463,030 | 1,079,280 |
| Other receivables | 18 | 1,289 | 51,331 |
| Deposits and cash and cash equivalents | 20 | 433,265 | 355,304 |
| | | 1,897,584 | 1,485,915 |
| **Total assets** | | 2,104,107 | 1,693,049 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 22 | 151,070 | 148,967 |
| Reserves | 23 | 1,706,682 | 1,217,290 |
| Proposed dividends | 23 | 126,899 | 95,339 |
| **Total equity** | | 1,984,651 | 1,461,596 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 10(b) | 110,035 | 222,037 |
| Other payables | 24 | 9,421 | 9,416 |
| **Total liabilities** | | 119,456 | 231,453 |
| **Total equity and liabilities** | | 2,104,107 | 1,693,049 |
| **Net current assets** | | 1,778,128 | 1,254,462 |
| **Total assets less current liabilities** | | 1,984,651 | 1,461,596 |

**Wang Xiaodong**
*Managing Director*

**Lin Wenjin**
*Deputy Managing Director*

# Consolidated Income Statement

For the year ended 31st December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Revenue | 5 | 1,630,055 | 2,100,937 |
| Cost of sales | 27 | (1,207,071) | (1,465,536) |
| **Gross profit** | | 422,984 | 635,401 |
| Other income | 26 | 65,787 | 33,724 |
| Selling, administrative and general expenses | 27 | (301,596) | (360,265) |
| Other expenses | 27 | (344) | (105,097) |
| **Operating profit** | | 186,831 | 203,763 |
| Finance income | 30 | 10,716 | 28,127 |
| Finance costs | 30 | (8,070) | (15,269) |
| Finance income – net | 30 | 2,646 | 12,858 |
| Share of results of jointly controlled entities | 11 | 104,025 | 46,728 |
| Share of results of associated companies | 12 | 366,194 | 319,184 |
| Net gain on deemed disposal of partial interest in an associated company | 12 | 245,287 | – |
| **Profit before income tax** | | 904,983 | 582,533 |
| Income tax expense | 31 | (58,756) | (34,268) |
| **Profit for the year** | | 846,227 | 548,265 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | 32 | 843,675 | 491,015 |
| Minority interests | | 2,552 | 57,250 |
| | | 846,227 | 548,265 |
| **Dividends** | 33(a) | 142,006 | 110,142 |
| **Earnings per share attributable to the equity holders of the Company during the year** | | | |
| – basic, HK cents | 34(a) | 56.25 | 33.18 |
| – diluted, HK cents | 34(b) | 55.59 | 32.51 |

# Consolidated Statement of Comprehensive Income

For the year ended 31st December 2009

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **Profit for the year** | 846,227 | 548,265 |
| **Other comprehensive income** | | |
| Exchange translation differences | 6,260 | 253,750 |
| Exchange reserve realised upon dissolution of a subsidiary | (33,721) | – |
| Share of exchange differences of associated companies and jointly controlled entities | 116 | 2,270 |
| Share of fair value losses on available-for-sale financial assets of an associated company | (2,637) | (4,918) |
| Gain on revaluation of properties, net of deferred tax of HK$1,436,000 | – | 6,363 |
| Fair value gains/(losses) on available-for-sale financial assets | 65,581 | (51,731) |
| **Other comprehensive income for the year** | 35,599 | 205,734 |
| **Total comprehensive income for the year** | 881,826 | 753,999 |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the Company | 878,948 | 683,270 |
| Minority interests | 2,878 | 70,729 |
| | 881,826 | 753,999 |

# Consolidated Statement of Changes in Equity

For the year ended 31st December 2009

| | Note | Share capital HK$'000 | Other reserves HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the Company | | | | | |
| **Balance at 1st January 2009** | | 148,967 | 1,283,966 | 4,112,762 | 5,545,695 | 241,373 | 5,787,068 |
| Profit for the year | | – | – | 843,675 | 843,675 | 2,552 | 846,227 |
| **Other comprehensive income:** | | | | | | | |
| Exchange differences on translation of: | | | | | | | |
| – subsidiaries | 23 | – | 78 | – | 78 | – | 78 |
| – jointly controlled entities | 23 | – | 28 | – | 28 | – | 28 |
| – associated companies | 23 | – | 5,828 | – | 5,828 | – | 5,828 |
| – minority interests | | – | – | – | – | 326 | 326 |
| Exchange reserve realised upon dissolution of a subsidiary | 23 | – | (33,721) | – | (33,721) | – | (33,721) |
| Share of exchange differences of associated companies and jointly controlled entities | 23 | – | 116 | – | 116 | – | 116 |
| Share of fair value losses on available-for-sale financial assets of an associated company | 23 | – | (2,637) | – | (2,637) | – | (2,637) |
| Fair value gains on available-for-sale financial assets | 23 | – | 65,581 | – | 65,581 | – | 65,581 |
| **Total comprehensive income for the year ended 31st December 2009** | | – | 35,273 | 843,675 | 878,948 | 2,878 | 881,826 |
| **Transactions with owners:** | | | | | | | |
| Transfer of reserves | 23 | – | 33,996 | (33,996) | – | – | – |
| Capital reserve realised upon dissolution of a subsidiary | 23 | – | (9,302) | 9,302 | – | – | – |
| Shares issued in respect of scrip dividend | 22, 23 | 2,088 | 66,757 | (68,845) | – | – | – |
| Shares issued upon exercise of share options | 22, 23 | 15 | 287 | – | 302 | – | 302 |
| Share issue expenses | 23 | – | (80) | – | (80) | – | (80) |
| Repayment of capital to minority shareholders of a subsidiary | | – | – | – | – | (41,516) | (41,516) |
| Share of employee share option benefits of an associated company | 23 | – | 18,091 | – | 18,091 | – | 18,091 |
| Employee share option benefits | 23 | – | 13,505 | – | 13,505 | – | 13,505 |
| Dividends paid | 23 | – | – | (41,601) | (41,601) | (2,023) | (43,624) |
| **Total transactions with owners** | | 2,103 | 123,254 | (135,140) | (9,783) | (43,539) | (53,322) |
| **Balance at 31st December 2009** | | 151,070 | 1,442,493 | 4,821,297 | 6,414,860 | 200,712 | 6,615,572 |

| | Note | Share capital HK$'000 | Other reserves HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the Company | | | | | |
| **Balance at 1st January 2008** | | 147,803 | 1,049,346 | 3,704,597 | 4,901,746 | 217,517 | 5,119,263 |
| Profit for the year | | – | – | 491,015 | 491,015 | 57,250 | 548,265 |
| Other comprehensive income: | | | | | | | |
| Exchange differences on translation of: | | | | | | | |
| – subsidiaries | 23 | – | 28,571 | – | 28,571 | – | 28,571 |
| – jointly controlled entities | 23 | – | 506 | – | 506 | – | 506 |
| – an associated company | 23 | – | 211,194 | – | 211,194 | – | 211,194 |
| – minority interests | | – | – | – | – | 13,479 | 13,479 |
| Share of exchange differences of an associated company and a jointly controlled entity | 23 | – | 2,270 | – | 2,270 | – | 2,270 |
| Share of fair value losses on available-for-sale financial assets of an associated company | 23 | – | (4,918) | – | (4,918) | – | (4,918) |
| Gain on revaluation of properties, net of deferred tax | 23 | – | 6,363 | – | 6,363 | – | 6,363 |
| Fair value losses on available-for-sale financial assets | 23 | – | (51,731) | – | (51,731) | – | (51,731) |
| **Total comprehensive income for the year ended 31st December 2008** | | – | 192,255 | 491,015 | 683,270 | 70,729 | 753,999 |
| Transactions with owners: | | | | | | | |
| Transfer of reserves | 23 | – | 23,719 | (23,719) | – | – | – |
| Capital reserve realised upon dissolution of subsidiaries | 23 | – | (34,066) | 34,066 | – | – | – |
| Shares issued upon exercise of share options | 22, 23 | 1,164 | 5,927 | – | 7,091 | – | 7,091 |
| Capital contribution from minority shareholder of a subsidiary | | – | – | – | – | 12,078 | 12,078 |
| Acquisition of minority interest | 37 | – | – | – | – | (39,852) | (39,852) |
| Share of employee share option benefits of an associated company | 23 | – | 26,063 | – | 26,063 | – | 26,063 |
| Employee share option benefits | 23 | – | 20,722 | – | 20,722 | – | 20,722 |
| Dividends paid | 23 | – | – | (93,197) | (93,197) | (19,099) | (112,296) |
| Total transactions with owners | | 1,164 | 42,365 | (82,850) | (39,321) | (46,873) | (86,194) |
| **Balance at 31st December 2008** | | 148,967 | 1,283,966 | 4,112,762 | 5,545,695 | 241,373 | 5,787,068 |

# Consolidated Statement of Cash Flows

For the year ended 31st December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 35 | 382,952 | 454,645 |
| Income tax paid | | (47,508) | (46,685) |
| Net cash generated from operating activities | | 335,444 | 407,960 |
| **Cash flows from investing activities** | | | |
| Increase in cash investments with maturity over three months | | (6,050) | (8,561) |
| Decrease/(increase) in restricted bank deposits | | 111,960 | (110,957) |
| Advance of loans to a jointly controlled entity | | – | (50,376) |
| Loans repaid by a jointly controlled entity | | 50,376 | 11,652 |
| Interest received | | 10,716 | 28,127 |
| Dividends received from investments | | 3,288 | 484 |
| Dividends received from jointly controlled entities | | 1,205 | 22,309 |
| Dividends received from associated companies | | 50,689 | 139,087 |
| Proceeds from sale of property, plant and equipment | | 313 | 1,068 |
| Purchase of property, plant and equipment | | (17,104) | (28,465) |
| Acquisition of interests in associated companies | | (82,683) | (2,301) |
| Addition to available-for-sale financial assets | | – | (1,282) |
| Settlement of amounts due to a jointly controlled entity of COSCO | 24(b) | (175,018) | – |
| Net cash generated from the acquisition of a subsidiary | 37 | – | 33,561 |
| Net cash (used in)/generated from investing activities | | (52,308) | 34,346 |
| **Cash flows from financing activities** | | | |
| Drawdown of bank and other loans | | 11,725 | 213,279 |
| Repayment of bank and other loans | | (317,433) | (216,816) |
| Capital contribution from minority shareholder of a subsidiary | | – | 12,078 |
| Repayment of capital to minority shareholders of a subsidiary | | (41,516) | – |
| Shares issued upon exercise of share options | 22(e) | 302 | 7,091 |
| Share issue expenses | | (80) | – |
| Finance costs paid | | (8,070) | (15,269) |
| Dividends paid to the Company's equity holders | | (41,601) | (93,197) |
| Dividends paid to minority shareholders of subsidiaries | | (2,023) | (19,099) |
| Net cash used in financing activities | | (398,696) | (111,933) |
| **Net (decrease)/increase in cash and cash equivalents** | | (115,560) | 330,373 |
| Cash and cash equivalents at the beginning of the year | | 1,309,073 | 966,994 |
| Exchange gain on cash and cash equivalents | | 996 | 11,706 |
| **Cash and cash equivalents at the end of the year** | 20(f) | 1,194,509 | 1,309,073 |

# Notes to the Financial Statements

## 1 General information

COSCO International Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the provision of shipping services, general trading and property investments.

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

The ultimate holding company of the Company is China Ocean Shipping (Group) Company ("COSCO"), a state-owned enterprise established in the People's Republic of China (the "PRC").

These consolidated financial statements have been approved for issue by the board of directors on 23rd March 2010.

## 2 Summary of significant accounting policies

### (a) Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

#### *(i) Adoption of new or revised HKFRS*

In 2009, the Group has adopted the following new or revised HKFRS, which are relevant to its operations:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements | 1st January 2009 |
| HKAS 23 (Revised) | Borrowing Costs | 1st January 2009 |
| HKFRS 2 (Amendment) | Share-based Payment Vesting Conditions and Cancellations | 1st January 2009 |
| HKFRS 7 (Amendment) | Financial Instruments: Disclosures | 1st January 2009 |
| HKFRS 8 | Operating Segments | 1st January 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs* | 1st January 2009 |

* The Group adopted the amendments of HKFRS published by the HKICPA in October 2008, which are relevant to its operations, except for the amendments to HKFRS 5 which will be applied from 1st January 2010.

(1) HKAS 1 (Revised) prohibits the presentation of items of income and expenses, which are "non-owner changes in equity", in the statement of changes in equity. These items have to be presented separately from owner changes in equity and shown in a performance statement. The Group has elected to present two performance statements including an income statement and a statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

(2) HKAS 23 (Revised) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediate recognition as expense of these borrowing costs is eliminated.

(3) HKFRS 2 (Amendment) clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately.

## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

#### *(i) Adoption of new or revised HKFRS (Continued)*

(4) HKFRS 7 (Amendment) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

(5) HKFRS 8 requires a "management approach" under which segment information is presented on the same basis that is used for internal reporting purposes. The adoption of this has resulted in a number of changes and additional disclosures to the presentation of segmental information in the consolidated financial statements.

The adoption of the above and other HKFRS did not result in any substantial changes to the Group's accounting policies and had no material financial impact on the financial statements.

#### *(ii) New or revised standards, interpretations and amendments to published standards that are not yet effective*

The following new or revised standards, interpretations and amendments to existing standards have been published by the HKICPA and are relevant to the Group's operations. They are not yet effective for accounting periods beginning on 1st January 2009 and have not been early adopted by the Group.

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements | 1st July 2009 |
| HKAS 39 Amendment | Financial Instruments: Recognition and Measurement – Eligible hedged items | 1st July 2009 |
| HKFRS 2 Amendment | Group Cash-settled Share-based Payment Transactions | 1st January 2010 |
| HKFRS 3 (Revised) | Business Combinations | 1st July 2009 |
| HKFRS 9 | Financial Instruments | 1st January 2013 |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners | 1st July 2009 |

In October 2008 and May 2009, the HKICPA has published Improvements to HKFRS which sets out amendments to a number of HKFRS which are effective for annual periods beginning on or after 1st July 2009 or 1st January 2010.

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

## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

#### *(iii) Revised standard that is not yet effective, but has been early adopted by the Group*

The Group has adopted HKAS 24 (Revised) "Related Party Disclosures" relevant to the government-related entity exemption in 2009. The revised standard introduces a relaxation of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose the name of the government and the nature of their relationship, the nature and amount of any individually-significant transactions, and the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies the definition of a related party.

### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All significant intercompany transactions, balances and unrealised gain on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (c) Subsidiaries

#### *(i) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

## 2 Summary of significant accounting policies (Continued)

### (c) Subsidiaries (Continued)

#### *(ii) Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Sales and disposals to minority interests result in gains or losses for the Group and are recorded in the consolidated income statement. Purchases of interest from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### (d) Associated companies

Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in associated companies equals or exceeds its interest in the associated companies, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated companies.

Unrealised gains on transactions between the Group and the associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associated companies are recognised in the consolidated income statement.

### (e) Jointly controlled entities

Jointly controlled entities are contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Investments in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss.

## 2 Summary of significant accounting policies (Continued)

### (e) Jointly controlled entities (Continued)

The Group's share of jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entities, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

Unrealised gains on transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investment in jointly controlled entities is stated at cost less provision for impairment losses, if any. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

Dilution gains and losses in jointly controlled entities are recognised in the consolidated income statement.

### (f) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the subsidiaries, associated companies and jointly controlled entities at the date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associated companies/jointly controlled entities is included in investments in associated companies/jointly controlled entities and is tested for impairment as part of the overall balance whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which goodwill arose and identified according to operating segment.

## 2 Summary of significant accounting policies (Continued)

### (g) Properties

#### *(i) Investment properties*

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property. Investment property is measured initially at cost, including related transaction cost. After initial recognition, investment properties are carried at fair value.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the consolidated income statement.

If an owner-occupied property becomes an investment property that will be carried at fair value, the Group depreciates the property and recognises any impairment losses that have occurred up to the date of change in use. The Group treats any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation of property, plant and equipment.

Any resulting decrease in the carrying amount of the property is recognised in the consolidated income statement. However, to the extent that an amount is included in property revaluation reserve for that property, the decrease is charged against that revaluation reserve.

Any resulting increase in the carrying amount is recognised in the consolidated income statement to the extent that the increase reverses a previous impairment loss for that property. The amount recognised in the consolidated income statement does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised. Any remaining part of the increase is credited directly to equity in property revaluation reserve. On subsequent disposal of the investment property, the revaluation reserve may be transferred to retained earnings without going through the consolidated income statement.

## 2 Summary of significant accounting policies (Continued)

### (g) Properties (Continued)

#### *(ii) Completed properties held for sale*

Completed properties held for sale are included as current assets and stated at the lower of cost and net realisable value. Cost comprises prepayments for leasehold land and land use rights, development expenditure and borrowing costs capitalised during the course of development. Net realisable value is determined by reference to estimated sales proceeds of the properties sold in the ordinary course of business less estimated selling expenses.

The accounting policy for recognition of revenue from sale of completed properties is set out in note 2(x)(iii).

#### *(iii) Prepaid premium for land leases*

Prepaid premium for land leases are up-front payments to acquire long-term interests in land. The premiums are stated at cost and are amortised on a straight line basis over the lease period to the consolidated income statement.

### (h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 30 years or remaining lease terms (whichever is shorter) |
| Machinery | 5 – 10 years |
| Equipment and motor vehicles | 3 – 5 years |
| Leasehold improvement | 3 – 5 years |
| Furniture and fixtures | 3 – 5 years |

No depreciation is provided for construction in progress.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## 2 Summary of significant accounting policies (Continued)

### (h) Property, plant and equipment (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

All direct and indirect costs relating to the construction of property, plant and equipment, including financing costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as costs of the asset.

### (i) Impairment of investments in subsidiaries, jointly controlled entities, associated companies and non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. It excludes borrowing costs. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (k) Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purposes for which the investments are acquired. Management determines the classification of its investments at initial recognition.

#### *(i) Financial assets at fair value through profit or loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

## 2 Summary of significant accounting policies (Continued)

### (k) Financial assets (Continued)

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are not intended for trading. They are included in current assets, except for those with maturity greater than 12 months after the balance sheet date in which case they are classified as non-current assets.

#### *(iii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

### (l) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

## 2 Summary of significant accounting policies (Continued)

### (m) Impairment of financial assets

#### *(i) Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (1) adverse changes in the payment status of borrowers in the portfolio; and
  (2) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

## 2 Summary of significant accounting policies (Continued)

### (m) Impairment of financial assets (Continued)

#### *(i) Assets carried at amortised cost (Continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

#### *(ii) Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

### (n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payment made under operating leases (net of any incentives received from the lessors) is charged to the consolidated income statement on a straight-line basis over the lease term.

### (o) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### (p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with bank, money market fund investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, money market fund investments, and deposits with banks with maturity less than three months from the date of placement.

## 2 Summary of significant accounting policies (Continued)

### (q) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (r) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### (s) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2 Summary of significant accounting policies (Continued)

**(t) Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries, associated companies and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2 Summary of significant accounting policies (Continued)

### (u) Foreign currency translation

#### *(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. The directors consider that presentation of the consolidated financial statements in Hong Kong dollars will facilitate analysis of the financial information of the Group.

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

#### *(iii) Group companies*

On consolidation, the results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

## 2 Summary of significant accounting policies (Continued)

### (u) Foreign currency translation (Continued)

#### *(iii) Group companies (Continued)*

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity before 1st January 2005 are treated as assets and liabilities of the investor which acquired that foreign entity and expressed in the investor's functional currency. They are reported using the exchange rate at the date of acquisition. For goodwill and fair value adjustments arising on the acquisition of a foreign entity after 1st January 2005, they are treated as assets and liabilities of the foreign entity and translated at closing rate at the date of the balance sheet.

### (v) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## 2 Summary of significant accounting policies (Continued)

### (w) Employee benefits

#### *(i) Pensions and retirement benefits*

Following the adoption of the Mandatory Provident Fund Scheme ("MPF Scheme") in December 2000, all staff of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK$1,000. The Group's contributions to this scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group also contributes to employee pension schemes established by municipal government in respect of certain subsidiaries in the PRC. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the consolidated income statement as incurred.

#### *(ii) Share-based compensation*

The Group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining employee of the entity over a specified time period); and
- excluding the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

## 2 Summary of significant accounting policies (Continued)

### (w) Employee benefits (Continued)

#### *(ii) Share-based compensation (Continued)*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

### (x) Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### *(i) Sale of coatings, marine equipment and spare parts, marine fuel and other products*

Revenue from sale of coatings, marine equipment and spare parts, marine fuel, asphalt and other products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time the goods are delivered to customers according to the sales agreements and titles have passed.

#### *(ii) Commission income*

*(1) Agency commission income*

Commission income from agency services is recognised when the terms of the agency contracts are fulfilled upon provision of services.

*(2) Insurance brokerage commission income*

Insurance brokerage commission income is recognised when insurance premium becomes due.

#### *(iii) Sale of completed properties held for sale*

Revenue from sale of completed properties held for sale is recognised upon signing of sale and purchase contracts, where the risks and rewards of the properties are transferred to the purchasers.

#### *(iv) Rental income*

Rental income is recognised on a straight-line basis over the terms of the respective leases.

#### *(v) Dividend income*

Dividend income is recognised when the right to receive payment is established.

## 2 Summary of significant accounting policies (Continued)

### (x) Revenue and income recognition (Continued)

#### *(vi) Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

### (y) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

### (z) Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders.

### (aa) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

## 3 Financial risk management

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk, and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group had not entered into any major derivative financial instruments to hedge the risk exposures.

Risk management is carried out by the management under policies approved by the board of directors. The management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board of directors provides written policies covering specific areas, such as foreign currency risk and interest rate risk.

#### *(i) Market risk*

*(1) Foreign currency risk*

The Group operates locally and in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States ("US") dollars. Foreign exchange risk arises mainly from future commercial transactions, recognised assets and liabilities denominated in US dollars for operations in Hong Kong and the PRC.

Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure by using foreign exchange forward contracts when the need arises. As at 31st December 2009 and 2008, the Group had not entered into significant forward foreign exchange contracts to mitigate the currency exposure.

**Foreign currency risk arising from operations in Hong Kong**

At 31st December 2009, if Hong Kong dollars had weakened/strengthened by 1% against the US dollars with all other variables held constant, post-tax profit for the year would have been HK$4,042,000 (2008: HK$2,912,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollars-denominated trade and other receivables, deposits and cash and cash equivalents and foreign exchange losses/gains on translation of US dollars-denominated trade and other payables.

**Foreign currency risk arising from operations in the PRC**

At 31st December 2009, if Renminbi had weakened/strengthened by 5% against the US dollars with all other variables held constant, post-tax profit for the year would have been HK$568,000 lower/higher (2008: HK$10,921,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of the US dollars-denominated trade and other receivables, deposits and cash and cash equivalents and foreign exchange losses/gains on translation of US dollars-denominated trade and other payables and short-term borrowings.

## 3 Financial risk management (Continued)

### (a) Financial risk factors (Continued)

#### *(i) Market risk (Continued)*

*(2) Interest rate risk*

Other than deposits and cash and cash equivalents (collectively the "Interest Bearing Assets"), the Group has no other significant interest bearing assets.

The Group's interest rate risk also arises from borrowings (the "Interest Bearing Liabilities"). Interest Bearing Liabilities are primarily issued at variable rates which therefore expose the Group to cash flow interest rate risk.

With all other variables held constant, if the interest rate had increased/decreased by 50 basis-point, the corresponding increase/decrease in net finance income (representing interest income on the Interest Bearing Assets less interest expenses on Interest Bearing Liabilities) will result in a net increase/decrease in the Group's post-tax profit by HK$5,748,000 (2008: HK$5,289,000).

*(3) Price risk*

The Group is exposed to equity securities price risk because certain of the Group's investments are classified as available-for-sale financial assets and financial assets at fair value through profit or loss, which are required to be stated at their fair values (see fair value estimation below). To manage its price risk arising from equity securities, the Group diversifies its portfolio in accordance with the limits set by the Group.

The Group's equity investments in equity of other entities are publicly traded. The table below summarises the impact of increases/decreases of the market price of the Group's equity investments by 5%:

| | Impact on post-tax profit | | Impact on investment revaluation reserve | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| 5% change in market price | 34 | 12 | 5,116 | 1,837 |

## 3 Financial risk management (Continued)

### (a) Financial risk factors (Continued)

#### *(ii) Credit risk*

Credit risk mainly arises from trade and other receivables and balances due from group and related companies and deposits with financial institutions. The Group has limited its credit exposure from bank balances and deposits by restricting its selection of financial institutions with credit rating graded B or above, as rated by external credit agencies, and a substantial portion of the Group's balances were placed with state-owned and listed banks. Management considers these balances are subject to low credit risk. Customers are assessed and rated based on the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set by management and the utilisation of credit limits is regularly monitored.

#### *(iii) Liquidity risk*

The Group adopts prudent liquidity risk management which includes maintaining sufficient bank balances and cash, having available funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | **Less than 1 year** HK$'000 |
|---|---:|
| **Group** | |
| **At 31st December 2009** | |
| Trade and other payables | 768,915 |
| Short-term borrowings | 11,782 |
| At 31st December 2008 | |
| Trade and other payables | 1,040,770 |
| Short-term borrowings | 317,622 |
| **Company** | |
| **At 31st December 2009** | |
| Amounts due to subsidiaries | 110,035 |
| Other payables | 9,421 |
| At 31st December 2008 | |
| Amounts due to subsidiaries | 222,037 |
| Other payables | 9,416 |

## 3 Financial risk management (Continued)

### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets. The Group's strategy, which was unchanged from 2008, is to maintain a low gearing ratio. The gearing ratios at 31st December 2009 and 2008 were as follows:

| | **2009** | **2008** |
|---|---|---|
| | HK$'000 | HK$'000 |
| Short-term borrowings | 11,725 | 316,960 |
| Total assets | 7,509,872 | 7,259,065 |
| Gearing ratio | 0.2% | 4.4% |

### (c) Fair value estimation

Effective 1st January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

## 3 Financial risk management (Continued)

### (c) Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value at 31st December 2009.

| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | | | | |
| – equity securities | 102,325 | – | 1,759 | 104,084 |
| Financial assets at fair value through profit or loss | | | | |
| – trading securities | 678 | – | – | 678 |
| **Total** | 103,003 | – | 1,759 | 104,762 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as available-for-sale.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Management has taken reference to the net asset value of the investment to determine its valuation.

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates, assumptions and judgements in applying the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer.

## 4 Critical accounting estimates and judgements (Continued)

### (b) Allowances for inventory

The management of the Group reviews the ageing analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

### (c) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December 2009, the carrying amount of goodwill was HK$91,340,000. Details of the recoverable amount calculation are disclosed in note 6.

### (d) Estimate of fair value of investment properties

In making its judgement, the Group considers information from a variety of sources including:

(i) Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

### (e) Determination of fair value of shared-based compensation

The Group uses the Binomial Lattice Valuation Model to determine the fair value of share options granted in the previous years. Under this model, the value of the share options is subject to a number of assumptions such as risk-free interest rate, expected life of the options and expected volatility based on annualised volatility of the closing price of the share. Therefore the value may be subjective and would change should any of the assumptions change.

## 4 Critical accounting estimates and judgements (Continued)

**(f) Income taxes**

The Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

**(g) Recognition of investment in associated company**

The Group held less than 20 per cent of the voting power of Sino-Ocean Land Holdings Limited ("SOLHL") since 30th December 2009. The Group follows HKAS 28 "Investments in Associates" to determine whether the Group has significant influence over SOLHL. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the evidence to clearly demonstrate such influence in one or more of the following ways:

(i) representation on the board of directors of SOLHL;
(ii) participation in policy-making processes, including participation in decisions about dividends or other distributions;
(iii) material transactions between the Group and SOLHL;
(iv) interchange of managerial personnel; or
(v) provision of essential technical information.

Significant influence over SOLHL has been clearly demonstrated by the 20% voting power maintained by the Group on the board of directors of SOLHL, where the Chairman of the board of directors was appointed by the Group, as at 31st December 2009. The Group considered its investment in SOLHL as an investment in an associate accordingly and adopted the equity method to account for the Group's share of the net asset value and result of SOLHL as at 31st December 2009 and for the year then ended in the consolidated financial statements.

## 5 Revenue and segment information

The Group is principally engaged in the provision of shipping services, general trading and property investments. Turnover, represented revenue, recognised during the year is as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Sale of coatings | 399,971 | 1,381,076 |
| Sale of marine equipment and spare parts | 444,334 | 454,646 |
| Commission income from ship trading agency | 151,564 | 130,700 |
| Commission income from insurance brokerage | 67,140 | 65,682 |
| Sale of marine fuel and other products | 45,565 | – |
| Sale of asphalt and other products | 515,340 | – |
| Sale of properties | 4,997 | 66,353 |
| Rental income | 1,144 | 2,480 |
| | 1,630,055 | 2,100,937 |

The management considers the business from a product perspective. From a product perspective, management assesses the performance of coatings, marine equipment and spare parts, ship trading agency, insurance brokerage, marine fuel and other products, general trading and property investments.

## 5 Revenue and segment information (Continued)

The management has identified the following reportable segments on the basis of the Group's internal reports that are regularly reviewed by the management in order to make decisions about resources to be allocated to the segment and assess its performance.

| **Reportable segments** | **Business activities** |
|---|---|
| Coatings | production and sale of coatings, and holding of investment in a jointly controlled entity, Jotun COSCO Marine Coatings (HK) Limited |
| Marine equipment and spare parts | trading of marine equipment and spare parts, and holding of investments in various jointly controlled entities |
| Ship trading agency | provision of agency services relating to shipbuilding, ship trading and bareboat charter business |
| Insurance brokerage | provision of insurance brokerage services |
| Marine fuel and other products | trading of marine fuel and other related products, and holding of investment in an associated company, Double Rich Limited |
| General trading | trading of asphalt and other products, and holding of investments in various jointly controlled entities and associated companies |
| Property investments | sale of completed properties held for sale and holding of investment in an associated company, SOLHL |

Although the marine fuel and other products segment does not meet the quantitative thresholds required by HKFRS 8, the management has considered that this segment should be separately reported, as it is expected to materially contribute to the Group's revenue in the future.

All other segments as reported mainly comprise the Group's listed available-for-sale financial assets and financial assets at fair value through profit or loss.

The management assesses the performance of the operating segments based on a measure of profit before income tax. The accounting policies of the operating segments are consistent with those set out in the 2008 annual financial statements.

## 5 Revenue and segment information (Continued)

| | Year ended and as at 31st December 2009 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shipping services | | | | | | | | | |
| | Coatings | Marine equipment and spare parts | Ship trading agency | Insurance brokerage | Marine fuel and other products | Total | General trading | Property investments | All other segments | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Profit and loss items:** | | | | | | | | | | |
| Segment revenue | 399,971 | 445,063 | 152,105 | 67,384 | 45,565 | 1,110,088 | 515,366 | 4,997 | – | 1,630,451 |
| Inter-segment revenue | – | – | (152) | (244) | – | (396) | – | – | – | (396) |
| Revenue from external customers | 399,971 | 445,063 | 151,953 | 67,140 | 45,565 | 1,109,692 | 515,366 | 4,997 | – | 1,630,055 |
| Segment operating profit | 13,423 | 32,600 | 113,153 | 47,482 | 145 | 206,803 | 3,997 | 36,106 | 3,727 | 250,633 |
| Finance income | 1,780 | 1,088 | 3,386 | 398 | 1 | 6,653 | 287 | 279 | – | 7,219 |
| Finance costs | (3,577) | (48) | (372) | (221) | (2) | (4,220) | (3,782) | (4) | – | (8,006) |
| Share of results of jointly controlled entities | 101,488 | 3,499 | – | – | – | 104,987 | (962) | – | – | 104,025 |
| Share of results of associated companies | – | – | – | – | 10,522 | 10,522 | 1,191 | 354,481 | – | 366,194 |
| Net gain on deemed disposal of partial interest in an associated company | – | – | – | – | – | – | – | 245,287 | – | 245,287 |
| Segment profit before income tax | 113,114 | 37,139 | 116,167 | 47,659 | 10,666 | 324,745 | 731 | 636,149 | 3,727 | 965,352 |
| Income tax expense | (12,141) | (4,928) | (21,638) | (7,413) | (10) | (46,130) | (889) | – | – | (47,019) |
| Segment profit/(loss) after income tax | 100,973 | 32,211 | 94,529 | 40,246 | 10,656 | 278,615 | (158) | 636,149 | 3,727 | 918,333 |
| **Balance sheet items:** | | | | | | | | | | |
| Total segment assets | 1,012,533 | 365,036 | 297,164 | 131,029 | 169,224 | 1,974,986 | 374,647 | 4,667,717 | 103,002 | 7,120,352 |
| Total segment assets include: | | | | | | | | | | |
| Jointly controlled entities | 213,883 | 13,428 | – | – | – | 227,311 | 6,751 | – | – | 234,062 |
| Associated companies | – | – | – | – | 46,116 | 46,116 | 9,196 | 4,667,375 | – | 4,722,687 |
| Total segment liabilities | 268,036 | 176,210 | 132,224 | 49,042 | 68,694 | 694,206 | 216,292 | – | – | 910,498 |
| **Other items:** | | | | | | | | | | |
| Depreciation and amortisation, net of amount capitalised | 9,348 | 766 | 705 | 684 | – | 11,503 | 282 | – | – | 11,785 |
| Exchange reserve gain realised upon dissolution of a subsidiary | – | – | – | – | – | – | – | 33,721 | – | 33,721 |
| Reversal of provision for impairment of inventories, net of provision | 8,545 | – | – | – | – | 8,545 | – | – | – | 8,545 |
| Reversal of provision for impairment of trade receivables, net of provision | 3,603 | (855) | – | 63 | – | 2,811 | – | – | – | 2,811 |
| Additions to non-current assets (other than available-for-sale financial assets and deferred tax assets) | 14,854 | 21 | 1,819 | 24 | 47,349 | 64,067 | 125 | 40,617 | – | 104,809 |

## 5 Revenue and segment information (Continued)

| | Year ended and as at 31st December 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shipping services | | | | | | | | |
| | Coatings HK$'000 | Marine equipment and spare parts HK$'000 | Ship trading agency HK$'000 | Insurance brokerage HK$'000 | Total HK$'000 | General trading HK$'000 | Property investments HK$'000 | All other segments HK$'000 | Total HK$'000 |
| **Profit and loss items:** | | | | | | | | | |
| Segment revenue | 1,381,076 | 455,182 | 131,220 | 65,870 | 2,033,348 | – | 67,886 | – | 2,101,234 |
| Inter-segment revenue | – | – | (109) | (188) | (297) | – | – | – | (297) |
| Revenue from external customers | 1,381,076 | 455,182 | 131,111 | 65,682 | 2,033,051 | – | 67,886 | – | 2,100,937 |
| Segment operating profit | 67,007 | 21,352 | 83,267 | 42,746 | 214,372 | – | 54,557 | 115 | 269,044 |
| Finance income | 1,466 | 1,357 | 6,860 | 1,152 | 10,835 | – | 5,590 | – | 16,425 |
| Finance costs | (14,061) | (99) | (822) | (214) | (15,196) | – | (16) | – | (15,212) |
| Share of results of jointly controlled entities | 43,787 | 2,941 | – | – | 46,728 | – | – | – | 46,728 |
| Share of result of an associated company | – | – | – | – | – | – | 319,184 | – | 319,184 |
| Segment profit before income tax | 98,199 | 25,551 | 89,305 | 43,684 | 256,739 | – | 379,315 | 115 | 636,169 |
| Income tax expense | (9,577) | (2,253) | (16,255) | (6,875) | (34,960) | – | 5,459 | – | (29,501) |
| Segment profit after income tax | 88,622 | 23,298 | 73,050 | 36,809 | 221,779 | – | 384,774 | 115 | 606,668 |
| **Balance sheet items:** | | | | | | | | | |
| Total segment assets | 1,280,441 | 290,050 | 416,479 | 134,781 | 2,121,751 | 327,566 | 4,095,831 | 36,982 | 6,582,130 |
| Total segment assets include: | | | | | | | | | |
| Jointly controlled entities | 112,117 | 10,720 | – | – | 122,837 | 8,098 | – | – | 130,935 |
| Associated companies | – | – | – | – | – | 8,943 | 4,043,867 | – | 4,052,810 |
| Total segment liabilities | 638,013 | 129,468 | 269,552 | 55,569 | 1,092,602 | 213,659 | 1,247 | – | 1,307,508 |
| **Other items:** | | | | | | | | | |
| Depreciation and amortisation, net of amount capitalised | 11,133 | 766 | 780 | 503 | 13,182 | – | 5 | – | 13,187 |
| Fair value losses on investment properties | – | 3,600 | 757 | – | 4,357 | – | – | – | 4,357 |
| Gain on further acquisition and deemed acquisition of an associated company | – | – | – | – | – | – | 3,096 | – | 3,096 |
| Reversal of provision for land appreciation tax | – | – | – | – | – | – | 12,298 | – | 12,298 |
| Reversal of provision for property development cost | – | – | – | – | – | – | 6,128 | – | 6,128 |
| Provision for impairment of inventories, net of reversal | 27,233 | – | – | – | 27,233 | – | – | – | 27,233 |
| Provision for impairment of trade receivables, net of reversal | 51,636 | 5,451 | – | (35) | 57,052 | – | – | – | 57,052 |
| Additions to non-current assets (other than available-for-sale financial assets and deferred tax assets) | 25,410 | 1,556 | 12,073 | 463 | 39,502 | 25,839 | 2,301 | – | 67,642 |

## 5 Revenue and segment information (Continued)

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

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Total for reportable segments | 961,625 | 636,054 |
| Other segments' profit before income tax | 3,727 | 115 |
| Elimination of inter-segment profit | (69) | (64) |
| Corporate finance income | 3,497 | 11,702 |
| Corporate finance costs | (64) | (57) |
| Corporate expenses, net of income | (63,733) | (65,217) |
| Total for the Group | 904,983 | 582,533 |

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

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Total for reportable segments | 7,017,350 | 6,545,148 |
| Other segments' assets | 103,002 | 36,982 |
| Corporate assets | 483,367 | 696,415 |
| Elimination of inter-segment receivables | (2,047) | (2,011) |
| Elimination of segment receivables from corporate headquarters | (57,472) | (6,597) |
| Elimination of corporate headquarters' receivables from segments | (34,328) | (10,872) |
| Total for the Group | 7,509,872 | 7,259,065 |

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

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Total for reportable segments | 910,498 | 1,307,508 |
| Corporate liabilities | 77,649 | 183,969 |
| Elimination of inter-segment payables | (2,047) | (2,011) |
| Elimination of corporate headquarters' payables to segments | (57,472) | (6,597) |
| Elimination of segment payables to corporate headquarters | (34,328) | (10,872) |
| Total for the Group | 894,300 | 1,471,997 |

## 5 Revenue and segment information (Continued)

The Company is domiciled in Hong Kong. The Group's revenue from external customers derived from Hong Kong and places other than Hong Kong are HK$576,702,000 (2008: HK$587,875,000) and HK$1,053,353,000 (2008: HK$1,513,062,000) respectively.

The total of non-current assets other than available-for-sale financial assets and deferred income tax assets located in Hong Kong and places other than Hong Kong are HK$5,030,350,000 (2008: HK$4,256,843,000) and HK$183,044,000 (2008: HK$182,058,000) respectively.

## 6 Intangible assets

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Goodwill | | |
| Cost | | |
| At 1st January | 97,307 | 85,600 |
| Exchange differences | 17 | – |
| Acquisition of a subsidiary (note 37) | – | 11,707 |
| At 31st December | 97,324 | 97,307 |
| Accumulated impairment | | |
| At 1st January and 31st December | (5,984) | (5,984) |
| Net book value at 31st December | 91,340 | 91,323 |

**Impairment tests for goodwill**

Goodwill is allocated to the Group's cash generating units under shipping services business segment as follows:

| | **2009** | **2008** |
|---|---|---|
| | HK$'000 | HK$'000 |
| Agency service in respect of shipbuilding, ship trading and bareboat charter business ("Ship trade business") | 47,314 | 47,297 |
| Provision of insurance brokerage services ("Insurance business") | 35,046 | 35,046 |
| Trading of marine equipment and spare parts ("Supply business") | 8,980 | 8,980 |
| | 91,340 | 91,323 |

## 6 Intangible assets (Continued)

**Impairment tests for goodwill (Continued)**

The recoverable amounts of the above business units are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use calculations are as follows:

| | Ship trade business | Insurance business | Supply business |
|---|---|---|---|
| Weighted average growth rate | 2.8% | 4.2% | 1.2% |
| Discount rate | 9.4% | 9.4% | 9.4% |

Management determined the budgeted margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are after-tax and reflect specific risks relating to the relevant segments.

## 7 Property, plant and equipment

**Group**

| | Buildings HK$'000 | Machinery, equipment and motor vehicles HK$'000 | Leasehold improvement HK$'000 | Furniture and fixtures HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1st January 2008 | | | | | | |
| Cost | 93,941 | 60,468 | 12,554 | 22,951 | 171 | 190,085 |
| Accumulated depreciation and impairment | (27,014) | (32,185) | (10,846) | (14,604) | – | (84,649) |
| Net book amount | 66,927 | 28,283 | 1,708 | 8,347 | 171 | 105,436 |
| Year ended 31st December 2008 | | | | | | |
| Opening net book amount | 66,927 | 28,283 | 1,708 | 8,347 | 171 | 105,436 |
| Acquisition of a subsidiary (note 37) | – | 941 | – | 337 | – | 1,278 |
| Additions | 1,373 | 5,872 | 1,469 | 4,316 | 15,435 | 28,465 |
| Revaluation gain recognised in equity upon transfer to investment properties | 361 | – | – | – | – | 361 |
| Transfer to investment properties (note 9) | (2,400) | – | – | – | – | (2,400) |
| Transfer between categories | 181 | 3,001 | – | – | (3,182) | – |
| Exchange differences | 3,967 | 1,607 | (2) | 428 | 10 | 6,010 |
| Depreciation (note 27(a)) | (2,944) | (6,506) | (804) | (4,130) | – | (14,384) |
| Disposals | (227) | (563) | (21) | (131) | – | (942) |
| Closing net book amount | 67,238 | 32,635 | 2,350 | 9,167 | 12,434 | 123,824 |
| At 31st December 2008 | | | | | | |
| Cost | 98,448 | 68,192 | 13,157 | 26,698 | 12,434 | 218,929 |
| Accumulated depreciation and impairment | (31,210) | (35,557) | (10,807) | (17,531) | – | (95,105) |
| Net book amount | 67,238 | 32,635 | 2,350 | 9,167 | 12,434 | 123,824 |
| **Year ended 31st December 2009** | | | | | | |
| Opening net book amount | 67,238 | 32,635 | 2,350 | 9,167 | 12,434 | 123,824 |
| Additions | 462 | 2,860 | – | 2,521 | 11,261 | 17,104 |
| Transfer between categories | 34 | 982 | – | 19 | (1,035) | – |
| Exchange differences | 99 | 46 | – | 12 | 19 | 176 |
| Depreciation (note 27(a)) | (2,954) | (7,092) | (811) | (4,369) | – | (15,226) |
| Disposals | (277) | (95) | – | (3) | – | (375) |
| Closing net book amount | 64,602 | 29,336 | 1,539 | 7,347 | 22,679 | 125,503 |
| **At 31st December 2009** | | | | | | |
| Cost | 98,664 | 70,096 | 13,158 | 27,635 | 22,679 | 232,232 |
| Accumulated depreciation and impairment | (34,062) | (40,760) | (11,619) | (20,288) | – | (106,729) |
| Net book amount | 64,602 | 29,336 | 1,539 | 7,347 | 22,679 | 125,503 |

7 Property, plant and equipment (Continued)

**Company**

| | Machinery, equipment and motor vehicles HK$'000 | Leasehold improvement HK$'000 | Furniture and fixtures HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1st January 2008 | | | | |
| Cost | 4,313 | 8,909 | 758 | 13,980 |
| Accumulated depreciation and impairment | (2,702) | (7,866) | (330) | (10,898) |
| Net book amount | 1,611 | 1,043 | 428 | 3,082 |
| Year ended 31st December 2008 | | | | |
| Opening net book amount | 1,611 | 1,043 | 428 | 3,082 |
| Additions | 624 | – | 45 | 669 |
| Depreciation | (485) | (313) | (125) | (923) |
| Disposals | (267) | – | – | (267) |
| Closing net book amount | 1,483 | 730 | 348 | 2,561 |
| At 31st December 2008 | | | | |
| Cost | 4,133 | 8,909 | 803 | 13,845 |
| Accumulated depreciation and impairment | (2,650) | (8,179) | (455) | (11,284) |
| Net book amount | 1,483 | 730 | 348 | 2,561 |
| **Year ended 31st December 2009** | | | | |
| Opening net book amount | 1,483 | 730 | 348 | 2,561 |
| Additions | 191 | – | 70 | 261 |
| Depreciation | (424) | (313) | (135) | (872) |
| Closing net book amount | 1,250 | 417 | 283 | 1,950 |
| **At 31st December 2009** | | | | |
| Cost | 4,324 | 8,909 | 873 | 14,106 |
| Accumulated depreciation and impairment | (3,074) | (8,492) | (590) | (12,156) |
| Net book amount | 1,250 | 417 | 283 | 1,950 |

## 8 Prepaid premium for land leases

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| At 1st January | 13,194 | 16,421 |
| Exchange differences | 12 | 503 |
| Revaluation gain recognised in equity upon transfer to investment properties | – | 7,438 |
| Transfer to investment properties (note 9) | – | (10,600) |
| Amortisation | (568) | (568) |
| At 31st December | 12,638 | 13,194 |

The Group's interests in prepaid premium for land leases at their net book value are analysed as follows:

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| In Hong Kong, held on: | | |
| Leases of over 50 years | 3,203 | 3,207 |
| Leases of between 10 and 50 years | 1,748 | 1,862 |
| Outside Hong Kong, held on: | | |
| Leases of between 10 and 50 years | 5,726 | 5,841 |
| Leases of less than 10 years | 1,961 | 2,284 |
| | 12,638 | 13,194 |

## 9 Investment properties

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| At 1st January | 26,815 | 10,717 |
| Exchange differences | 17 | (65) |
| Acquisition of a subsidiary (note 37) | – | 7,520 |
| Transfer from property, plant and equipment (note 7) | – | 2,400 |
| Transfer from prepaid premium for land leases (note 8) | – | 10,600 |
| Fair value gains (note 26) | 7,864 | – |
| Fair value losses (note 27) | – | (4,357) |
| Transfer to asset held for sale (note 21) | (7,532) | – |
| At 31st December | 27,164 | 26,815 |

## 9 Investment properties (Continued)

The Group's interests in investment properties are analysed as follows:

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| In Hong Kong, held on: | | |
| Leases of over 50 years | 13,400 | 9,400 |
| Outside Hong Kong, held on: | | |
| Leases of between 10 and 50 years | 13,764 | 17,415 |
| | 27,164 | 26,815 |

Investment properties were revalued at 31st December 2009 and 2008 on an open market value basis respectively by DTZ Debenham Tie Leung Limited and Jones Lang LaSalle Sallmanns Limited, both independent firms of Chartered Surveyors.

## 10 Subsidiaries

### (a) Investments in subsidiaries

| | Company 2009 HK$'000 | Company 2008 HK$'000 |
|---|---|---|
| Unlisted investments, at cost | 161,765 | 161,765 |

### (b) Amounts due from/to subsidiaries

| | Company 2009 HK$'000 | Company 2008 HK$'000 |
|---|---|---|
| Amounts due from subsidiaries | 1,463,030 | 1,678,721 |
| Provision for impairment | – | (599,441) |
| | 1,463,030 | 1,079,280 |
| Amounts due to subsidiaries | 110,035 | 222,037 |

## 10 Subsidiaries (Continued)

**(c) Movements on the provision for impairment of amounts due from subsidiaries are as follows:**

| | Company | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| At 1st January | 599,441 | 649,623 |
| Reversal of unused provision | (599,441) | (50,182) |
| At 31st December | – | 599,441 |

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand. Particulars of principal subsidiaries which, in the opinion of the directors, principally affect the results and/or assets and liabilities of the Group as at 31st December 2009 are set out in note 39 to the financial statements.

## 11 Jointly controlled entities

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1st January | 130,935 | 93,624 | 42,808 | 42,808 |
| Acquisition of a subsidiary (note 37) | – | 8,098 | – | – |
| Exchange differences on translation (note 23) | 28 | 506 | – | – |
| Share of reserves of jointly controlled entities (note 23) | 279 | 4,288 | – | – |
| Share of results of jointly controlled entities | 104,025 | 46,728 | – | – |
| Dividends received | (1,205) | (22,309) | – | – |
| At 31st December | 234,062 | 130,935 | 42,808 | 42,808 |

## 11 Jointly controlled entities (Continued)

Notes:

(a) The Group's share of the financial positions and results of jointly controlled entities is as follows:

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| Assets | | |
| Non-current assets | 32,652 | 23,983 |
| Current assets | 571,877 | 525,181 |
| | 604,529 | 549,164 |
| Liabilities | | |
| Non-current liabilities | (153) | (155) |
| Current liabilities | (370,314) | (418,074) |
| | (370,467) | (418,229) |
| Net assets | 234,062 | 130,935 |
| Revenue | 1,372,194 | 899,408 |
| Expenses | (1,268,169) | (852,680) |
| Profit for the year | 104,025 | 46,728 |

(b) Particulars of jointly controlled entities are set out in note 40 to the financial statements.

## 12 Associated companies

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| At 1st January | 4,052,810 | 3,628,052 |
| Acquisition (note (a)) | 87,966 | 2,301 |
| Acquisition of a subsidiary (note 37) | – | 8,943 |
| Exchange differences on translation (note 23) | 5,828 | 211,194 |
| Share of reserves of associated companies (note 23) | 15,291 | 19,127 |
| Share of results of associated companies | 366,194 | 319,184 |
| Gain on further acquisition and deemed acquisition of an associated company | – | 3,096 |
| Net gain on deemed disposal of partial interest in an associated company (note (c)) | 245,287 | – |
| Dividends received | (50,689) | (139,087) |
| At 31st December | 4,722,687 | 4,052,810 |
| Market value of listed shares in Hong Kong | 6,830,050 | 3,248,704 |
| Carrying amount of unlisted shares | 55,312 | 8,943 |
| | 6,885,362 | 3,257,647 |

## 12 Associated companies (Continued)

Notes:

(a) During the year, the Group acquired an 18% interest in an associated company, Double Rich Limited, from COSCO Trading and Supply Investments Limited, a fellow subsidiary, at a total cost of acquisition of HK$47,349,000. The Group also increased its interests in SOLHL during the year through acquisition of shares in the open market.

(b) The Group's share of the financial positions and results of associated companies is as follows:

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Assets | | |
| Non-current assets | 1,518,014 | 1,106,331 |
| Current assets | 11,374,783 | 9,243,006 |
| | 12,892,797 | 10,349,337 |
| Liabilities | | |
| Non-current liabilities | (3,480,904) | (2,253,844) |
| Current liabilities | (4,689,206) | (4,042,683) |
| | (8,170,110) | (6,296,527) |
| Net assets | 4,722,687 | 4,052,810 |
| Revenue | 5,983,188 | 1,468,077 |
| Expenses | (5,616,994) | (1,148,893) |
| Profit for the year | 366,194 | 319,184 |

(c) On 30th December 2009, SOLHL allotted and issued 934 million new shares to China Life Insurance Company Limited, which represents approximately 16.57% of the then enlarged share capital of SOLHL, at the subscription price of HK$6.23 per share. Accordingly, the Group's shareholding interest in SOLHL was diluted from 20.20% to 16.85%. This resulted in the Group recording a gain on deemed disposal of partial interest in an associated company of HK$269,008,000.

(d) Particulars of associated companies are set out in note 40 to the financial statements.

## 13 Financial instruments by category

The accounting polices for financial instruments have been applied to the line items below:

**Group**

| | Loans and receivables HK$'000 | Assets at fair value through profit or loss HK$'000 | Available-for-sale HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Assets as per consolidated balance sheet | | | | |
| **At 31st December 2009** | | | | |
| Available-for-sale financial assets (note 14) | – | – | 104,084 | 104,084 |
| Trade and other receivables excluding prepayments (note 18) | 527,370 | – | – | 527,370 |
| Financial assets at fair value through profit or loss (note 19) | – | 678 | – | 678 |
| Restricted bank deposits, deposits and cash and cash equivalents (note 20) | 1,272,661 | – | – | 1,272,661 |
| Total | 1,800,031 | 678 | 104,084 | 1,904,793 |
| At 31st December 2008 | | | | |
| Available-for-sale financial assets (note 14) | – | – | 38,503 | 38,503 |
| Trade and other receivables excluding prepayments (note 18) | 864,396 | – | – | 864,396 |
| Financial assets at fair value through profit or loss (note 19) | – | 239 | – | 239 |
| Restricted bank deposits, deposits and cash and cash equivalents (note 20) | 1,492,941 | – | – | 1,492,941 |
| Total | 2,357,337 | 239 | 38,503 | 2,396,079 |

## 13 Financial instruments by category (Continued)

**Group (Continued)**

| | **Other financial liabilities** HK$'000 |
|---|---|
| Liabilities as per consolidated balance sheet | |
| **At 31st December 2009** | |
| Trade and other payables excluding commission income received in advance (note 24) | 768,915 |
| Short-term borrowings (note 25) | 11,725 |
| Total | 780,640 |
| At 31st December 2008 | |
| Trade and other payables excluding commission income received in advance (note 24) | 1,040,770 |
| Short-term borrowings (note 25) | 316,960 |
| Total | 1,357,730 |

**Company**

| | **Loans and receivables** HK$'000 |
|---|---|
| Assets as per balance sheet | |
| **At 31st December 2009** | |
| Amounts due from subsidiaries (note 10(b)) | 1,463,030 |
| Other receivables excluding prepayments (note 18) | 948 |
| Deposits and cash and cash equivalents (note 20) | 433,265 |
| Total | 1,897,243 |
| At 31st December 2008 | |
| Amounts due from subsidiaries (note 10(b)) | 1,079,280 |
| Other receivables excluding prepayments (note 18) | 51,076 |
| Deposits and cash and cash equivalents (note 20) | 355,304 |
| Total | 1,485,660 |

## 13 Financial instruments by category (Continued)

**Company (Continued)**

| | Other financial liabilities HK$'000 |
|---|---|
| Liabilities as per balance sheet | |
| **At 31st December 2009** | |
| Amounts due to subsidiaries (note 10(b)) | 110,035 |
| Other payables (note 24) | 9,421 |
| Total | 119,456 |
| At 31st December 2008 | |
| Amounts due to subsidiaries (note 10(b)) | 222,037 |
| Other payables (note 24) | 9,416 |
| Total | 231,453 |

## 14 Available-for-sale financial assets

| | Group | |
|---|---|---|
| | **2009** HK$'000 | **2008** HK$'000 |
| At 1st January | 38,503 | 88,952 |
| Addition | – | 1,282 |
| Fair value gains/(losses) recognised in equity (note 23) | 65,581 | (51,731) |
| At 31st December | 104,084 | 38,503 |

There were no impairment provisions on available-for-sale financial assets as at 31st December 2009 and 2008.

Available-for-sale financial assets include the following:

| | Group | |
|---|---|---|
| | **2009** HK$'000 | **2008** HK$'000 |
| Market value of listed equity securities in Hong Kong | 102,325 | 36,744 |
| Unlisted securities | 1,759 | 1,759 |
| | 104,084 | 38,503 |

## 14 Available-for-sale financial assets (Continued)

Available-for-sale financial assets are denominated in the following currencies:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Renminbi | 1,759 | 1,759 |
| Hong Kong dollars | 102,325 | 36,744 |
| | 104,084 | 38,503 |

## 15 Deferred income tax

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

The movement on the net deferred income tax assets during the year is as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| At 1st January | 32,481 | 25,437 |
| Exchange differences | 55 | 1,636 |
| Acquisition of a subsidiary | – | (548) |
| Charged to equity | – | (1,436) |
| Transferred to current income tax liability | 4,679 | – |
| (Charged)/credited to the consolidated income statement (note 31) | (8,425) | 7,392 |
| At 31st December | 28,790 | 32,481 |

Deferred income tax assets are recognised for tax losses carried-forward to the extent that realisation of the related tax benefit through future taxable profits is probable. As at 31st December 2009, the Group has unrecognised tax losses of HK$74,731,000 (2008: HK$288,250,000) to carry forward against future taxable income.

## 15 Deferred income tax (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Deferred income tax assets: | | |
| – to be recovered after more than 12 months | 33,898 | 33,848 |
| – to be recovered within 12 months | 3,528 | 6,996 |
| | 37,426 | 40,844 |
| Deferred income tax liabilities: | | |
| – to be settled after more than 12 months | (8,636) | (7,745) |
| – to be settled within 12 months | – | (618) |
| | (8,636) | (8,363) |
| | 28,790 | 32,481 |

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

### (a) Deferred income tax assets

| | Group | | | | |
|---|---|---|---|---|---|
| | **Accrued liabilities** | **Impairment losses** | **Tax losses** | **Others** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1st January 2008 | 20,210 | 4,028 | 1,362 | 635 | 26,235 |
| Exchange differences | 1,259 | 251 | 85 | 37 | 1,632 |
| Acquisition of a subsidiary (note 37) | 489 | 309 | – | 32 | 830 |
| (Charged)/credited to the consolidated income statement | (4,495) | 17,196 | (1,447) | 893 | 12,147 |
| At 31st December 2008 | 17,463 | 21,784 | – | 1,597 | 40,844 |
| **At 1st January 2009** | 17,463 | 21,784 | – | 1,597 | 40,844 |
| Exchange differences | 26 | 33 | – | 3 | 62 |
| Transfer to current income tax liability | 4,592 | – | – | – | 4,592 |
| (Charged)/credited to the consolidated income statement | 532 | (7,987) | – | (617) | (8,072) |
| **At 31st December 2009** | 22,613 | 13,830 | – | 983 | 37,426 |

## 15 Deferred income tax (Continued)

### (b) Deferred income tax liabilities

| | Group | | | | |
|---|---|---|---|---|---|
| | Accelerated tax depreciation | Fair value gains | Withholding tax | Others | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1st January 2008 | (82) | (716) | – | – | (798) |
| Exchange differences | – | 4 | – | – | 4 |
| Acquisition of a subsidiary (note 37) | – | (760) | – | (618) | (1,378) |
| Changed to equity | – | (1,436) | – | – | (1,436) |
| (Charged)/credited to the consolidated income statement | (55) | 670 | (5,370) | – | (4,755) |
| At 31st December 2008 | (137) | (2,238) | (5,370) | (618) | (8,363) |
| **At 1st January 2009** | (137) | (2,238) | (5,370) | (618) | (8,363) |
| Exchange differences | – | (1) | (5) | (1) | (7) |
| Transfer to current income tax liability | – | – | 87 | – | 87 |
| (Charged)/credited to the consolidated income statement | 49 | (1,046) | 25 | 619 | (353) |
| **At 31st December 2009** | (88) | (3,285) | (5,263) | – | (8,636) |

As at 31st December 2009, deferred income tax liabilities of HK$5,263,000 (2008: HK$5,370,000) have been established for the withholding tax that would be payable on certain profits of the PRC subsidiaries and jointly controlled entities to be repatriated and distributed by way of dividends.

## 16 Completed properties held for sale

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Land cost | 99 | 760 |
| Development cost | 243 | 1,871 |
| | 342 | 2,631 |

The carrying value of completed properties held for sale is analysed as follows:

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Outside Hong Kong, held on: | | |
| Leases of over 50 years | 342 | 2,631 |

## 17 Inventories

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Raw materials | 65,030 | 86,921 |
| Work in progress | 7,798 | 5,911 |
| Finished goods | 269,251 | 263,903 |
| | 342,079 | 356,735 |

The cost of inventories recognised as expense and included in cost of sales amounted to HK$1,204,394,000 (2008: HK$1,445,159,000) (note 27).

During the year, the Group recognised inventories impairment provision of HK$3,648,000 (2008: HK$27,233,000) and reversed inventories impairment provision of HK$12,193,000 (2008: nil).

The carrying amount of inventories as at 31st December 2008 included inventories of a subsidiary acquired during the year of HK$163,769,000, which was carried at fair value less costs to sell.

As at 31st December 2009, inventories of HK$81,459,000 (2008: HK$106,592,000) were carried at net realisable value.

## 18 Trade and other receivables

| | Group 2009 HK$'000 | Group 2008 HK$'000 | Company 2009 HK$'000 | Company 2008 HK$'000 |
|---|---|---|---|---|
| Trade receivables | | | | |
| – fellow subsidiaries (note (a)) | 63,552 | 46,345 | – | – |
| – associated companies of COSCO (note (a)) | 66,408 | 247,071 | – | – |
| – ultimate holding company (note (a)) | 158 | 158 | – | – |
| – jointly controlled entities (note (a)) | 11 | 828 | – | – |
| – minority shareholders of subsidiaries (note (a)) | 557 | 773 | – | – |
| – third parties | 328,395 | 442,811 | – | – |
| | 459,081 | 737,986 | – | – |
| Less: provision for impairment | 67,359 | 70,613 | – | – |
| Trade receivables – net | 391,722 | 667,373 | – | – |
| Bills receivables | | | | |
| – associated companies of COSCO (note (a)) | 3,766 | – | – | – |
| – third parties | 27,489 | 55,912 | – | – |
| Prepayments | 1,418 | 22,978 | 341 | 255 |
| Deposits and other receivables | 102,185 | 89,369 | 916 | 668 |
| Amounts due from fellow subsidiaries (note (a)) | 2,208 | 121 | 32 | 32 |
| Amount due from an associated company of COSCO (note (a)) | – | 49 | – | – |
| Amounts due from jointly controlled entities (note (a)) | – | 1,196 | – | – |
| Loans to a jointly controlled entity (note (b)) | – | 50,376 | – | 50,376 |
| | 528,788 | 887,374 | 1,289 | 51,331 |

Notes:

(a) Balances with fellow subsidiaries, associated companies of COSCO, ultimate holding company, certain jointly controlled entities and minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for the trade related balances and bills receivables, which are repayable according to the respective credit terms.

(b) As at 31st December 2008, loans to a jointly controlled entity were unsecured and included a loan of HK$19,375,000 which was interest bearing at 0.5% above London Interbank Offered Rate ("LIBOR") and repaid on 31st January 2009 and another loan of HK$31,001,000 which was interest bearing at 1.5% above LIBOR and repaid on 5th May 2009.

## 18 Trade and other receivables (Continued)

Notes: (Continued)

(c) The carrying amounts of trade and other receivables approximate their fair values and are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Renminbi | 292,428 | 377,879 | – | 50 |
| Hong Kong dollars | 27,821 | 37,853 | 1,133 | 764 |
| United States dollars | 186,939 | 440,070 | 156 | 50,517 |
| Others | 21,600 | 31,572 | – | – |
| | 528,788 | 887,374 | 1,289 | 51,331 |

(d) As at 31st December, the ageing analysis of trade receivables after provision is as follows:

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Current – 90 days | 218,875 | 223,627 |
| 91 – 180 days | 71,330 | 255,622 |
| Over 180 days | 101,517 | 188,124 |
| | 391,722 | 667,373 |

For sale of coatings, marine equipment, spare parts, marine fuel, asphalt and other products, the majority of sales are on credit terms from 30 days to 90 days. Revenues from sale of properties and other operating revenue are billed according to the terms of the relevant contracts governing the transactions. Other than those with credit terms, all invoices are payable upon presentation.

(e) As at 31st December 2009, trade receivables of HK$113,880,000 (2008: HK$90,632,000) were subject to impairment. The amount of the provision for these receivables was HK$67,359,000 as at 31st December 2009 (2008: HK$70,613,000). Taking into account of the financial difficulties of the debtors, default and delinquency in payments, business relationship and transaction volumes with the debtors, it was assessed that only a portion of these receivables is expected to be recoverable. The ageing analysis of these receivables is as follows:

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Current – 90 days | 670 | 2,195 |
| 91 – 180 days | – | 3,664 |
| Over 180 days | 113,210 | 84,773 |
| | 113,880 | 90,632 |

Except for trade receivables mentioned above, the other classes within trade and other receivables do not contain impaired assets.

## 18 Trade and other receivables (Continued)

Notes: (Continued)

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

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| At 1st January | 70,613 | 12,582 |
| Acquisition of a subsidiary | – | 441 |
| Exchange differences | 97 | 777 |
| Provision for impairment | 29,163 | 57,087 |
| Amount written off | (540) | (239) |
| Reversal of unused provision | (31,974) | (35) |
| At 31st December | 67,359 | 70,613 |

(g) Trade receivables that are less than three months past due are not considered impaired. As at 31st December 2009, trade receivables of HK$166,386,000 (2008: HK$418,717,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis on past due days of these receivables is as follows:

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| Up to 90 days | 75,557 | 229,935 |
| 91 – 180 days | 33,996 | 143,429 |
| Over 180 days | 56,833 | 45,353 |
| | 166,386 | 418,717 |

(h) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

## 19 Financial assets at fair value through profit or loss

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| Market value of listed equity securities in Hong Kong | 678 | 239 |

Financial assets at fair value through profit or loss are presented within operating activities in the consolidated statement of cash flows (note 35).

## 20 Restricted bank deposits, deposits and cash and cash equivalents

| | Group 2009 HK$'000 | Group 2008 HK$'000 | Company 2009 HK$'000 | Company 2008 HK$'000 |
|---|---|---|---|---|
| Restricted bank deposits (note (a)) | 7,104 | 118,963 | – | – |
| Money market fund investments (note (b)) | 23,598 | 23,493 | 23,598 | 23,493 |
| Deposits placed with a fellow subsidiary (note (c)) | 107,031 | 22,450 | – | – |
| Short-term bank deposits | 788,404 | 759,628 | 408,880 | 148,118 |
| Cash at bank and in hand | 346,524 | 568,407 | 787 | 183,693 |
| Deposits and cash and cash equivalents | 1,265,557 | 1,373,978 | 433,265 | 355,304 |
| | 1,272,661 | 1,492,941 | 433,265 | 355,304 |

Notes:

(a) Restricted bank deposits represent mainly deposits pledged for related banking facilities.

(b) Money market fund investments are highly liquid investments with an effective interest rate of 0.27% (2008: 1.37%).

(c) Deposits placed with a fellow subsidiary, which is a financial institution, bear interest at prevailing market rates. The effective interest rate on deposits placed with a fellow subsidiary and bank deposits was 0.65% (2008: 1.74%). These deposits have an average maturity of 80 days (2008: 31 days).

(d) The carrying amounts of restricted bank deposits, deposits and cash and cash equivalents approximate their fair values and are denominated in the following currencies:

| | Group 2009 HK$'000 | Group 2008 HK$'000 | Company 2009 HK$'000 | Company 2008 HK$'000 |
|---|---|---|---|---|
| Renminbi | 399,226 | 443,880 | 6 | 16 |
| Hong Kong dollars | 72,158 | 85,778 | 650 | 9,081 |
| United States dollars | 782,893 | 949,179 | 432,609 | 346,207 |
| Others | 18,384 | 14,104 | – | – |
| | 1,272,661 | 1,492,941 | 433,265 | 355,304 |

(e) The maximum exposure to credit risk at the reporting date is the carrying amount of the balances mentioned above.

## 20 Restricted bank deposits, deposits and cash and cash equivalents (Continued)

Notes: (Continued)

(f) The Group's cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| Deposits and cash and cash equivalents | 1,265,557 | 1,373,978 |
| Less: Cash investments with maturity more than three months from date of placement | 71,048 | 64,905 |
| Cash and cash equivalents | 1,194,509 | 1,309,073 |

## 21 Asset held for sale

As at 31st December 2009, an investment property is classified as an asset held for sale and carried at the lower of its carrying amount and fair value less costs to sell as a result of the signing of an agreement relating to the disposal of the investment property.

## 22 Share capital

| | 2009 Number of shares | 2009 HK$'000 | 2008 Number of shares | 2008 HK$'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Shares of HK$0.10 each | 3,000,000,000 | 300,000 | 3,000,000,000 | 300,000 |
| Issued and fully paid: | | | | |
| At 1st January | 1,489,671,291 | 148,967 | 1,478,031,291 | 147,803 |
| Shares issued in respect of scrip dividend (note (a)) | 20,881,138 | 2,088 | – | – |
| Shares issued upon exercise of share options (note (e)) | 145,000 | 15 | 11,640,000 | 1,164 |
| At 31st December | 1,510,697,429 | 151,070 | 1,489,671,291 | 148,967 |

## 22 Share capital (Continued)

### Share options

On 17th May 2002, a share option scheme was approved at the annual general meeting of the Company under which the directors of the Company may, at their discretion, invite, but not limited to, the directors and employees of the Group, and employees of COSCO, its subsidiaries and associated companies (other than the Group) (collectively "COSCO Group") to subscribe for shares of the Company.

Particulars and movements of the share options granted by the Company are as follows:

| | | | Number of share options | | | | | | Vested % | |
|---|---|---|---|---|---|---|---|---|---|---|
| Category | Note | Exercise price HK$ | Outstanding as at 1st January 2009 | Granted during the year | Changed category during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31st December 2009 | as at 31st December 2009 | as at 31st December 2008 |
| Directors | b | 1.37 | 3,300,000 | – | – | – | – | 3,300,000 | 100 | 100 |
| | d | 3.666 | 6,700,000 | – | – | – | – | 6,700,000 | 30 | – |
| Continuous contract employees | b | 1.37 | 6,350,000 | – | 150,000 | – | – | 6,500,000 | 100 | 100 |
| | c | 1.21 | 750,000 | – | – | – | – | 750,000 | 100 | 100 |
| | d | 3.666 | 15,900,000 | – | (400,000) | – | – | 15,500,000 | 30 | – |
| Others | b | 1.37 | 22,318,000 | – | (150,000) | (100,000) | – | 22,068,000 | 100 | 100 |
| | c | 1.21 | 400,000 | – | – | – | – | 400,000 | 100 | 100 |
| | d | 3.666 | 20,870,000 | – | 400,000 | (45,000) | (205,000) | 21,020,000 | 30 | – |
| | | | 76,588,000 | – | – | (145,000) | (205,000) | 76,238,000 | | |

Notes:

(a) On 8th July 2009, the Company issued and allotted 20,881,138 ordinary shares at HK$3.297 per share to shareholders who elected to receive the final dividend for the year ended 31st December 2008 in scrip shares pursuant to the scrip dividend scheme announced by the Company on 27th March 2009. These shares rank pari passu with the existing shares of the Company in all respects.

(b) On 2nd December 2004, the directors and employees of the Group were granted 32,650,000 share options at an exercise price of HK$1.37 per share. In addition, 23,250,000 share options were granted to employees of COSCO Group. These share options were all vested upon the date of grant and are exercisable at any time from 29th December 2004 to 28th December 2014. During the year, 100,000 (2008: 450,000) share options were exercised and no share options (2008: 100,000) were lapsed.

## 22 Share capital (Continued)

**Share options (Continued)**

Notes: (Continued)

(c) On 10th May 2005, the employees of the Group were granted 2,400,000 share options at an exercise price of HK$1.21 per share. These share options were all vested upon the date of grant and are exercisable at any time between 6th June 2005 and 5th June 2015. No share options (2008: 150,000) were exercised during the year.

(d) On 9th March 2007, the Company granted share options to subscribe for 43,850,000 shares of the Company at an exercise price of HK$3.666 per share. These share options are exercisable at any time from 9th March 2009 to 8th March 2015 in the stipulated proportion namely: (i) no share options shall be exercisable within the first two years from 9th March 2007; (ii) up to a maximum of 30% of the share options can be exercised from 9th March 2009 onwards; (iii) up to a maximum of 70% of the share options can be exercised from 9th March 2010 onwards and (iv) all share options can be exercised from 9th March 2011 onwards. During the year, 45,000 (2008: nil) share options were exercised and 205,000 (2008: 380,000) share options were lapsed.

The Company adopted the Binomial Lattice Valuation Model to determine the fair value of the above share options granted in 2007. The weighted average fair value of each share option at the grant date was HK$1.33. The significant inputs into the model are as follows:

| | |
|---|---|
| Weighted average price | HK$3.62 |
| Exercise price | HK$3.666 |
| Expected volatility | 37% p.a. |
| Expected option life | 8 years |
| Risk-free rate | 4% p.a. for the first 3 years<br>4.25% p.a. for the next 5 years |
| Expected dividend yield | 2.2% p.a. |

Expected volatility measured at the standard deviation of the continuously compounded rates of return was determined based on the historical volatility of the Company's share price over the previous one year.

During the year, the Group recognised total employee share option benefit expenses of HK$13,505,000 (2008: HK$20,722,000) as a result of the above equity-settled share based transactions on the basis of the fair value of share options granted.

## 22 Share capital (Continued)

**Share options (Continued)**

Notes: (Continued)

(e) During the year, an aggregate of 145,000 (2008: 11,640,000) share options were exercised and a summary of which, analysed by exercise month, is set out below:

| | Number of share options exercised 2009 | 2008 |
|---|---|---|
| Exercise month | | |
| January | – | 50,000 |
| April | – | 1,000,000 |
| May | – | 50,000 |
| June | 45,000 | 700,000 |
| July | – | 410,000 |
| September | 100,000 | 100,000 |
| November | – | 1,400,000 |
| December | – | 7,930,000 |
| | 145,000 | 11,640,000 |

Exercise of the above share options during the year yielded proceeds as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Ordinary share capital – at par | 15 | 1,164 |
| Share premium | 287 | 5,927 |
| Proceeds | 302 | 7,091 |

The weighted average closing price of the Company's shares on the dates when the share options were exercised was HK$3.62 (2008: HK$2.04).

## 23 Reserves

### Group

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve (note (b)) HK$'000 | Contributed surplus (note (c)) HK$'000 | Exchange reserve HK$'000 | Property revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1st January 2009** | 61,864 | 71,054 | 78,968 | 676,218 | 378,970 | 6,363 | 10,529 | 4,112,762 | 5,396,728 |
| Transfer of reserves (note (b)) | – | – | 33,996 | – | – | – | – | (33,996) | – |
| Capital reserve realised upon dissolution of a subsidiary | – | – | (9,302) | – | – | – | – | 9,302 | – |
| Exchange reserve realised upon dissolution of a subsidiary | – | – | – | – | (33,721) | – | – | – | (33,721) |
| Exchange differences on translation of: | | | | | | | | | |
| – subsidiaries | – | – | – | – | 78 | – | – | – | 78 |
| – jointly controlled entities (note 11) | – | – | – | – | 28 | – | – | – | 28 |
| – associated companies (note 12) | – | – | – | – | 5,828 | – | – | – | 5,828 |
| Share of reserves of jointly controlled entities (note 11) | – | – | – | – | 279 | – | – | – | 279 |
| Share of reserves of associated companies (note 12) | – | 18,091 | – | – | (163) | – | (2,637) | – | 15,291 |
| Shares issued in respect of scrip dividend | 66,757 | – | – | – | – | – | – | (68,845) | (2,088) |
| Shares issued upon exercise of share options | 341 | (54) | – | – | – | – | – | – | 287 |
| Share issue expenses | (80) | – | – | – | – | – | – | – | (80) |
| Fair value gains on available-for-sale financial assets (note 14) | – | – | – | – | – | – | 65,581 | – | 65,581 |
| Employee share option benefits | – | 13,505 | – | – | – | – | – | – | 13,505 |
| Profit for the year (note (a)) | – | – | – | – | – | – | – | 843,675 | 843,675 |
| Dividends paid | – | – | – | – | – | – | – | (41,601) | (41,601) |
| **Balance at 31st December 2009** | 128,882 | 102,596 | 103,662 | 676,218 | 351,299 | 6,363 | 73,473 | 4,821,297 | 6,263,790 |
| Representing: | | | | | | | | | |
| Reserves | 128,882 | 102,596 | 103,662 | 676,218 | 351,299 | 6,363 | 73,473 | 4,694,398 | 6,136,891 |
| 2009 proposed final dividend | – | – | – | – | – | – | – | 126,899 | 126,899 |
| | 128,882 | 102,596 | 103,662 | 676,218 | 351,299 | 6,363 | 73,473 | 4,821,297 | 6,263,790 |

## 23 Reserves (Continued)

### Group (Continued)

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve (note (b)) HK$'000 | Contributed surplus (note (c)) HK$'000 | Exchange reserve HK$'000 | Property revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1st January 2008 | 55,850 | 24,356 | 89,315 | 676,218 | 136,429 | – | 67,178 | 3,704,597 | 4,753,943 |
| Transfer of reserves (note (b)) | – | – | 23,719 | – | – | – | – | (23,719) | – |
| Capital reserve realised upon dissolution of subsidiaries | – | – | (34,066) | – | – | – | – | 34,066 | – |
| Exchange differences on translation of: | | | | | | | | | |
| – subsidiaries | – | – | – | – | 28,571 | – | – | – | 28,571 |
| – jointly controlled entities (note 11) | – | – | – | – | 506 | – | – | – | 506 |
| – an associated company (note 12) | – | – | – | – | 211,194 | – | – | – | 211,194 |
| Share of reserves of a jointly controlled entity (note 11) | – | – | – | – | 4,288 | – | – | – | 4,288 |
| Share of reserves of an associated company (note 12) | – | 26,063 | – | – | (2,018) | – | (4,918) | – | 19,127 |
| Shares issued upon exercise of share options | 6,014 | (87) | – | – | – | – | – | – | 5,927 |
| Gain on revaluation of properties – net of deferred tax | – | – | – | – | – | 6,363 | – | – | 6,363 |
| Fair value losses on available-for-sale financial assets (note 14) | – | – | – | – | – | – | (51,731) | – | (51,731) |
| Employee share option benefits | – | 20,722 | – | – | – | – | – | – | 20,722 |
| Profit for the year (note (a)) | – | – | – | – | – | – | – | 491,015 | 491,015 |
| Dividends paid | – | – | – | – | – | – | – | (93,197) | (93,197) |
| Balance at 31st December 2008 | 61,864 | 71,054 | 78,968 | 676,218 | 378,970 | 6,363 | 10,529 | 4,112,762 | 5,396,728 |
| Representing: | | | | | | | | | |
| Reserves | 61,864 | 71,054 | 78,968 | 676,218 | 378,970 | 6,363 | 10,529 | 4,017,423 | 5,301,389 |
| 2008 proposed final dividend | – | – | – | – | – | – | – | 95,339 | 95,339 |
| | 61,864 | 71,054 | 78,968 | 676,218 | 378,970 | 6,363 | 10,529 | 4,112,762 | 5,396,728 |

## 23 Reserves (Continued)

**Company**

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Contributed surplus (note (c)) HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Balance at 1st January 2009** | 61,864 | 38,816 | 676,218 | 535,731 | 1,312,629 |
| Shares issued in respect of scrip dividend | 66,757 | – | – | (68,845) | (2,088) |
| Shares issued upon exercise of share options | 341 | (54) | – | – | 287 |
| Share issue expenses | (80) | – | – | – | (80) |
| Employee share options benefits | – | 13,505 | – | – | 13,505 |
| Profit for the year | – | – | – | 550,929 | 550,929 |
| Dividends paid | – | – | – | (41,601) | (41,601) |
| **Balance at 31st December 2009** | 128,882 | 52,267 | 676,218 | 976,214 | 1,833,581 |
| Representing: | | | | | |
| Reserves | 128,882 | 52,267 | 676,218 | 849,315 | 1,706,682 |
| 2009 proposed final dividend | – | – | – | 126,899 | 126,899 |
| | 128,882 | 52,267 | 676,218 | 976,214 | 1,833,581 |

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Contributed surplus (note (c)) HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Balance at 1st January 2008 | 55,850 | 18,181 | 676,218 | 611,745 | 1,361,994 |
| Shares issued upon exercise of share options | 6,014 | (87) | – | – | 5,927 |
| Employee share options benefits | – | 20,722 | – | – | 20,722 |
| Profit for the year | – | – | – | 17,183 | 17,183 |
| Dividends paid | – | – | – | (93,197) | (93,197) |
| Balance at 31st December 2008 | 61,864 | 38,816 | 676,218 | 535,731 | 1,312,629 |
| Representing: | | | | | |
| Reserves | 61,864 | 38,816 | 676,218 | 440,392 | 1,217,290 |
| 2008 proposed final dividend | – | – | – | 95,339 | 95,339 |
| | 61,864 | 38,816 | 676,218 | 535,731 | 1,312,629 |

## 23 Reserves (Continued)

Notes:

(a) Profit for the year of HK$843,675,000 (2008: HK$491,015,000) includes a net profit of HK$104,025,000 (2008: HK$46,728,000) attributable to jointly controlled entities and HK$366,194,000 (2008: HK$319,184,000) attributable to associated companies.

(b) Transfer of reserves to capital reserve represents the Group's share of the PRC statutory reserves of certain subsidiaries, associated companies and jointly controlled entities. As at 31st December 2009, the PRC statutory reserves included in capital reserve amount to HK$103,662,000 (2008: HK$78,968,000).

(c) In 2004, part of the amount standing to the credit of the share premium account of the Company was offset against the entire accumulated losses as at 31st December 2003 of HK$1,680,335,000 and the remaining credit of the share premium account of HK$676,218,000 was transferred to contributed surplus.

## 24 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade payables | | | | |
| – fellow subsidiaries (note (a)) | 23,706 | 15,112 | – | – |
| – associated companies of COSCO (note (a)) | 2,673 | – | – | – |
| – jointly controlled entities (note (a)) | 26 | 1 | – | – |
| – minority shareholders of subsidiaries (note (a)) | 77 | 766 | – | – |
| – third parties | 186,311 | 199,336 | – | – |
| | 212,793 | 215,215 | – | – |
| Bills payables | 65,076 | 70,633 | – | – |
| Advance from customers and other payables | | | | |
| – fellow subsidiaries (note (a)) | 3,873 | 12,532 | – | – |
| – associated companies of COSCO (note (a)) | 16,610 | 18,968 | – | – |
| – minority shareholders of subsidiaries (note (a)) | 3,884 | 5,025 | – | – |
| – third parties | 306,920 | 386,298 | 1,127 | 1,641 |
| Accrued liabilities | 87,605 | 77,766 | 8,294 | 7,775 |
| Commission income received in advance | 77,162 | 87,551 | – | – |
| Amounts due to fellow subsidiaries (note (a)) | 72,154 | 79,315 | – | – |
| Amounts due to a jointly controlled entity of COSCO (note (b)) | – | 175,018 | – | – |
| | 846,077 | 1,128,321 | 9,421 | 9,416 |

## 24 Trade and other payables (Continued)

Notes:

(a) Balances with fellow subsidiaries, associated companies of COSCO, jointly controlled entities and minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for the trade related balances, which are repayable accordingly to the respective credit terms.

(b) As at 31st December 2008, amounts due to a jointly controlled entity of COSCO comprised the consideration of HK$161,276,000 payable to China Marine Bunker (Petro China) Co., Ltd. ("Chimbusco") for the acquisition of 100% equity interest in COSCO International Trading Company Limited ("CITC") and the dividend payable of HK$13,742,000 by CITC to Chimbusco. The consideration and dividend were fully settled in 2009.

(c) The carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Renminbi | 364,305 | 511,670 | – | – |
| Hong Kong dollars | 113,343 | 75,841 | 9,421 | 9,416 |
| United States dollars | 333,082 | 519,491 | – | – |
| Others | 35,347 | 21,319 | – | – |
| | 846,077 | 1,128,321 | 9,421 | 9,416 |

(d) As at 31st December, the ageing analysis of trade payables is as follows:

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Current – 90 days | 198,254 | 96,330 |
| 91 – 180 days | 5,153 | 85,906 |
| Over 180 days | 9,386 | 32,979 |
| | 212,793 | 215,215 |

## 25 Short-term borrowings

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Loan from a fellow subsidiary (note (a)) | – | 36,286 |
| Unsecured bank loans, repayable within one year | 11,725 | 280,674 |
| | 11,725 | 316,960 |

Notes:

(a) As at 31st December 2008, loan from a fellow subsidiary was secured by the corporate guarantee executed by a non-wholly owned subsidiary, interest bearing at 5.31% per annum and repayable on 25th December 2009 (note 38(c)).

(b) The carrying amounts of short-term borrowings approximate their fair values and are denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Renminbi | – | 111,127 |
| Hong Kong dollars | – | 16,900 |
| United States dollars | 11,725 | 188,933 |
| | 11,725 | 316,960 |

(c) The effective interest rates of short-term borrowings during the year ended 31st December 2009 and 2008 are as follows:

| | **2009** | **2008** |
|---|---|---|
| Renminbi | 5.77% | 6.88% |
| Hong Kong dollars | – | 5.63% |
| United States dollars | 4.63% | 6.15% |

(d) Short-term borrowings are subject to the exposure of interest rate changes at contractual repricing dates.

## 26 Other income

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Gain on disposal of property, plant and equipment | – | 126 |
| Fair value gains on investment properties (note 9) | 7,864 | – |
| Gain on further acquisition and deemed acquisition of an associated company | – | 3,096 |
| Exchange reserve realised upon dissolution of a subsidiary | 33,721 | – |
| Reversal of provision for land appreciation tax | – | 12,298 |
| Reversal of provision for property development cost | – | 6,128 |
| Reversal of provision for impairment of inventories, net of provision | 8,545 | – |
| Reversal of provision for impairment of trade receivables, net of provision | 2,811 | – |
| Recovery of bad debts written off | 6 | 1,259 |
| Fair value gains on financial assets at fair value through profit or loss | 439 | – |
| Dividend income from listed and unlisted investments | | |
| – available-for-sale financial assets | 3,288 | 469 |
| – financial assets at fair value through profit or loss | – | 15 |
| Net exchange gains | 5,637 | – |
| Others | 3,476 | 10,333 |
| | 65,787 | 33,724 |

## 27 Expenses by nature

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **Cost of sales** | | |
| Cost of inventories sold (note 17) | 1,204,394 | 1,445,159 |
| Cost of properties sold | 2,564 | 20,198 |
| Direct operating expenses for generating rental income | 113 | 179 |
| | 1,207,071 | 1,465,536 |
| **Selling, administrative and general expenses** | | |
| Selling expenses | 74,214 | 144,868 |
| Depreciation (note 27(a)) | 8,418 | 7,177 |
| Amortisation of prepaid premium for land leases | 568 | 568 |
| Operating lease rental expenses (note 27(b)) | 17,740 | 15,421 |
| Administrative staff costs | 120,918 | 119,896 |
| Auditors' remuneration | 3,920 | 3,745 |
| Others | 75,818 | 68,590 |
| | 301,596 | 360,265 |
| **Other expenses** | | |
| Loss on disposal of property, plant and equipment | 62 | – |
| Fair value losses on investment properties (note 9) | – | 4,357 |
| Provision for impairment of inventories, net of reversal | – | 27,233 |
| Write-off of inventories | 282 | 371 |
| Provision for impairment of trade receivables, net of reversal | – | 57,052 |
| Fair value losses on financial assets at fair value through profit or loss | – | 369 |
| Net exchange losses | – | 15,715 |
| | 344 | 105,097 |

### (a) Depreciation

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Charge for the year (note 7) | 15,226 | 14,384 |
| Charged to cost of sales | (3,672) | (6,365) |
| Capitalised in inventories | (3,136) | (842) |
| | 8,418 | 7,177 |

### (b) Operating lease rental expenses

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Land and buildings | 17,740 | 15,421 |

## 28 Employee benefit expenses

Employee benefit expenses, which are included in cost of sales, selling, administrative and general expenses, are as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Wages, salaries and benefits, including directors' emoluments (note 29(a)) | 140,027 | 139,571 |
| Employee share option benefits (note 22(d)) | 13,505 | 20,722 |
| Pension costs – defined contribution scheme (note) | 11,561 | 11,953 |
| | 165,093 | 172,246 |

Note:

There were no forfeited contributions (2008: nil) utilised during the year and no forfeited contributions were available at the year-end to reduce future contributions. There were no contributions (2008: nil) payable to the scheme at the year-end.

## 29 Emoluments of directors and senior management

### (a) Directors' emoluments

Details of the emoluments of directors, who are also the key management personnel, of the Company for the year ended 31st December 2009 are as follows:

| Name of directors | Fees HK$'000 | Salaries and other emoluments HK$'000 | Share option benefits HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Mr. Wang Futian | – | 5,000 | 245 | 5,245 |
| Mr. Liang Yanfeng | – | 2,265 | 336 | 2,601 |
| Mr. Jia Lianjun | – | – | 235 | 235 |
| Mr. Wang Xiaoming | – | – | 245 | 245 |
| Mr. Wang Xiaodong | – | 1,155 | 245 | 1,400 |
| Mr. Meng Qinghui | – | – | 245 | 245 |
| Mr. Chen Xuewen | – | – | 245 | 245 |
| Mr. Lin Wenjin | – | 1,080 | 245 | 1,325 |
| Mr. Kwong Che Keung, Gordon | 205 | – | – | 205 |
| Mr. Tsui Yiu Wa, Alec | 205 | – | – | 205 |
| Mr. Jiang, Simon X. | 205 | – | – | 205 |
| | 615 | 9,500 | 2,041 | 12,156 |

## 29 Emoluments of directors and senior management (Continued)

### (a) Directors' emoluments (Continued)

Details of the emoluments of directors, who were also the key management personnel, of the Company for the year ended 31st December 2008 are as follows:

| Name of directors | Fees | Salaries and other emoluments | Share option benefits | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Mr. Wang Futian | – | 941 | 372 | 1,313 |
| Mr. Jia Lianjun | – | – | 355 | 355 |
| Mr. Wang Xiaoming | – | – | 372 | 372 |
| Mr. Liang Yanfeng | – | 2,400 | 511 | 2,911 |
| Mr. Meng Qinghui | – | – | 372 | 372 |
| Mr. Chen Xuewen | – | – | 372 | 372 |
| Mr. Wang Xiaodong | – | 1,080 | 372 | 1,452 |
| Mr. Lin Wenjin | – | 1,080 | 372 | 1,452 |
| Mr. Kwong Che Keung, Gordon | 205 | – | – | 205 |
| Mr. Tsui Yiu Wa, Alec | 205 | – | – | 205 |
| Mr. Jiang, Simon X. | 205 | – | – | 205 |
| Mr. Liu Guoyuan (resigned on 24th October 2008) | – | 4,059 | 511 | 4,570 |
| | 615 | 9,560 | 3,609 | 13,784 |

As at 31st December 2009, directors of the Company had outstanding share options to subscribe for 10,000,000 (2008: 10,000,000) shares of the Company (refer to note 22 for details).

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2008: four) directors whose emoluments are reflected in the above analysis. The emoluments of the remaining one (2008: one) individual during the year are as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Basic salaries, other allowances and benefit-in-kind | 1,514 | 1,590 |
| Pension costs – defined contribution scheme | 12 | 12 |
| | 1,526 | 1,602 |

## 29 Emoluments of directors and senior management (Continued)

### (b) Five highest paid individuals (Continued)

The emoluments of the individual fell within the following band:

| | Number of individual | |
|---|---|---|
| **Emolument band** | **2009** | **2008** |
| HK$1,500,001 – HK$2,000,000 | 1 | 1 |

## 30 Finance income – net

| | **2009** HK$'000 | **2008** HK$'000 |
|---|---|---|
| Interest income from: | | |
| – a fellow subsidiary | 347 | 18 |
| – a jointly controlled entity | 1,346 | 1,294 |
| – money market fund investments | 67 | 270 |
| – bank deposits | 8,956 | 26,545 |
| Total finance income | 10,716 | 28,127 |
| Interest expenses on bank and other loans wholly repayable within five years | (6,297) | (12,842) |
| Other finance charges | (1,773) | (2,427) |
| Total finance costs | (8,070) | (15,269) |
| Finance income – net | 2,646 | 12,858 |

## 31 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year.

The PRC income tax has been calculated on the estimated assessable profit derived from the Group's operations in the PRC for the year at 25% (2008: 25%) except for certain subsidiaries, which are taxed at reduced rates ranging from 15% to 20% (2008: 15% to 18%) based on different local preferential policies on income tax and approval by relevant tax authorities.

Singapore corporate tax has been calculated on the estimated assessable profit for the year at the rate of 17%.

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | 22,111 | 20,753 |
| – PRC enterprise income tax | 25,667 | 29,524 |
| – Singapore corporate tax | 10 | – |
| – Under/(over)-provision for Hong Kong profits tax in prior years | 257 | (431) |
| – Under/(over)-provision for the PRC taxation in prior years | 2,286 | (8,186) |
| Deferred income tax charge/(credit) (note 15) | 8,425 | (7,392) |
| Income tax expense | 58,756 | 34,268 |

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Company operates and the difference is set out below:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Profit before income tax (excluding share of profits of jointly controlled entities and associated companies) | 434,764 | 216,621 |
| Calculated at a tax rate of 16.5% (2008: 16.5%) | 71,736 | 35,742 |
| Effect of different tax rates in oversea countries | 10,444 | 6,459 |
| Income not subject to tax | (49,358) | (17,153) |
| Expenses not deductible for tax purposes | 15,718 | 8,515 |
| Utilisation of previously unrecognised tax losses | – | (2,085) |
| Tax losses not recognised | 1,927 | 7,424 |
| Under/(over)-provision in prior years | 2,543 | (8,617) |
| Withholding tax on profits of entities in the PRC | (25) | 5,370 |
| Other temporary differences | (3,353) | (1,210) |
| Special tax credit | (765) | (177) |
| Taxation on the Group's internal reorganisation | 9,889 | – |
| Income tax expense | 58,756 | 34,268 |

## 32 Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$550,929,000 (2008: HK$17,183,000).

## 33 Dividends

### (a) Dividends attributable to the current year

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Interim dividend paid of HK$0.01 (2008: HK$0.01) per ordinary share | 15,107 | 14,803 |
| Final dividend proposed of HK$0.084 (2008: HK$0.064) per ordinary share | 126,899 | 95,339 |
| | 142,006 | 110,142 |

At the board meeting held on 23rd March 2010, the directors proposed a final dividend of HK$0.084 per ordinary share for the year ended 31st December 2009. The proposed dividend has not been reflected as dividend payable in the financial statements for the year ended 31st December 2009, but will be reflected in the financial statements as an appropriation of retained profits for the year ending 31st December 2010.

### (b) Final dividend for the year ended 31st December 2008

During the year, a scrip dividend alternative was offered to shareholders who were entitled to the final dividend of HK$0.064 per ordinary share for the year ended 31st December 2008. 20,881,138 shares were issued to the shareholders who had elected to receive their entitlement to the final dividend in the form of scrip shares. A total of HK$26,494,000 cash dividend was paid to shareholders who had elected to receive the final dividend in cash.

## 34 Earnings per share

(a) Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2009 | 2008 |
|---|---|---|
| Profit attributable to the equity holders of the Company | HK$843,675,000 | HK$491,015,000 |
| Weighted average number of ordinary shares in issue | 1,499,846,994 | 1,480,032,051 |
| Basic earnings per share | 56.25 HK cents | 33.18 HK cents |

(b) Diluted earnings per share is calculated based on the weighted average number of shares in issue after adjusting for the potential dilutive effect in respect of outstanding share options.

| | 2009 | 2008 |
|---|---|---|
| Profit attributable to the equity holders of the Company | HK$843,675,000 | HK$491,015,000 |
| Weighted average number of ordinary shares in issue | 1,499,846,994 | 1,480,032,051 |
| Adjustment for assumed issuance of shares on exercise of share options | 17,735,038 | 30,269,110 |
| Weighted average number of ordinary shares for diluted earnings per share | 1,517,582,032 | 1,510,301,161 |
| Diluted earnings per share | 55.59 HK cents | 32.51 HK cents |

## 35 Note to the consolidated statement of cash flows

**Reconciliation of operating profit to cash generated from operations**

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Operating profit | 186,831 | 203,763 |
| Depreciation of property, plant and equipment, net of amount capitalised | 12,090 | 13,542 |
| Loss/(gain) on disposal of property, plant and equipment | 62 | (126) |
| Amortisation of prepaid premium for land leases | 568 | 568 |
| Fair value (gains)/losses on investment properties | (7,864) | 4,357 |
| Gain on further acquisition and deemed acquisition of an associated company | – | (3,096) |
| Exchange reserve realised upon dissolution of a subsidiary | (33,721) | – |
| Fair value (gains)/losses on financial assets at fair value through profit or loss | (439) | 369 |
| Reversal of provision for land appreciation tax | – | (12,298) |
| Reversal of provision for property development cost | – | (6,128) |
| Reversal of provision for impairment of inventories, net of provision | (8,545) | – |
| Provision for impairment of inventories, net of reversal | – | 27,233 |
| Write-off of inventories | 282 | 371 |
| Reversal of provision for impairment of trade receivables, net of provision | (2,811) | – |
| Provision for impairment of trade receivables, net of reversal | – | 57,052 |
| Employee share option benefits | 13,505 | 20,722 |
| Dividend income | (3,288) | (484) |
| Operating profit before working capital changes | 156,670 | 305,845 |
| Decrease in completed properties held for sale | 2,293 | 19,215 |
| Decrease in inventories | 26,584 | 182,180 |
| Decrease/(increase) in trade receivables, bills receivables, prepayments, deposits and other receivables | 311,573 | (33,098) |
| (Increase)/decrease in amounts due from fellow subsidiaries | (2,087) | 4,480 |
| Decrease in amount due from an associated company of COSCO | 49 | – |
| Decrease/(increase) in amounts due from jointly controlled entities | 1,196 | (766) |
| Decrease in trade payables, bills payables, advance from customers, other payables, accrued liabilities and commission income received in advance | (100,882) | (44,845) |
| (Decrease)/increase in amounts due to fellow subsidiaries | (12,444) | 25,010 |
| Decrease in amounts due to holding companies | – | (3,188) |
| Decrease in amounts due to jointly controlled entities | – | (188) |
| Cash generated from operations | 382,952 | 454,645 |

## 36 Commitments

### (a) Capital commitments

Capital commitments in respect of property, plant and equipment as at 31st December 2009 are as follows:

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Authorised but not contracted for | 2,643 | 3,299 |
| Contracted but not provided for | 3,875 | 14,029 |
| | 6,518 | 17,328 |

### (b) Operating lease commitments

The aggregate future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Within one year | 17,652 | 18,053 | 7,574 | 7,574 |
| In the second to fifth years inclusive | 9,135 | 26,664 | 4,418 | 11,992 |
| | 26,787 | 44,717 | 11,992 | 19,566 |

The Group's operating leases were for terms ranging from one to five years.

### (c) Future minimum rental receivables

The future minimum rental receivables under non-cancellable leases are as follows:

| | Group | |
|---|---|---|
| | **2009** | **2008** |
| | HK$'000 | HK$'000 |
| Within one year | 299 | 971 |
| In the second to fifth years inclusive | 57 | 120 |
| | 356 | 1,091 |

The Group's operating leases were for terms ranging from one to two years.

## 37 Business combination

On 31st December 2008, the Group acquired 100% equity interest in CITC at a cash consideration of RMB142,000,000 from China Marine Bunker (Petro China) Co., Ltd., a jointly controlled entity of COSCO. CITC is engaged in the trading of asphalt and other products and has 40% equity interest in an associated company, COSCO International Ship Trading Company Limited ("COSCO Ship Trading"), which was a 60% owned subsidiary of the Company prior to the acquisition. As the acquisition was completed on 31st December 2008, the acquired business did not contribute revenue nor net profit to the Group for the year ended 31st December 2008. If the acquisition had occurred on 1st January 2008, Group revenue would have been HK$2,717,180,000, and profit attributable to equity holders of the Company would have been HK$541,924,000.

Details of net assets acquired and goodwill are as follows:

| | HK$'000 |
|---|---|
| Purchase consideration | |
| – Cash payable (note 24(b)) | 161,276 |
| – Incidental costs on acquisition | 4,190 |
| Total purchase consideration | 165,466 |
| Fair value of net assets acquired – shown as below | (153,759) |
| Goodwill (note 6) | 11,707 |

Goodwill is attributable to the expected future profitability of CITC's 40% equity interest in COSCO Ship Trading.

## 37 Business combination (Continued)

The assets and liabilities arising from the acquisition are as follows:

| | Fair value HK$'000 | Acquiree's carrying amount HK$'000 |
|---|---|---|
| Property, plant and equipment (note 7) | 1,278 | 1,239 |
| Investment property (note 9) | 7,520 | 7,520 |
| Jointly controlled entities (note 11) | 8,098 | 8,098 |
| Interest in COSCO Ship Trading[#] | 39,852 | 39,852 |
| Associated companies (note 12) | 8,943 | 8,943 |
| Deferred income tax assets (note 15(a)) | 830 | 830 |
| Inventories | 163,769 | 151,079 |
| Trade receivables | 62,920 | 62,920 |
| Deposits, prepayment and other receivables | 35,978 | 35,978 |
| Amount due from a jointly controlled entity | 430 | 430 |
| Amount due from an associated company of COSCO | 49 | 49 |
| Cash and cash equivalents | 37,751 | 37,751 |
| Trade payables | (17,152) | (17,152) |
| Bills payables | (1,251) | (1,251) |
| Accrued liabilities and other payables | (52,043) | (52,043) |
| Amounts due to fellow subsidiaries | (23,367) | (23,367) |
| Current income tax liabilities | (1,045) | (1,045) |
| Short-term borrowings | (103,681) | (103,681) |
| Dividend payable | (13,742) | (13,742) |
| Deferred income tax liabilities (note 15(b)) | (1,378) | (1,378) |
| Net assets | 153,759 | 141,030 |
| Fair value of net assets acquired | 153,759 | |
| Net inflow of cash and cash equivalents on acquisition: | | |
| Incidental costs settled in cash | | (4,190) |
| Cash and cash equivalents in subsidiary acquired | | 37,751 |
| Net cash generated from the acquisition of a subsidiary | | 33,561 |

[#] This represents the minority interest in COSCO Ship Trading acquired by the Group.

## 38 Related party transactions

The Group is controlled by COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"), a company incorporated in Hong Kong, which owns 59.87% of the Company's shares as at 31st December 2009. The remaining 40.13% of the Company's shares is widely held. The parent of COSCO Hong Kong is COSCO.

COSCO itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include COSCO, its subsidiaries and associates, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, and other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and COSCO as well as their close family members.

For the year 2009 and 2008, the Group's significant transactions with entities that are controlled, jointly controlled or significantly influenced by the PRC government, mainly include most of its bank deposits and the corresponding interest income and part of sales and purchases of goods and services. The price and other terms of such transactions are set out in the agreements governing these transactions or as mutually agreed.

Apart from the above-mentioned transactions with the government-related entities and the related party information shown elsewhere in the financial statements, the following is a summary of the significant related party transactions carried out in the normal course of the Group's business:

## 38 Related party transactions (Continued)

### (a) Sale of goods and provision of services to fellow subsidiaries, associated companies of COSCO and other related parties

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Sale of coatings to: | (i) | | |
| – fellow subsidiaries | | 6,368 | 8,562 |
| – associated companies of COSCO | | 41,779 | 469,774 |
| – minority shareholders of subsidiaries | | 3,129 | 2,958 |
| – jointly controlled entities | | 2,035 | 8,883 |
| Sale of marine equipment and spare parts to: | (ii) | | |
| – fellow subsidiaries | | 305,825 | 335,095 |
| – associated companies of COSCO | | 3,175 | 1,730 |
| – holding companies | | 562 | 158 |
| – jointly controlled entities | | 686 | 658 |
| Commission income in relation to provision of ship trading agency services to: | (iii) | | |
| – fellow subsidiaries | | 98,213 | 129,105 |
| – associated companies of COSCO | | 38,597 | – |
| – a jointly controlled entity | | 8,404 | – |
| Commission income in relation to provision of insurance brokerage services to: | (iv) | | |
| – fellow subsidiaries | | 48,368 | 47,621 |
| – associated companies of COSCO | | 674 | 1,072 |
| – holding companies | | 55 | 50 |
| – jointly controlled entities | | 18 | – |
| Sale of ship supplies and other products to: | (v) | | |
| – fellow subsidiaries | | 9,452 | – |
| – associated companies of COSCO | | 2,613 | – |
| Interest income received from a jointly controlled entity (note 18(b)) | | 1,346 | 1,294 |
| Interest income received from a fellow subsidiary (note 20(c)) | (vi) | 347 | 18 |

Notes:

(i) Sale of coatings to fellow subsidiaries, associated companies of COSCO, minority shareholders of subsidiaries and jointly controlled entities was conducted on terms as set out in the agreements governing these transactions.

(ii) Sale of marine equipment and spare parts to fellow subsidiaries, associated companies of COSCO, holding companies and jointly controlled entities was conducted on terms as set out in the agreements governing these transactions.

## 38 Related party transactions (Continued)

**(a) Sale of goods and provision of services to fellow subsidiaries, associated companies of COSCO and other related parties (Continued)**

Notes: (Continued)

(iii) Certain subsidiaries of the Company acted as agent of COSCO and its subsidiaries relating to (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new shipbuilding projects. According to the terms of the relevant engagement/commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above. The commissions were charged based on terms as set out in the agreements governing these transactions.

(iv) Commission income in relation to the provision of insurance brokerage services to fellow subsidiaries, associated companies of COSCO, holding companies and jointly controlled entities was calculated on terms as set out in the agreements governing these transactions.

(v) Sale of ship supplies and other products to fellow subsidiaries and associated companies of COSCO was conducted on terms as set out in the agreements governing these transactions.

(vi) Interest income was received from cash deposits placed with a fellow subsidiary and was calculated at prevailing market rates.

**(b) Purchase of goods and services from fellow subsidiaries, associated companies of COSCO and other related parties**

| | Note | **2009** HK$'000 | **2008** HK$'000 |
|---|---|---|---|
| Rental expenses paid to fellow subsidiaries | (i) | 15,474 | 13,142 |
| Commission expenses in relation to sale of coatings paid to: | (ii) | | |
| – fellow subsidiaries | | 528 | 5,315 |
| – associated companies of COSCO | | – | 7,983 |
| Purchase of raw materials from minority shareholders of subsidiaries | (iii) | 11,968 | 3,797 |
| Purchase of asphalt and other services from fellow subsidiaries | (iv) | 207,265 | – |
| Purchase of marine fuel from: | (v) | | |
| – fellow subsidiaries | | 21,017 | – |
| – an associated company of COSCO | | 546 | – |
| Technology usage fee paid to minority shareholders of subsidiaries | (vi) | 1,844 | 6,650 |
| Management service fees paid to a holding company and fellow subsidiaries | (vii) | 2,367 | 1,619 |
| Interest expenses paid to a fellow subsidiary (note 38(c)) | | 509 | – |

## 38 Related party transactions (Continued)

### (b) Purchase of goods and services from fellow subsidiaries, associated companies of COSCO and other related parties (Continued)

Notes:

(i) In August 2005, the Group leased certain properties in Hong Kong from the wholly-owned subsidiaries of COSCO Hong Kong at the monthly rent of HK$567,325 for 3 years expiring on 2nd August 2008. The lease was renewed for 3 years from its maturity at the monthly rent of HK$891,835. In November 2007, the Group leased another property in Hong Kong from the wholly-owned subsidiaries of COSCO Hong Kong at the monthly rent of HK$299,545 for 3 years from 1st January 2008.The Group also leased other properties in the PRC from fellow subsidiaries on terms as set out in the agreements governing these transactions.

(ii) Commission paid was based on a certain percentage of sales amounts in accordance with terms as set out in the agreements governing these transactions.

(iii) Purchase of raw materials from minority shareholders of subsidiaries was conducted on terms as set out in the agreements governing these transactions.

(iv) Purchase of asphalt and other products from fellow subsidiaries was conducted on terms as set out in the agreements governing these transactions.

(v) Purchase of marine fuel from a fellow subsidiary was conducted on terms as set out in the agreements governing these transactions.

(vi) Technology usage fee paid to minority shareholders of subsidiaries was made based on a certain percentage of the net sales amount in accordance with terms as set out in the agreements governing these transactions.

(vii) Management service fees were paid to COSCO Hong Kong and its subsidiaries in relation to their provision of administrative services, manpower resources, technical support and other ancillary support to the Group and sharing of office premises by the Group and were conducted on terms as set out in the agreements governing these transactions.

## 38 Related party transactions (Continued)

**(c)** On 25th November 2008, COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd. (the "Borrower"), a non-wholly owned subsidiary of the Company, entered into a facility agreement with COSCO Finance Co., Ltd. (the "Lender"), a fellow subsidiary, whereby the Lender agreed to provide a revolving loan facility of up to RMB32,000,000 (approximately HK$36,286,000) to the Borrower. The loan was secured by the corporate guarantee executed by COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd., a non-wholly owned subsidiary of the Company, bore interest at 5.31% per annum and repaid on 30th March 2009.

**(d)** On 23rd December 2008, the Group entered into a facility agreement with a bank whereby the bank agreed to provide a revolving banking facility of up to RMB260,000,000 (approximately HK$294,827,000) to CITC. The facility was secured by the corporate guarantee executed by COSCO H.K. (Beijing) Investment Co., Ltd., a fellow subsidiary.

**(e)** As at 31st December 2008, there were outstanding loans to a jointly controlled entity of HK$19,375,000 and HK$31,001,000, which were unsecured, repayable in 2009 and interest bearing at 0.5% and 1.5% above LIBOR respectively. These loans were fully repaid in 2009.

**(f)** On 3rd March 2009, New Renown Limited ("New Renown"), a wholly-owned subsidiary of the Company, entered into a conditional share transfer agreement with COSCO Trading and Supply Investments Limited ("COSCO Trading"), a wholly-owned subsidiary of COSCO Hong Kong, relating to the acquisition by New Renown of an 18% equity interest of Double Rich Limited from COSCO Trading for a cash consideration of US$4,905,484 (equivalent to approximately HK$38,044,000). The principal activities of Double Rich Limited include investment holding and the trading of oil products.

## 39 Principal subsidiaries

Particulars of principal subsidiaries of the Group as at 31st December 2009 are as follows:

| Name | Place of incorporation/ operation and type of legal entity | Particulars of issued share capital/ registered capital | Attributable equity interest held | Principal activities |
|---|---|---|---|---|
| Capital Properties Limited# | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | Provision of nominee services |
| COSCO (Hong Kong) Insurance Brokers Limited | Hong Kong, limited liability company | 5,000,000 ordinary shares of HK$1 each | 100% | Provision of insurance brokerages and related services |
| COSCO International Land Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | Investment holding |
| COSCO International Ship Trading and Supplying Services Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | Investment holding |
| COSCO International Ship Trading Company Limited | Hong Kong, limited liability company | 500,000 ordinary shares of HK$1 each | 100% | Provision of agency services on ship trading business |
| COSCO Project Management Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | Investment holding |
| COSMART Company Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | Provision of agency services on ship trading business |
| New Legend Holdings Limited | Hong Kong, limited liability company | 1 ordinary shares of HK$1 each | 100% | Investment holding |
| Yuantong Marine Service Co. Limited | Hong Kong, limited liability company | 43,000,000 ordinary shares of HK$1 each | 100% | Trading of marine equipment and spare parts |
| COSCO (B.V.I.) Holdings Limited# | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| COSCO International Land (B.V.I.) Limited | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |

## 39 Principal subsidiaries (Continued)

| Name | Place of incorporation/ operation and type of legal entity | Particulars of issued share capital/ registered capital | Attributable equity interest held | Principal activities |
|---|---|---|---|---|
| Fragrant Sea Limited# | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| Goldboom International Limited | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| Graceful Nice Limited | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| Hugo Marine Limited | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| Leadfull Investments Limited | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| New Renown Limited# | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| Promise Keep Limited | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| Raycle Match Development Ltd. | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| Sunny Wealth Investments Limited | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| Uppermost Corporation# | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| Winner Pacific Investment Ltd. | British Virgin Islands, limited liability company | 1 ordinary share of US$1 each | 100% | Investment holding |
| COSCO (Beijing) Marine Electronic Equipment Limited | PRC, wholly foreign-owned enterprise | RMB680,000 | 100% | Trading of marine equipment and spare parts |

## 39 Principal subsidiaries (Continued)

| Name | Place of incorporation/ operation and type of legal entity | Particulars of issued share capital/ registered capital | Attributable equity interest held | Principal activities |
|---|---|---|---|---|
| COSCO International Trading Company Limited | PRC, wholly foreign-owned enterprise | RMB130,633,044 | 100% | Trading of asphalt, ship equipment and accessories |
| COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.# | PRC, Sino-foreign equity joint venture enterprise | US$7,000,000 | 63.07% | Production and sale of coatings |
| COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd.# | PRC, Sino-foreign equity joint venture enterprise | US$5,000,000 | 63.07% | Production and sale of coatings |
| COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd.# | PRC, wholly foreign-owned enterprise | US$10,000,000 | 64.71% | Production and sale of coatings |
| COSCOSHIP Beijing Company Limited | PRC, wholly foreign-owned enterprise | US$1,300,000 | 100% | Provision of agency services on ship trading business |
| Shenzhen COSCO Insurance Brokers Ltd. | PRC, Sino-foreign equity joint venture enterprise | RMB5,000,000 | 55% | Provision of professional services of insurance brokerages |
| Xiang Li Yuan (Shanghai) Property Management Co., Ltd. | PRC, wholly foreign-owned enterprise | US$500,000 | 100% | Property investment and management |
| Sinfeng Marine Services Pte. Ltd. | Singapore, limited liability company | 7,000,000 ordinary shares of US$1 each | 100% | Trading of marine fuel and other related products |

# shares held directly by the Company

## 40 Jointly controlled entities and associated companies

Particulars of jointly controlled entities and associated companies of the Group as at 31st December 2009 are as follows:

| Name | Place of incorporation/ operation and type of legal entity | Particulars of issued share capital/ registered capital | Attributable equity interest held | Principal activities |
|---|---|---|---|---|
| **a) Jointly controlled entities** | | | | |
| Jotun COSCO Marine Coatings (HK) Limited | Hong Kong/PRC, limited liability company | 2,200 ordinary shares of HK$1 each | 50% | Investment holding and sale of coatings |
| Cosbulk International Trading Co. Ltd. | PRC, limited liability company | RMB1,500,000 | 49% | Vessel and equipment trade consultant |
| COSCO Dalian Ocean Electronic Co., Ltd. | PRC, Sino-foreign equity joint venture enterprise | RMB600,000 | 40% | Provision of marine electronic engineering services |
| Shanghai Ocean International Trading Co. Ltd. | PRC, limited liability company | RMB10,000,000 | 50% | International and domestic trade |
| Shanghai Ocean Radio Co., Ltd. | PRC, Sino-foreign equity joint venture enterprise | US$250,000 | 25% | Trading of marine equipment and provision of repair and maintenance |
| Tianjin Marine Electronic Co., Ltd. | PRC, Sino-foreign equity joint venture enterprise | US$200,000 | 25% | Provision of marine electronic engineering services |

## 40 Jointly controlled entities and associated companies (Continued)

| Name | Place of incorporation/ operation and type of legal entity | Particulars of issued share capital/ registered capital | Attributable equity interest held | Principal activities |
|---|---|---|---|---|
| **b) Associated companies** | | | | |
| Sino-Ocean Land Holdings Limited | Hong Kong/PRC, limited liability company | 5,636,626,432 ordinary shares of HK$0.8 each | 16.85% | Investment holding, property development and investment |
| COSCO Guangzhou Shipstores Supply Co., Ltd. | PRC, limited liability company | RMB30,442,100 | 20% | Supply and storage of related materials of cargo transportation |
| Coscoship (Qiandao) Co., Ltd. | PRC, limited liability company | RMB3,000,000 | 20% | Vessel engineering and technical support |
| German Lashing (Nanjing) Co., Ltd. | PRC, Sino-foreign equity joint venture enterprise | US$663,000 | 20% | Manufacture, sale and provision of after-sale service of container software and related products |
| Shanghai WaiGaoQiao Ocean Trading Develop Co., Ltd. | PRC, limited liability company | RMB1,000,000 | 50% | International and domestic trade |
| Double Rich Limited | Hong Kong, limited liability company | 88,000,000 ordinary shares of HK$1 each | 18% | Trading of oil products and investment holding |

# List of Major Properties

## INVESTMENT PROPERTY

| | Description | Use | Approximate area | Lease term | % of attributable interest to the Group |
|---|---|---|---|---|---|
| (1) | 19th Floor, Nan Dao Commercial Building, 359-361 Queen's Road Central, Hong Kong | Commercial | Gross floor area 320.51 sq.m. | 999 years from 7th February 1852 | 100 |

## BUILDINGS

| | Description | Use | Approximate area | Lease term | % of attributable interest to the Group |
|---|---|---|---|---|---|
| (1) | No. 42, Diwu Main Street, Economic Technology Development Zone, Tianjin, PRC | Industrial | Gross floor area 28,572 sq.m. | From 16th April 2007 to 15th April 2012 | 63.07 |
| (2) | No.5589-5689 Hutai Road, Shanghai, PRC | Industrial | Site area 44,159 sq.m. | From 22nd December 1995 to 21st December 2015 | 63.07 |
| (3) | Economic Zone Gaolan Port, Zhuhai, PRC | Industrial | Site area 67,881.68 sq.m. | From 18th April 2006 to 17th April 2056 | 64.71 |

## COMPLETED PROPERTIES HELD FOR SALE

| | Description | Use | Approximate area | % of attributable interest to the Group |
|---|---|---|---|---|
| (1) | No. 9 Basement 1, No. 188 Tongzhou Road, Shanghai, PRC | Carparking | 2 car parking spaces | 100 |
| (2) | Room 201, No. 8 Building, No. 188 Tongzhou Road, Shanghai, PRC | Residential | Gross floor area 228.29 sq.m. | 100 |

# Five-year Financial Summary

## CONSOLIDATED INCOME STATEMENT

| | Year ended 31st December | | | | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2006** | **2005** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | 1,630,055 | 2,100,937 | 2,309,123 | 1,866,465 | 1,457,220 |
| **Operating profit** | 186,831 | 203,763 | 209,659 | 479,927 | 431,654 |
| Finance income/(costs) – net | 2,646 | 12,858 | 23,939 | 32,361 | (2,007) |
| Share of results of jointly controlled entities | 104,025 | 46,728 | 453,082 | 164,867 | 64,888 |
| Share of result of associated companies | 366,194 | 319,184 | 46,719 | – | – |
| Gain on deemed disposal of partial interest in a jointly controlled entity | – | – | 1,925,468 | – | – |
| Net gain on deemed disposal of partial interest in an associated company | 245,287 | – | – | – | – |
| **Profit before income tax** | 904,983 | 582,533 | 2,658,867 | 677,155 | 494,535 |
| Income tax expense | (58,756) | (34,268) | (23,772) | (39,942) | (25,398) |
| Profit from continuing operations | 846,227 | 548,265 | 2,635,095 | 637,213 | 469,137 |
| (Loss)/profit from discontinued/ discontinuing operations | – | – | (2,827) | 25,840 | 56,506 |
| **Profit for the year** | 846,227 | 548,265 | 2,632,268 | 663,053 | 525,643 |
| **Profit attributable to:** | | | | | |
| Equity holders of the Company | 843,675 | 491,015 | 2,572,623 | 616,589 | 496,463 |
| Minority interests | 2,552 | 57,250 | 59,645 | 46,464 | 29,180 |
| | 846,227 | 548,265 | 2,632,268 | 663,053 | 525,643 |

# Five-year Financial Summary

## CONSOLIDATED BALANCE SHEET

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | As at 31st December | | | | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 91,340 | 91,323 | 79,616 | 79,616 | 79,616 |
| Property, plant and equipment | 125,503 | 123,824 | 105,436 | 80,544 | 60,030 |
| Prepaid premium for land leases | 12,638 | 13,194 | 16,421 | 16,609 | 11,542 |
| Investment properties | 27,164 | 26,815 | 10,717 | 6,564 | 32,614 |
| Jointly controlled entities | 234,062 | 130,935 | 93,624 | 1,137,946 | 305,276 |
| Associated companies | 4,722,687 | 4,052,810 | 3,628,052 | – | 5,919 |
| Available-for-sale financial assets | 104,084 | 38,503 | 88,952 | 57,617 | 86,806 |
| Deferred income tax assets | 37,426 | 40,844 | 26,235 | – | – |
| | 5,354,904 | 4,518,248 | 4,049,053 | 1,378,896 | 581,803 |
| **Current assets** | 2,154,968 | 2,740,817 | 2,176,254 | 2,314,129 | 2,252,698 |
| **Total assets** | 7,509,872 | 7,259,065 | 6,225,307 | 3,693,025 | 2,834,501 |
| **CAPITAL AND RESERVES** | | | | | |
| Share capital | 151,070 | 148,967 | 147,803 | 145,052 | 141,824 |
| Reserves | 6,263,790 | 5,396,728 | 4,753,943 | 2,056,248 | 1,451,360 |
| **Total shareholders' equity** | 6,414,860 | 5,545,695 | 4,901,746 | 2,201,300 | 1,593,184 |
| Minority interests | 200,712 | 241,373 | 217,517 | 246,700 | 193,853 |
| **Total equity** | 6,615,572 | 5,787,068 | 5,119,263 | 2,448,000 | 1,787,037 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | – | – | – | – | 96,090 |
| Deferred income tax liabilities | 8,636 | 8,363 | 798 | 85 | 85 |
| | 8,636 | 8,363 | 798 | 85 | 96,175 |
| **Current liabilities** | | | | | |
| Short-term borrowings | 11,725 | 316,960 | 216,816 | 78,521 | 10,570 |
| Other current liabilities | 873,939 | 1,146,674 | 888,430 | 1,166,419 | 940,719 |
| | 885,664 | 1,463,634 | 1,105,246 | 1,244,940 | 951,289 |
| **Total liabilities** | 894,300 | 1,471,997 | 1,106,044 | 1,245,025 | 1,047,464 |
| **Total equity and liabilities** | 7,509,872 | 7,259,065 | 6,225,307 | 3,693,025 | 2,834,501 |
| **Net current assets** | 1,269,304 | 1,277,183 | 1,071,008 | 1,069,189 | 1,301,409 |
| **Total assets less current liabilities** | 6,624,208 | 5,795,431 | 5,120,061 | 2,448,085 | 1,883,212 |

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