

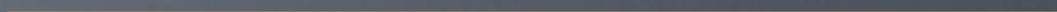
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# REPORT OF THE DIRECTORS & FINANCIAL STATEMENTS

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# REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") submits its report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2011.

## Principal activities and segmental analysis of operations

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 46 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 6 to the consolidated financial statements.

## Results and appropriations

The results of the Group for the year ended 31st December 2011 are set out in the consolidated income statement on page 114 of this annual report.

The directors declared an interim cash dividend of HK27.2 cents (equivalent to US3.496 cents) per share, totaling HK\$737,605,000 (equivalent to US\$94,804,000), which was paid on 21st September 2011.

The directors recommend the payment of a final dividend of HK17.4 cents (equivalent to US2.240 cents) per share, with a scrip dividend alternative, totaling HK\$471,850,000 (equivalent to US\$60,744,000), payable on or about 20th July 2012.

## Five-year financial summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 187 of this annual report.

## Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 116 and 117 of this annual report.

Movements in the reserves of the Company during the year are set out in note 24 to the consolidated financial statements.

## Donations

Charitable and other donations made by the Group during the year amounted to US\$84,000.

## Property, plant and equipment

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

## Share capital

Details of the movements in share capital of the Company during the year are shown in note 22 to the consolidated financial statements.

## Distributable reserves

The distributable reserves of the Company as at 31st December 2011 calculated under the Companies Act of Bermuda amounted to US\$989,646,000.

## Borrowings

Details of the borrowings of the Group are set out in note 25 to the consolidated financial statements.

## Retirement benefit schemes

Details of retirement benefit schemes of the Group are set out in notes 3.23 and 37 to the consolidated financial statements.

## Directors

The directors of the Company during the year and up to the date of this report were:

Mr. LI Yunpeng <sup>2</sup> ( <i>Chairman</i> )	(appointed on 24th February 2012)
Mr. XU Lirong <sup>2</sup>	(resigned as a non-executive director and Chairman on 24th February 2012)
Mr. XU Minjie <sup>1</sup>	(resigned as an executive director and Vice Chairman and Managing Director on 11th July 2011)
Dr. WANG Xingru <sup>1</sup> ( <i>Vice Chairman and Managing Director</i> )	(appointed on 11th July 2011)
Dr. SUN Jiakang <sup>2</sup>	(resigned on 9th August 2011)
Mr. WAN Min <sup>2</sup>	(appointed on 9th August 2011)
Mr. HE Jiale <sup>1</sup>	
Mr. FENG Bo <sup>1</sup>	(appointed on 24th February 2012)
Mr. WANG Zenghua <sup>1</sup>	(resigned on 24th February 2012)
Mr. FENG Jinhua <sup>1</sup>	
Mr. WANG Haimin <sup>2</sup>	
Mr. WANG Wei <sup>2</sup>	(appointed on 24th February 2012)
Mr. GAO Ping <sup>2</sup>	(resigned on 24th February 2012)
Dr. WONG Tin Yau, Kelvin <sup>1</sup>	
Mr. YIN Weiyu <sup>1</sup>	
Dr. LI Kwok Po, David <sup>3</sup>	
Mr. CHOW Kwong Fai, Edward <sup>3</sup>	
Mr. Timothy George FRESHWATER <sup>3</sup>	
Dr. FAN HSU Lai Tai, Rita <sup>3</sup>	

<sup>1</sup> Executive Director

<sup>2</sup> Non-executive Director

<sup>3</sup> Independent Non-executive Director

In accordance with Clause 86(2) of the Bye-laws of the Company, Mr. LI Yunpeng, Dr. WANG Xingru, Mr. WAN Min, Mr. FENG Bo and Mr. WANG Wei, being new directors appointed during the year, retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Clauses 87(1) and (2) of the Bye-laws of the Company, Mr. YIN Weiyu, Dr. LI Kwok Po, David and Mr. Timothy George FRESHWATER, being directors longest in office since their last re-election, shall retire by rotation from office by rotation at the forthcoming annual general meeting. Except Dr. LI Kwok Po, David who decided not to offer himself for re-election, the remaining retiring directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation from each of the independent non-executive directors confirming their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

## Biographical details of directors and senior management

Biographical details of directors and senior management as at the date of this report are set out on pages 80 to 87 of this annual report.

### Directors' service contracts

No director proposed for election or re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

### Directors' interests in contracts

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

## REPORT OF THE DIRECTORS

### Share options

At a special general meeting of the Company held on 23rd May 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "2003 Share Option Scheme") and the termination of the share option scheme adopted by the shareholders of the Company on 30th November 1994.

On 5th December 2005, the shareholders of the Company approved the amendments to the 2003 Share Option Scheme at a special general meeting. The definitions of "Participant" and "relevant company" in paragraph 1 of the 2003 Share Option Scheme were amended by deleting all references to COSCO (Hong Kong) Group Limited and replacing them by China COSCO Holdings Company Limited ("China COSCO"), an intermediate holding company of the Company, and paragraph 8(e) of the 2003 Share Option Scheme was changed to allow a grantee who ceases to be an employee or an executive director of the relevant company (as defined in the 2003 Share Option Scheme) by reason of voluntary resignation from his employment, directorship, secondment or nomination to exercise the option up to his entitlement at the date of cessation within a period of three months following the date of such cessation pursuant to paragraph 7.3(a) of the 2003 Share Option Scheme. These amendments came into effect on 28th February 2006 after the approval of the shareholders of China COSCO at the general meeting held on the same date.

The following is a summary of the principal terms of the 2003 Share Option Scheme:

The 2003 Share Option Scheme is designed to attract, retain and motivate talented participants (the "Participants" or a "Participant") (as defined in note 1 below) to strive for future development and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time.

Under the 2003 Share Option Scheme, the Board may, at its discretion, invite any Participants to take up options. In determining the basis of eligibility of each Participant, the Board would mainly take into account the experience of the Participant on the Group's business, the length of service of the Participant with the Group or the length of business relationship the Participant has established with the Group and such other factors as the Board may at its discretion consider appropriate.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of the adoption of the 2003 Share Option Scheme (the "Scheme Mandate Limit") unless the Company seeks approval of its shareholders in general meeting to refresh the Scheme Mandate Limit, such that the maximum number of shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme or any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of shares in issue as at the date of approval to refresh such limit. The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10% limit provided that the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2003 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

As at the date of this report, a total of 91,983,229 shares (representing approximately 3.39% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the 2003 Share Option Scheme and a total of 38,103,000 shares (representing approximately 1.41% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2003 Share Option Scheme.

The maximum entitlement for any one Participant (including exercised, cancelled and outstanding options) in any twelve months' period shall not exceed 1% of the total number of shares in issue.

The period under which an option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that such period shall not be longer than ten years from the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option. The amount payable on acceptance of an offer of the grant of an option is HK\$1.00. The full amount of the exercise price for the subscription of shares must be paid upon exercise of an option.

The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall be at least the highest of (i) the closing price of the shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date when an option is offered; (ii) a price being the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of a share.

The 2003 Share Option Scheme will expire on 22nd May 2013.

Notes:

- (1) As defined in the 2003 Share Option Scheme (as amended), "Participants" include:
- (i) any employee of the Group (including any executive director of the Group);
  - (ii) any management of China COSCO, or China Ocean Shipping (Group) Company ("COSCO"), the Company's parent company; and
  - (iii) any person seconded or nominated by the Group to represent the Group's interest in any of the Group's associated companies or jointly controlled entities (as defined in note 2 below), or any other company or organisation.

As to whether a particular person falls within the definition of Participants, it shall be determined by the Board in its absolute discretion.

- (2) Under the 2003 Share Option Scheme, associated companies and jointly controlled entities refer to those companies and/or enterprises which have defined and/or disclosed as associates and/or associated companies and joint ventures and/or jointly controlled entities of the Company in the latest audited financial statements of the Company.



## REPORT OF THE DIRECTORS

Movements of the options, which have been granted under the 2003 Share Option Scheme, during the year are set out below:

Category	Exercise price HK\$	Number of share options					Lapsed during the year	Outstanding at 31st December 2011	% of total issued share capital	Exercisable period	Note
		Outstanding at 1st January 2011	Granted during the year	Exercised during the year	Transfer (to)/from other categories during the year						
<b>Directors</b>											
Dr. WONG Tin Yau, Kelvin	9.54	800,000	—	—	—	—	800,000	0.030%	28.10.2003–27.10.2013	(1), (4)	
	13.75	1,000,000	—	—	—	—	1,000,000	0.037%	2.12.2004–1.12.2014	(2), (4)	
	19.30	500,000	—	—	—	—	500,000	0.018%	18.4.2007–17.4.2017	(3), (4)	
Mr. YIN Weiyu	19.30	500,000	—	—	—	—	500,000	0.018%	19.4.2007–18.4.2017	(3), (4)	
<b>Ex-directors</b>											
Mr. XU Minjie	19.30	800,000	—	—	(800,000)	—	—	—	19.4.2007–18.4.2017	(3), (4), (5)	
Dr. SUN Jiakang	13.75	700,000	—	—	(700,000)	—	—	—	1.12.2004–30.11.2014	(2), (4), (5)	
		4,300,000	—	—	(1,500,000)	—	2,800,000				
<b>Continuous contract employees</b>											
	9.54	1,519,000	—	(8,000)	—	—	1,511,000	0.056%	(refer to note 1)	(1), (6)	
	13.75	12,632,000	—	(200,000)	—	(20,000)	12,412,000	0.458%	(refer to note 2)	(2), (6)	
	19.30	13,120,000	—	—	—	(220,000)	12,900,000	0.476%	(refer to note 3)	(3)	
<b>Others</b>											
	9.54	50,000	—	—	—	—	50,000	0.002%	(refer to note 1)	(1)	
	13.75	7,480,000	—	(50,000)	700,000	(500,000)	7,630,000	0.281%	(refer to note 2)	(2), (6)	
	19.30	340,000	—	—	800,000	(340,000)	800,000	0.030%	(refer to note 3)	(3)	
		35,141,000	—	(258,000)	1,500,000	(1,080,000)	35,303,000				
		39,441,000	—	(258,000)	—	(1,080,000)	38,103,000				

Notes:

- (1) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme at an exercise price of HK\$9.54. The options are exercisable at any time within ten years from the commencement date which is the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options was from 28th October 2003 to 6th November 2003.
- (2) The share options were granted during the period from 25th November 2004 to 16th December 2004 under the 2003 Share Option Scheme at an exercise price of HK\$13.75. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options was from 25th November 2004 to 16th December 2004.
- (3) The share options were granted during the period from 17th April 2007 to 19th April 2007 under the 2003 Share Option Scheme at an exercise price of HK\$19.30. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options was from 17th April 2007 to 19th April 2007.
- (4) These options represent personal interests held by the relevant directors as beneficial owners.
- (5) Mr. XU Minjie resigned as an executive director and Vice Chairman and Managing Director on 11th July 2011. Dr. SUN Jiakang resigned as a non-executive director of the Company on 9th August 2011. In this respect, the options granted to Mr. XU Minjie and Dr. SUN Jiakang were re-classified from the category of "directors" to the category of "others".
- (6) The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$14.76.
- (7) No share options were granted or cancelled under the 2003 Share Option Scheme during the year ended 31st December 2011.

## Directors' interests in shares, underlying shares and debentures

As at 31st December 2011, the interests of the Company's directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules were as follows:

### (a) Long positions in the shares of the Company

Name of director	Capacity	Nature of interest	Number of ordinary shares held	% of total issued share capital of the Company
Dr. WANG Xingru	Beneficial owner	Personal	120,000	0.004%
Dr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	500,000	0.018%
Dr. LI Kwok Po, David	Beneficial owner	Personal	1,000,000	0.037%
Mr. Timothy George FRESHWATER	Beneficial owner	Personal	30,000	0.001%

### (b) Long positions in underlying shares of equity derivatives of the Company

Share options were granted by the Company to certain directors of the Company pursuant to the 2003 Share Option Scheme. Details of the directors' interests in share options granted by the Company are set out under the section headed "Share Options" of this report.

### (c) Long positions in the shares of associated corporations

Name of associated corporation	Name of director	Capacity	Nature of interest	Number of H shares held	% of total issued H share capital of the relevant associated corporation
China COSCO Holdings Company Limited	Mr. WAN Min	Beneficial owner	Personal	2,000	0.0001%
	Dr. FAN HSU Lai Tai, Rita	Beneficial owner	Personal	10,000	0.0004%

Name of associated corporation	Name of director	Capacity	Nature of interest	Number of A shares held	% of total issued A share capital of the relevant associated corporation
China COSCO Holdings Company Limited	Mr. WAN Min	Beneficial owner	Personal	35,000	0.0005%



## REPORT OF THE DIRECTORS

Name of associated corporation	Name of director	Capacity	Nature of interest	Number of shares held	% of total issued share capital of the relevant associated corporation
COSCO International Holdings Limited	Dr. WANG Xingru	Beneficial owner	Personal	100,000	0.007%
	Dr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	203,529	0.013%
COSCO Corporation (Singapore) Limited	Dr. WANG Xingru	Beneficial owner	Personal	467,000	0.021%
COSCO Shipping Co., Ltd.	Mr. WANG Zenghua	Beneficial owner	Personal	46,800	0.003%

### (d) Long positions in underlying shares of equity derivatives of associated corporations

#### (i) Movements of the share options granted to the directors of the Company by associated corporations during the year are set out below:

Name of associated corporation	Name of director	Capacity	Nature of interest	Exercise price HK\$	Number of share options					% of total issued share capital of the relevant associated corporation	Note
					Outstanding at 1st January 2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2011		
COSCO International Holdings Limited	Mr. HE Jiale	Beneficial owner	Personal	1.37	1,200,000	—	—	—	1,200,000	0.079%	(1)
	Dr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	1.37	500,000	—	—	—	500,000	0.033%	(1)
	<b>Ex-director</b>										
	Dr. SUN Jiakang	Beneficial owner	Personal	1.37	800,000	—	—	—	N/A	N/A	(1), (2)

Notes:

- (1) The share options were granted by COSCO International Holdings Limited ("COSCO International"), an associated corporation of the Company listed on the Stock Exchange, on 2nd December 2004 pursuant to the share option scheme of COSCO International adopted on 17th May 2002 and amended by the shareholders of COSCO International at the special general meeting held on 5th May 2005. The share options are exercisable at an exercise price of HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.
- (2) Dr. SUN Jiakang resigned as a non-executive director of the Company on 9th August 2011.
- (3) During the year, no share options mentioned above were cancelled.

Name of associated corporation	Name of director	Capacity	Nature of interest	Exercise price S\$	Number of share options					Outstanding at 31st December 2011	% of total issued share capital of the relevant associated corporation	Note
					Outstanding at 1st January 2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2011			
COSCO Corporation (Singapore) Limited	Mr. FENG Jinhua	Beneficial owner	Personal	2.48	300,000	—	—	(300,000)	—	—	(1)	
	Dr. WANG Xingru	Beneficial owner	Personal	2.48	N/A	—	—	—	700,000	0.031%	(2), (4)	
		Beneficial owner	Personal	2.95	N/A	—	—	—	700,000	0.031%	(3), (4)	

Notes:

- (1) The share options were granted by COSCO Corporation (Singapore) Limited ("COSCO Singapore"), an associated corporation of the Company listed on the Main Board of the Singapore Exchange, on 5th February 2007 and are exercisable at any time between 5th February 2008 and 27th September 2011.
- (2) The share options were granted by COSCO Singapore on 5th February 2007 and are exercisable at any time between 5th February 2008 and 13th July 2012.
- (3) The share options were granted by COSCO Singapore on 24th March 2008 and are exercisable at any time between 24th March 2009 and 13th July 2012.
- (4) Dr. WANG Xingru was appointed as an executive director and Vice Chairman and Managing Director of the Company on 11th July 2011.
- (5) During the year, no share options mentioned above were cancelled.

## REPORT OF THE DIRECTORS

### (ii) Movements of the share appreciation rights granted to the directors of the Company by an associated corporation during the year are set out below:

Name of associated corporation	Name of director	Capacity	Nature of interest	Exercise price HK\$	Number of units of share appreciation rights			Outstanding at 31st December 2011	% of total issued H share capital of the relevant associated corporation	Note
					Outstanding at 1st January 2011	Granted during the year	Exercised during the year			
China COSCO Holdings Company Limited	Mr. XU Lirong	Beneficial owner	Personal	3.195	375,000	—	—	375,000	0.015%	(1), (4)
				3.588	500,000	—	—	500,000	0.019%	(2), (4)
				9.540	580,000	—	—	580,000	0.022%	(3), (4)
	Mr. WAN Min	Beneficial owner	Personal	3.195	N/A	—	—	75,000	0.003%	(1), (5)
				3.588	N/A	—	—	280,000	0.011%	(2), (5)
				9.540	N/A	—	—	260,000	0.010%	(3), (5)
	Mr. HE Jiale	Beneficial owner	Personal	3.195	375,000	—	—	375,000	0.015%	(1)
				3.588	500,000	—	—	500,000	0.019%	(2)
				9.540	480,000	—	—	480,000	0.019%	(3)
	Mr. WANG Zenghua	Beneficial owner	Personal	3.195	100,000	—	—	100,000	0.004%	(1)
				3.588	90,000	—	—	90,000	0.003%	(2)
				9.540	85,000	—	—	85,000	0.003%	(3)
	Mr. FENG Jinhua	Beneficial owner	Personal	3.195	100,000	—	—	100,000	0.004%	(1)
				3.588	90,000	—	—	90,000	0.003%	(2)
				9.540	85,000	—	—	85,000	0.003%	(3)
	Mr. WANG Haimin	Beneficial owner	Personal	3.195	57,000	—	—	57,000	0.002%	(1)
				3.588	90,000	—	—	90,000	0.003%	(2)
				9.540	75,000	—	—	75,000	0.003%	(3)
	Mr. GAO Ping	Beneficial owner	Personal	3.195	100,000	—	—	100,000	0.004%	(1)
				3.588	90,000	—	—	90,000	0.003%	(2)
				9.540	85,000	—	—	85,000	0.003%	(3)
	Mr. YIN Weiyu	Beneficial owner	Personal	3.195	100,000	—	—	100,000	0.004%	(1)
				3.588	65,000	—	—	65,000	0.003%	(2)
	<b>Ex-directors</b>									
	Mr. XU Minjie	Beneficial owner	Personal	3.195	75,000	—	—	N/A	N/A	(1), (6)
				3.588	90,000	—	—	N/A	N/A	(2), (6)
	Dr. SUN Jiakang	Beneficial owner	Personal	3.195	375,000	—	—	N/A	N/A	(1), (5)
				3.588	500,000	—	—	N/A	N/A	(2), (5)
				9.540	480,000	—	—	N/A	N/A	(3), (5)

#### Notes:

- (1) The share appreciation rights were granted by China COSCO, an associated corporation of the Company and a company listed on the Stock Exchange and the Shanghai Stock Exchange, 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 shares of China COSCO will be issued. The share appreciation rights are exercisable at HK\$3.195 per unit at any time between 16th December 2007 and 15th December 2015.
- (2) The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 5th October 2006 pursuant to the Plan. Under the Plan, no shares of China COSCO will be issued. The share appreciation rights are exercisable at HK\$3.588 per unit at any time between 5th October 2008 and 4th October 2016.
- (3) The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 4th June 2007 pursuant to the Plan. Under the Plan, no shares of China COSCO will be issued. The share appreciation rights are exercisable at HK\$9.540 per unit at any time between 4th June 2009 and 3rd June 2017.
- (4) Mr. XU Lirong resigned as a non-executive director and Chairman of the Company on 24th February 2012.
- (5) On 9th August 2011, Mr. WAN Min was appointed as a non-executive director of the Company and Dr. SUN Jiakang resigned as a non-executive director of the Company.
- (6) Mr. XU Minjie resigned as an executive director and Vice Chairman and Managing Director of the Company on 11th July 2011.
- (7) During the year, no share appreciation rights mentioned above were lapsed or cancelled.

Save as disclosed above, as at 31st December 2011, none of the directors or chief executive of the Company had any interests or short positions in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which 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 or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## Directors' interests in competing business

As at 31st December 2011, the then directors namely Mr. XU Lirong, Dr. WANG Xingru, Mr. WAN Min, Mr. HE Jiale, Mr. WANG Zenghua, Mr. FENG Jinhua, Mr. WANG Haimin and Mr. GAO Ping held directorships and/or senior management positions in COSCO and/or COSCO Container Lines Company Limited ("COSCON") and their respective associates and/or other companies which have interests in container terminals (the "Container Terminal Interests").

The Board is of the view that the Group is capable of carrying on its businesses independently of the Container Terminal Interests. When making decisions on the container terminal business of the Group, the relevant directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the best interests of the Group.

## Substantial interests in the share capital of the Company

So far as is known to any directors or chief executive of the Company, as at 31st December 2011, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Name	Capacity	Nature of interests	Number of ordinary shares/Percentage of total issued share capital						Note
			Long positions	%	Short positions	%	Lending pool	%	
COSCO Investments Limited	Beneficial owner	Beneficial interest	202,592,613	7.47	—	—	—	—	(1)
COSCO Pacific Investment Holdings Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,158,303,338	42.71	—	—	—	—	(1)
China COSCO Holdings Company Limited	Interest of controlled corporation	Corporate interest	1,158,303,338	42.71	—	—	—	—	(1)
China Ocean Shipping (Group) Company	Interest of controlled corporation	Corporate interest	1,158,303,338	42.71	—	—	—	—	(1)
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	Beneficial interest and corporate interest	271,656,048	10.02	34,000	0.00	130,713,091	4.82	(2)

### Notes:

- (1) The 1,158,303,338 shares relate to the same batch of shares of the Company. COSCO Investments Limited ("COSCO Investments") is a wholly owned subsidiary of COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment"). Accordingly, the 202,592,613 shares of the Company held by COSCO Investments are also included as part of COSCO Pacific Investment's interests in the Company. COSCO Pacific Investment is a wholly owned subsidiary of China COSCO and it itself held 955,710,725 shares of the Company beneficially. Accordingly, COSCO Pacific Investment's interests in relation to the 1,158,303,338 shares of the Company are also recorded as China COSCO's interests in the Company. COSCO held 52.80% interest of the issued share capital of China COSCO as at 31st December 2011, and accordingly, COSCO is deemed to have the interests of 1,158,303,338 shares of the Company held by COSCO Pacific Investment.
- (2) The corporate interest of JPMorgan Chase & Co. was attributable on account through a number of its wholly owned and non wholly owned subsidiaries (including J.P. Morgan Securities Ltd. (98.95% control) and JPMorgan Funds (Asia) Limited (99.99% control)).

Save as disclosed above, as at 31st December 2011, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

## REPORT OF THE DIRECTORS

### Public float

Based on information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of the shares of the Company with not less than 25% of the total number of issued shares of the Company held by the public as required under the Listing Rules.

### Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

### Pre-emptive rights

There are no provisions for pre-emptive rights under the Bye-laws of the Company and there are no restrictions against such rights under the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### 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 existed during the year.

### Major suppliers and lessees

The percentage of the Group's container purchases and leasing income attributable to major suppliers and lessees are as follows:

Percentage of container purchases attributable to the Group's largest supplier	19.49%
Percentage of container purchases attributable to the Group's five largest suppliers	53.36%
Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO	53.28%
Percentage of leasing income attributable to the Group's five largest lessees	71.12%

None of the directors or their associates has interests in any of the suppliers or lessees of the Group.

During the year ended 31st December 2011, the Group and COSCO have equity interest in China International Marine Containers (Group) Co., Ltd., the holding company of two of the five largest suppliers of the Group. In 2011, these two suppliers attributed 19.61% of container purchases of the Group.

Save as disclosed above, to the knowledge of the directors, none of the shareholders owning more than 5% of the Company's shares has interest in any of the suppliers and lessees of the Group.

### Corporate governance

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules throughout the year ended 31st December 2011, except for the following deviation:

#### Code provision E.1.2

The code provision E.1.2 of the Corporate Governance Code provides that the chairman of the board shall attend the annual general meeting of the company. Due to business commitment, Mr. XU Lirong, former Chairman of the Board, was unable to attend the annual general meeting of the Company held on 16th May 2011. This constituted a deviation from the code provision E.1.2 of the Corporate Governance Code.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 60 to 79 of this annual report.

## Connected transactions

During the year, the Group entered into the following connected transaction and continuing connected transactions:

### (I) Connected transaction

#### Deemed disposal of 50% equity interest in Florens Capital Management Company Limited

On 22nd November 2011, the Company and its then wholly owned subsidiary, Florens Capital Management Company Limited ("Florens Capital"), entered into a conditional capital subscription agreement (the "Subscription Agreement") with COSCO (Cayman) Fortune Holding Co., Ltd. ("Fortune Holding"), pursuant to which (i) Fortune Holding or its wholly owned subsidiary as nominated by it (the "Subscriber") would subscribe for 1,000 shares of HK\$1.00 each in the share capital of Florens Capital (the "Subscription Shares") for cash at the subscription price of HK\$1,000 in aggregate (the "Subscription") and advance a shareholder's loan of US\$50,000,000 (the "Shareholder's Loan") to Florens Capital; (ii) Florens Capital would increase its authorised share capital by HK\$1,000 to HK\$2,000 by the creation of an additional 1,000 shares of HK\$1.00 each and agreed to allot and issue the Subscription Shares to the Subscriber; and (iii) the Company should, among other things, guarantee the performance by Florens Capital of all of its obligations under the Subscription Agreement. The Subscription Shares represented 50% of the issued share capital of Florens Capital as enlarged by the issue of the Subscription Shares.

The Shareholder's Loan was unsecured, interest free and with no fixed repayment date and was of the same amount, on the same terms, as the shareholder's loan already advanced to Florens Capital by Florens Container Holdings Limited ("Florens"), a wholly owned subsidiary of the Company and the sole shareholder of Florens Capital before the Subscription. The total consideration paid by the Subscriber under the Subscription Agreement was approximately US\$50,000,128.

After completion of the Subscription Agreement on 22nd December 2011, the interests of Florens in the issued share capital of Florens Capital were diluted from 100% to 50%. The Subscription constituted a deemed disposal by the Company of 50% of its indirect interests in the issued share capital of Florens Capital under Rule 14.29 of the Listing Rules.

As COSCO is the ultimate controlling shareholder of the Company and Fortune Holding is a wholly owned subsidiary of COSCO, Fortune Holding is a connected person of the Company. Accordingly, the entering into of the Subscription Agreement constituted a connected transaction of the Company under the Listing Rules.

The Company considered that the cooperation between Florens and Fortune Holding would not only strengthen the business of Florens Capital and its wholly owned subsidiary, Florens (Tianjin) Finance Leasing Co., Ltd. (together "Florens Capital Group") but also build a diversified finance leasing platform. This platform would increase the sources of funding available to Florens Capital Group and provide a foundation for the sustainable development of Florens Capital Group, which would enable it to seize the opportunities for future development.

### (II) Continuing connected transactions

#### Rental of office premises

On 28th November 2008, COSCO Pacific Management as tenant entered into a tenancy agreement (the "2008 Tenancy Agreement") with Wing Thye Holdings Limited ("Wing Thye") as landlord in respect of the leasing of Units 4901, 4902A and 4903 situated at 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong (the "Premises").

Pursuant to the 2008 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye the Premises for a term of three years commencing from 29th November 2008 at a monthly rental of HK\$846,846 exclusive of government rent, rates and management fees payable to Wing Thye. The monthly management fees payable to Wing Thye was HK\$72,586.80, and the maximum aggregate annual value of the rental and the management fee was HK\$11,033,193.60.

On 28th November 2011, COSCO Pacific Management as tenant entered into a new tenancy agreement with Wing Thye as landlord (the "2011 Tenancy Agreement") in respect of the leasing of the Premises.

Pursuant to the 2011 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye the Premises for a term of three years commencing from 29th November 2011 at a monthly rental of HK\$927,498 exclusive of government rent, rates and management fees. The monthly management fees payable to Wing Thye is HK\$72,586.80 (subject to further increase to an amount not exceeding HK\$80,652 from January 2012, HK\$90,330 from January 2013 and HK\$101,170 from January 2014 respectively). During the subsistence of the 2011 Tenancy Agreement, the maximum aggregate annual value of the rental and the management fee is HK\$12,213,936. The 2011 Tenancy Agreement does not provide for renewal clauses.



## REPORT OF THE DIRECTORS

The Company intended to continue to occupy the Premises on a long term basis as the head office of itself and its subsidiaries and as its principal place of business in Hong Kong. In negotiating the respective rentals under the 2008 Tenancy Agreement and the 2011 Tenancy Agreement, the directors of the Company had made reference to the professional opinion given by DTZ Debenham Tie Leung Limited (“DTZ”), an independent professional valuer. DTZ opined that the monthly rental agreed for the Premises as respectively provided in the 2008 Tenancy Agreement and the 2011 Tenancy Agreement were at market levels and were fair and reasonable.

Wing Thye is a wholly owned subsidiary of COSCO (Hong Kong) Group Limited (“COSCO Hong Kong”). COSCO is a controlling shareholder of both the Company and COSCO Hong Kong. Accordingly, COSCO, COSCO Hong Kong and Wing Thye are all connected persons of the Company. The 2008 Tenancy Agreement and the 2011 Tenancy Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

### **Master agreements relating to container related services and shipping related services transactions**

On 30th November 2009, certain subsidiaries of the Company entered into the following master agreements each for a term of three years from 1st January 2010 to 31st December 2012:

- (1) COSCON Shipping Services Master Agreement entered into between COSCO Ports (Holdings) Limited (“COSCO Ports”, a wholly owned subsidiary of the Company), Piraeus Container Terminal S.A. (“PCT”, a wholly owned subsidiary of the Company), COSCO and COSCON in respect of the provision of shipping related services by COSCO Ports and its subsidiaries (collectively “COSCO Ports Group”) or PCT to COSCO and COSCON and their respective associates (excluding the Group) (collectively “COSCO Group”). The service fees shall be at rates no less favourable to the relevant members of COSCO Ports Group or to PCT than those at which the relevant members of COSCO Ports Group or PCT charges independent third party customers for the relevant services.

The annual caps of the aggregate amount receivable by COSCO Ports Group and PCT from COSCO Group for the abovementioned services for the years ended/ending 31st December 2010, 2011 and 2012 are RMB815,402,000, RMB1,097,176,000 and RMB1,310,131,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was RMB396,769,696.

- (2) APM Shipping Services Master Agreement entered into between COSCO Ports, PCT and A.P. Moller-Maersk A/S (“APM”) for and on behalf of entities trading under the names of Maersk Line, Safmarine, MCC or any other future names with majority ownership by APM (collectively “the Line”) in respect of the provision of shipping related services by members of COSCO Ports Group or PCT to the Line on normal commercial terms.

The annual caps of the aggregate amount receivable by COSCO Ports Group and PCT from the Line for the abovementioned services for the years ended/ending 31st December 2010, 2011 and 2012 are RMB334,504,000, RMB443,599,000 and RMB527,878,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was RMB177,540,754.

- (3) Florens-COSCON Container Related Services and Purchase of Materials Master Agreement entered into between Florens (a wholly owned subsidiary of the Company), COSCO and COSCON in respect of the following transactions:

- (a) Purchase of container related materials by Florens and its subsidiaries (collectively “Florens Group”) from members of COSCO Group (including COSCON). The annual caps of the aggregate amount payable by Florens Group to COSCO Group for such purchases for the years ended/ending 31st December 2010, 2011 and 2012 are US\$300,000, US\$400,000 and US\$500,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was US\$18,064.
- (b) Provision of container related services by members of COSCO Group (including COSCON) to members of Florens Group. The annual caps of the aggregate amount payable by Florens Group to COSCO Group for such services for the years ended/ending 31st December 2010, 2011 and 2012 are US\$6,307,000, US\$8,032,000 and US\$8,912,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was US\$433,939.

It was agreed that the consideration for the purchase of container related materials by Florens Group and the provision of container related services by COSCO Group (including COSCON) shall be at rates no less favourable to the relevant members of Florens Group (as purchaser or service receiving party, as the case may be) than those at which the relevant members of COSCO Group (including COSCON) charge independent third parties for the relevant transactions.

- (4) Florens-APM Container Purchasing and Related Services Master Agreement entered into between Florens and the Line in respect of the following transactions:
- (a) Purchase of containers and container related materials by members of Florens Group from the Line. The annual cap of the aggregate amount payable by Florens Group to the Line for such purchases for the years ended/ending 31st December 2010, 2011 and 2012 is US\$15,000,000.
  - (b) Provision of container related services by the Line to members of Florens Group. The annual cap of the aggregate amount payable by Florens Group to the Line for such services for the years ended/ending 31st December 2010, 2011 and 2012 is US\$100,000.

It was agreed that the consideration for the purchase of containers and container related materials by Florens Group and the provision of container related services by the Line shall be at rates no less favourable to Florens Group (as purchaser or service receiving party, as the case may be) than those at which the Line charge independent third parties for the relevant transactions. For the year ended 31st December 2011, Florens did not pay any fees to the Line pursuant to such agreement.

- (5) Nansha Container Terminal Services Master Agreement entered into between COSCO Ports, Guangzhou South China OceanGate Container Terminal Company Limited ("GZ South China", a subsidiary of the Company) and Guangzhou Port Holding Company Limited ("GZ Port Holding") in respect of the following transactions:
- (a) Provision of container terminal related services by GZ South China to GZ Port Holding and its subsidiaries, branches and associates ("GZ Port Group"). The annual caps of aggregate amount receivable by GZ South China from GZ Port Group for such services for the years ended/ending 31st December 2010, 2011 and 2012 are RMB14,900,000, RMB20,500,000 and RMB26,400,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was RMB2,745,439.
  - (b) Provision of container terminal related services by members of GZ Port Group to GZ South China. The annual caps of the aggregate amount payable by GZ South China to GZ Port Group for such services for the years ended/ending 31st December 2010, 2011 and 2012 are RMB73,050,000, RMB87,120,000 and RMB104,970,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was RMB70,913,998.
  - (c) The appointment of GZ South China by GZ Port Holding to charge on behalf of GZ Port Holding the port construction fee (港口建設費) in respect of cargoes entering and departing from the phase 2 terminal at the Nansha Port in accordance with the applicable laws and regulations and/or as required by the relevant government or supervisory authorities from time to time. The relevant annual caps are as follows:
    - (i) The annual caps of the aggregate amount of the port construction fee payable by GZ South China to GZ Port Holding for the years ended/ending 31st December 2010, 2011 and 2012 are RMB30,000,000, RMB36,500,000 and RMB40,500,000 respectively. The total amount of the aforesaid fee paid by GZ South China to GZ Port Holding for the year ended 31st December 2011 was RMB24,055,760.
    - (ii) The annual caps of the aggregate amount of the handling fee receivable by GZ South China from GZ Port Holding in respect of the charging of the port construction fee for the years ended/ending 31st December 2010, 2011 and 2012 are RMB100,000, RMB150,000 and RMB180,000 respectively. The total amount of the handling fee received by GZ South China from GZ Port Holding for the year ended 31st December 2011 was RMB100,547.
    - (iii) The annual caps of the aggregate amount of the refunded fee receivable by GZ South China from GZ Port Holding in respect of the charging of the port construction fee for the years ended/ending 31st December 2010, 2011 and 2012 are RMB7,700,000, RMB11,850,000 and RMB14,420,000 respectively. The total amount of the refunded fee received by GZ South China from GZ Port Holding for the year ended 31st December 2011 was RMB6,695,606.

## REPORT OF THE DIRECTORS

- (d) The appointment of GZ South China by GZ Port Holding to charge on behalf of GZ Port Holding the vessels which use the high-frequency wireless communication services (甚高頻無線電通訊服務) at the Guangzhou port, or the agents of such vessels, the high-frequency communication fee (甚高頻通訊費) at a rate as prescribed by GZ Port Holding from time to time. The relevant annual caps are as follows:
- (i) The annual caps of the aggregate amount of the high-frequency communication fee payable by GZ South China to GZ Port Holding for the years ended/ending 31st December 2010, 2011 and 2012 are RMB1,000,000, RMB2,200,000 and RMB3,000,000 respectively. The total amount of the aforesaid fee paid by GZ South China to GZ Port Holding for the year ended 31st December 2011 was RMB531,900.
  - (ii) The annual caps of the aggregate amount of the handling fee receivable by GZ South China in respect of the charging of the high-frequency communication fee for the years ended/ending 31st December 2010, 2011 and 2012 are RMB30,000, RMB70,000 and RMB90,000 respectively. The total amount of the handling fee received by GZ South China for the year ended 31st December 2011 was RMB9,102.

It was agreed that the terms for the provision of the aforesaid services by GZ South China shall be no less favourable to GZ South China (as service providing party) than terms available to GZ South China from independent third parties for the relevant services. It was also agreed that the terms for the provision of services by GZ Port Group shall be no less favourable to GZ South China (as service receiving party) than terms available to independent third parties from GZ Port Group for the relevant services.

- (6) Yangzhou Terminal Services Master Agreement entered into between COSCO Ports, Yangzhou Yuanyang International Ports Co. Ltd. (“Yangzhou Yuanyang”, a subsidiary of the Company), and Jiangsu Province Yangzhou Port Group Co., Ltd. (江蘇省揚州港務集團有限公司) (“Yangzhou Port Holding”) in respect of the following transactions:
- (a) Provision of terminal related services by Yangzhou Port Holding and its subsidiaries, branches and associates (“Yangzhou Port Group”) to Yangzhou Yuanyang. The annual caps of the aggregate amount payable by Yangzhou Yuanyang to Yangzhou Port Group for such services for the years ended/ending 31st December 2010, 2011 and 2012 are RMB68,985,000, RMB92,080,000 and RMB136,188,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was RMB61,122,155.
  - (b) The appointment of Yangzhou Yuanyang by Yangzhou Port Holding to charge on behalf of Yangzhou Port Holding the port construction fee in respect of cargoes entering and departing from the terminals of Yangzhou Yuanyang in accordance with the applicable laws and regulations and/or as required by the relevant government or supervisory authorities from time to time. The relevant annual caps are as follows:
    - (i) The annual caps of the aggregate amount of the port construction fee payable by Yangzhou Yuanyang to Yangzhou Port Holding for the years ended/ending 31st December 2010, 2011 and 2012 are RMB1,700,000, RMB2,035,000 and RMB2,442,000 respectively. The total amount of port construction fee paid by Yangzhou Yuanyang to Yangzhou Port Holding for the year ended 31st December 2011 was RMB803,938.
    - (ii) The annual caps of the aggregate amount of the refunded fee receivable by Yangzhou Yuanyang from Yangzhou Port Holding in respect of the charging of the port construction fee for the years ended/ending 31st December 2010, 2011 and 2012 are RMB424,000, RMB509,000 and RMB611,000 respectively. For the year ended 31st December 2011, Yangzhou Yuanyang did not receive any refunded fees from Yangzhou Port Holding pursuant to such agreement.
  - (c) The appointment of Yangzhou Yuanyang by Yangzhou Port Holding to receive on behalf of the relevant members of Yangzhou Port Group the service fees which are payable by independent third party terminal users to such members of Yangzhou Port Group in accordance with tripartite agreements between the relevant members of Yangzhou Port Group, Yangzhou Yuanyang and such independent third party terminal users and are paid by such independent third party terminal users to Yangzhou Yuanyang.

Under the above appointment, Yangzhou Yuanyang shall pay the entire amount of the service fees to the relevant members of Yangzhou Port Group, and Yangzhou Yuanyang shall not be liable to pay any of such service fees to the relevant members of Yangzhou Port Group if the relevant independent third party terminal users fail to pay such fees to Yangzhou Port Group; and no amount is receivable by Yangzhou Yuanyang in respect of the receipt of service fees from independent third party terminal users on behalf of Yangzhou Port Group. Accordingly, no annual cap was set in respect of such payment arrangement.

It was agreed that the terms for the provision of services by Yangzhou Port Group shall be no less favourable to Yangzhou Yuanyang (as service receiving party) than terms available to independent third parties from Yangzhou Port Group for the relevant services.

- (7) COSCON Container Services Master Agreement entered into between Plangreat Limited ("Plangreat", a wholly owned subsidiary of the Company), COSCO and COSCON in respect of the provision of container related services by Plangreat and its subsidiaries to members of COSCO Group (including COSCON). The service fees shall be at rates no less favourable to Plangreat and its subsidiaries than those at which Plangreat and its subsidiaries charge independent third parties for the relevant services.

The annual cap of the aggregate amount receivable by Plangreat and its subsidiaries from COSCO Group for the years ended/ending 31st December 2010, 2011 and 2012 is US\$3,372,000. The total amount of the aforesaid transactions for the year ended 31st December 2011 was US\$2,576,455.

- (8) Florens-COSCON Container Leasing, Sales and Related Services Master Agreement entered into between Florens, COSCO and COSCON in respect of the following transactions:
- (a) Grant of leases of containers (being containers which have been used for at least 10 years) for a term of not more than 3 years by members of Florens Group to members of COSCO Group. The annual caps of the aggregate amount receivable by Florens Group from COSCO Group for such transactions for the years ended/ending 31st December 2010, 2011 and 2012 are US\$468,000, US\$985,000 and US\$1,358,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was US\$10,504.
- (b) Sales of old containers by members of Florens Group to members of COSCO Group (including COSCON). The annual caps of the aggregate amount receivable by Florens Group from COSCO Group for such transactions for the years ended/ending 31st December 2010, 2011 and 2012 are US\$2,500,000, US\$3,000,000 and US\$3,300,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was US\$18,400.
- (c) Provision of container related services by members of Florens Group to members of COSCO Group (including COSCON). The annual caps of the aggregate amount receivable by Florens Group from COSCO Group for such services for the years ended/ending 31st December 2010, 2011 and 2012 are US\$1,000,000, US\$1,500,000 and US\$1,800,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was US\$482,032.

It was agreed that the consideration for the leasing and sales of containers and the provision of container related services by Florens Group shall be at rates no less favourable to the relevant members of Florens Group (as lessor, seller or service providing party, as the case may be) than those at which the relevant members of Florens Group charge independent third parties for the relevant transactions.

- (9) Florens-APM Container Leasing, Sales and Related Services Master Agreement entered into between Florens and the Line in respect of the following transactions:
- (a) Grant of leases of containers for a term of not more than 3 years by members of Florens Group to the Line. The annual caps of the aggregate amount receivable by Florens Group from the Line for such transactions for the years ended/ending 31st December 2010, 2011 and 2012 are US\$55,000, US\$65,000 and US\$80,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was US\$6,810.
- (b) Sales of old containers by members of Florens Group to the Line. The annual caps of the aggregate amount receivable by Florens Group from the Line for the aforesaid transactions for the years ended/ending 31st December 2010, 2011 and 2012 are US\$300,000, US\$350,000 and US\$400,000 respectively. For the year ended 31st December 2011, Florens did not receive any amount from the Line pursuant to such agreement.
- (c) Provision of container related services by members of Florens Group to the Line. The annual caps of the aggregate amount receivable by Florens Group from the Line for the aforesaid services for the years ended/ending 31st December 2010, 2011 and 2012 is US\$20,000. The total amount of the aforesaid transactions for the year ended 31st December 2011 was US\$2,030.

It was agreed that the consideration for the leasing and sales of containers and the provision of container related services by Florens Group shall be at rates no less favourable to Florens Group (as lessor, vendor or service providing party, as the case may be) than those at which the relevant members of Florens Group charge independent third parties for the relevant transactions.

## REPORT OF THE DIRECTORS

- (10) Diesel Oil Purchase Master Agreement entered into between COSCO Ports, GZ South China and China Marine Bunker Guangzhou Co., Ltd. (中國船舶燃料廣州有限公司) (formerly “China Marine Bunker Supply Guangzhou Company (中國船舶燃料供應廣州公司)”) (“CM Supply”) in respect of the purchase of diesel oil by GZ South China from CM Supply. The terms for the supply of diesel oil by CM Supply shall be no less favourable to GZ South China than terms available to independent third parties from CM Supply for the relevant transactions.

The annual caps of the aggregate amount payable by GZ South China to CM Supply for the years ended/ending 31st December 2010, 2011 and 2012 are RMB35,000,000, RMB40,000,000 and RMB50,000,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was RMB8,299,463.

- (11) Zhangjiagang Container Terminal Services Master Agreement entered into between COSCO Ports, Zhangjiagang Win Hanverky Container Terminal Co., Ltd. (“Zhangjiagang Win Hanverky”, a subsidiary of the Company) and Zhangjiagang Port Group Co., Ltd. (“Zhangjiagang Port Holding”) in respect of the following transactions:

- (a) Provision of container terminal related services by Zhangjiagang Win Hanverky to Zhangjiagang Port Holding and its subsidiaries, branches and associates (collectively “Zhangjiagang Port Group”). The annual caps of the aggregate amount receivable by Zhangjiagang Win Hanverky from Zhangjiagang Port Group for such services for the years ended/ending 31st December 2010, 2011 and 2012 are RMB8,450,000, RMB9,970,000 and RMB12,490,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was RMB459,869.
- (b) Provision of container terminal related services by members of Zhangjiagang Port Group to Zhangjiagang Win Hanverky. The annual caps of the aggregate amount payable by Zhangjiagang Win Hanverky to Zhangjiagang Port Group for the abovementioned services for the years ended/ending 31st December 2010, 2011 and 2012 are RMB18,990,000, RMB23,980,000 and RMB29,390,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2011 was RMB19,963,930.
- (c) The appointment of Zhangjiagang Win Hanverky by Zhangjiagang Port Holding to charge on behalf of Zhangjiagang Port Holding the port construction fee in respect of cargoes entering and departing from the terminal of Zhangjiagang Win Hanverky in accordance with the applicable laws and regulations and/or as required by the relevant government or supervisory authorities from time to time. The relevant annual caps are as follows:
- (i) The annual caps of the aggregate amount of the port construction fee payable by Zhangjiagang Win Hanverky to Zhangjiagang Port Holding for the years ended/ending 31st December 2010, 2011 and 2012 are RMB18,260,000, RMB21,910,000 and RMB26,290,000 respectively. The total amount of the aforesaid fee paid by Zhangjiagang Win Hanverky to Zhangjiagang Port Holding for the year ended 31st December 2011 was RMB13,494,787.
- (ii) The annual caps of the aggregate amount of the handling fee receivable by Zhangjiagang Win Hanverky from Zhangjiagang Port Holding in respect of the charging of the port construction fee for the years ended/ending 31st December 2010, 2011 and 2012 are RMB92,000, RMB110,000 and RMB132,000 respectively. For the year ended 31st December 2011, Zhangjiagang Win Hanverky did not receive any handling fees from Zhangjiagang Port Holding pursuant to such agreement.

It was agreed that the terms for the provision of services by Zhangjiagang Win Hanverky shall be no less favourable to Zhangjiagang Win Hanverky (as service providing party) than terms available to Zhangjiagang Win Hanverky from independent third parties for the relevant services; and shall also be no less favourable to the relevant members of Zhangjiagang Port Group (as service receiving party) than terms available to independent third parties from Zhangjiagang Win Hanverky for the relevant services.

It was also agreed that the terms for the provision of services by Zhangjiagang Port Group shall be no less favourable to Zhangjiagang Win Hanverky (as service receiving party) than terms available to independent third parties from Zhangjiagang Port Group for the relevant services.

- (12) Xiamen Container Terminal Services Master Agreement entered into between COSCO Ports, Xiamen Ocean Gate Container Terminal Co., Ltd. (“Xiamen Ocean Gate”, a subsidiary of the Company), and Xiamen Haicang Investment Group Co., Ltd. (廈門海滄投資集團有限公司) (“Xiamen Haicang Holding”) in respect of the provision of container terminal related services by Xiamen Haicang Holding and its subsidiaries, branches and associates (collectively “Xiamen Haicang Group”) to Xiamen Ocean Gate. The terms for the provision of services by Xiamen Haicang Group shall be no less favourable to Xiamen Ocean Gate than terms available to independent third parties from Xiamen Haicang Group for the relevant services.

The annual caps of the aggregate amount payable by Xiamen Ocean Gate to Xiamen Haicang Group for the abovementioned services for the years ended/ending 31st December 2010, 2011 and 2012 are RMB3,200,000, RMB19,700,000 and RMB22,200,000 respectively. The total amount for the aforesaid transactions for the year ended 31st December 2011 was RMB2,750,000.

COSCO is the ultimate controlling shareholder of the Company. COSCON is a subsidiary of COSCO. Accordingly, members of COSCO Group (including COSCO and COSCON) are connected persons of the Company. APM Terminals Invest Company Limited ("APM Terminals"), which is a subsidiary of APM, is a substantial shareholder of a subsidiary of the Company. The Line are majority-owned by APM and are therefore associates of APM Terminals. Accordingly, the Line are connected persons of the Company.

GZ Port Holding indirectly holds a 41% equity interest in GZ South China. Accordingly, members of GZ Port Group (including GZ Port Holding) are connected persons of the Company. As Yangzhou Port Holding indirectly holds a 40% equity interest in Yangzhou Yuanyang, members of Yangzhou Port Group (including Yangzhou Port Holding) are connected persons of the Company. CM Supply is owned as to 50% by COSCO and hence CM Supply is a connected person of the Company. Zhangjiagang Port Holding holds a 49% equity interest in Zhangjiagang Win Hanverky. Accordingly, members of Zhangjiagang Port Group (including Zhangjiagang Port Holding) are connected persons of the Company. Xiamen Haicang Holding indirectly holds a 30% equity interest in Xiamen Ocean Gate. Therefore, members of Xiamen Haicang Group (including Xiamen Haicang Holding) are connected persons of the Company.

Each of the above master agreements and the transactions contemplated thereunder constituted continuing connected transactions under Chapter 14A of the Listing Rules. The continuing connected transactions under agreements no. (1) to (6) above were subject to the reporting, announcement and independent shareholders' approval requirements. Accordingly, the written approval for the transactions under agreements no. (2), (4), (5) and (6) above was obtained from COSCO Pacific Investment and COSCO Investments (both being subsidiaries of COSCO and together being interested in an aggregate of 51.20% of the total issued share capital of the Company as at the date of such agreements). The continuing connected transactions under agreements no. (1) and (3) above were approved by the independent shareholders of the Company at the special general meeting held on 7th January 2010.

With respect to the continuing connected transactions under agreements no. (7) to (12) above, they were subject to the reporting and announcement requirements, but were exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **Long term container leasing transactions (with waiver granted by the Stock Exchange)**

During the year, long term container leasing transactions were entered into between COSCO Group and the Group in respect of the provision of long term container leases by the Group to COSCO Group to which the Stock Exchange had, subject to certain conditions, granted waiver dated 14th December 1994 to the Company from strict compliance with the requirements stipulated in the then Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval. The total consideration of the aforesaid transactions for the year ended 31st December 2011 amounted to US\$131,488,018. In the opinion of the directors of the Company, the aforesaid transactions were conducted in the ordinary and normal course of business of the Group and using average leasing rates by reference to, if applicable, the average of the available leasing rates quoted from four of the top ten independent container leasing companies.

### **Opinion from the independent non-executive directors on the continuing connected transactions**

Pursuant to the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.37 of the Listing Rules, Dr. LI Kwok Po, David, Mr. CHOW Kwong Fai, Edward and Mr. Timothy George FRESHWATER, independent non-executive directors of the Company, have reviewed the above continuing connected transactions and opined that:

- (i) the long term container leasing transactions had been conducted in the ordinary course of business of the Group and using average market rates by reference to, if applicable, the average of the available leasing rates quoted from four of the top ten independent container leasing companies and were fair and reasonable so far as the shareholders of the Company were concerned; and



## REPORT OF THE DIRECTORS

- (ii) the rental of the office premises transactions and the transactions entered into by COSCO Ports, PCT, Florens, GZ South China, Yangzhou Yuanyang, Plangreat, Zhangjiagang Win Hanverky and Xiamen Ocean Gate under the master agreements were:
- entered into in the ordinary and usual course of the Group's businesses;
  - entered into on terms no less favourable to the Group than terms available from/to independent third parties; and
  - entered into 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.

Dr. FAN HSU Lai Tai, Rita confirmed that in view of her position of also being an independent non-executive director of China COSCO and that COSCON (a subsidiary of China COSCO) was a party to the long term container leasing transactions, and for good corporate governance practices, she would not take part in the review process in respect of the long term container leasing transactions and the continuing connected transactions under agreements no. (1), (3), (7) and (8) and would not express her opinion in relation to such transactions reviewed by the other independent non-executive directors of the Company.

Dr. FAN HSU Lai Tai, Rita further confirmed that she has reviewed the rental of the office premises transactions and the continuing connected transactions under agreements no. (2), (4), (5), (6), (9), (10), (11) and (12), of which neither China COSCO nor any of its subsidiaries is a party to the transactions stipulated therein, and opined that the aforementioned transactions were:

- entered into in the ordinary and usual course of the Group's businesses;
- entered into on terms no less favourable to the Group than terms available from/to independent third parties; and
- entered into 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.

### **Report from the auditor on the continuing connected transactions**

For the purposes of the conditions of the waiver in relation to long term container leasing transactions, the Board engaged the auditor of the Company to perform certain agreed-upon procedures on the long term container leasing transactions for the year ended 31st December 2011 (the "Relevant Year") in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants, and the auditor reported that the long term container leasing transactions for the Relevant Year had been conducted in the ordinary and normal course of business of the Group and by reference to, if applicable, the average of the available leasing rates quoted from four of the top ten independent container leasing companies.

For the purposes of Rule 14A.38 of the Listing Rules in relation to the other continuing connected transactions, the Board engaged the auditor of the Company to report on the above other continuing connected transactions as identified by the management for the Relevant Year in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the other continuing connected transactions, including the rental of the office premises transactions and the transactions entered into by COSCO Ports, PCT, Florens, GZ South China, Yangzhou Yuanyang, Plangreat, Zhangjiagang Win Hanverky and Xiamen Ocean Gate under the master agreements for the Relevant Year, in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## Disclosure under Rule 13.22 of Chapter 13 of the Listing Rules

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31st December 2011 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	US\$'000
Non-current assets	7,086,164
Current assets	2,131,440
Current liabilities	(3,312,306)
Non-current liabilities	(2,099,013)
Net assets	3,806,285
Share capital	500,807
Reserves	1,802,661
Non-controlling interests	1,502,817
Capital and reserves	3,806,285

As at 31st December 2011, the Group's attributable interests in these affiliated companies amounted to US\$916,396,000.

## Audit Committee

As at the date of this report, the Audit Committee of the Company consists of four independent non-executive directors.

The Audit Committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its financial statements and liaises on behalf of the Board with external auditor and the Group's internal auditor. During the year, the Audit Committee members met regularly with management, external auditor and the Group's internal auditor and reviewed the internal and external audit reports and the interim and annual consolidated financial statements of the Group.

## Auditor

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

On behalf of the Board

### WANG Xingru

*Vice Chairman and Managing Director*

Hong Kong, 27th March 2012