International

Accumulating
Innovating
Exploring

COSCO International Holdings Limited | Annual Report 2011 | STOCK CODE: 00517

CONTENTS

DEFINITIONS AND GLOSSARY

"associate(s)"	has the meaning ascribed to it in the Listing Rules;
"Board"	the board of Directors;
"CITC"	中遠國際貿易有限公司 (COSCO International Trading Company Limited*), a wholly-owned subsidiary of the Company;
"connected person(s)"	has the meaning ascribed to it in the Listing Rules;
"COSCO"	中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company*), the ultimate holding company of the Company;
"COSCO Group"	COSCO and its subsidiaries and associates;
"COSCO Hong Kong"	COSCO (Hong Kong) Group Limited, the intermediate holding company of the Company and a wholly-owned subsidiary of COSCO;
"COSCO Insurance Brokers"	collectively, HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers;
"COSCO International" or "Company"	COSCO International Holdings Limited, the shares of which are listed on the Stock Exchange;
"COSCO Kansai Companies"	collectively, COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and COSCO Kansai (Zhuhai);
"COSCO Kansai (Shanghai)"	中遠關西塗料化工（上海）有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*), a non-wholly owned subsidiary of the Company;
"COSCO Kansai (Tianjin)"	中遠關西塗料化工（天津）有限公司 (COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd.), a non-wholly owned subsidiary of the Company;
"COSCO Kansai (Zhuhai)"	中遠關西塗料化工（珠海）有限公司 (COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd.), a non-wholly owned subsidiary of the Company;
"COSCO Ship Trading"	COSCO International Ship Trading Company Limited, a wholly-owned subsidiary of the Company;
"dead weight tonnages"	the unit of measurement of weight capacity of vessels, which is the total weight (usually in metric tonnes) the ship can carry, including cargo, bunkers, water, stores, spares, crew, etc. at a specified draft;
"Director(s)"	the director(s) of the Company;
"Double Rich"	Double Rich Limited, an associate of the Company;
"Group"	the Company and its subsidiaries;
"HK COSCO Insurance Brokers"	COSCO (Hong Kong) Insurance Brokers Limited, a wholly-owned subsidiary of the Company;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;

"hull and machinery co-insurance"	the hull and machinery insurance of a vessel or a fleet being covered by more than one insurance company, having a claims leader whose decisions shall be binding on the rest of the participating insurers;
"Jotun COSCO"	Jotun COSCO Marine Coatings (HK) Limited, the 50/50 joint venture formed by the Company and Jotun A/S, an international coating producer;
"Jotun COSCO (Qingdao)	Jotun COSCO Marine Coatings (Qingdao) Co., Ltd., a wholly-owned subsidiary of Jotun COSCO;
"kidnap and ransom insurance"	insurance against ransom paid by the shipowner to pirates for the release of a hijacked vessel and her crew;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"loss of hire insurance"	insurance against loss of ship's hire arising from marine casualties damages or from hijacking by pirates;
"PRC"	the People's Republic of China, which for the purpose of this annual report, excluding Hong Kong, Macau Special Administrative Region and Taiwan;
"Shanghai Yuantong"	遠通海務貿易（上海）有限公司 (Yuantong Marine Trade (Shanghai) Co., Ltd.*), a wholly-owned subsidiary of the Company;
"Share(s)"	the share(s) of HK$0.10 each in the capital of the Company;
"Shareholders"	the holders of the Share(s) of the Company;
"Shin Chung Lin"	新中鈴株式會社 (Shin Chung Lin Corporation*), a wholly-owned subsidiary of the Company;
"Sinfeng"	Sinfeng Marine Services Pte. Ltd., a wholly-owned subsidiary of the Company;
"SOLHL"	Sino-Ocean Land Holdings Limited, the shares of which are listed on the Stock Exchange;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"substantial shareholder(s)"	has the meaning ascribed to it in the Listing Rules;
"SZ COSCO Insurance Brokers"	深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited*), a non-wholly owned subsidiary of the Company;
"TEU"	Twenty-foot equivalent unit, a standard unit of measurement of the volume of a container with a length of 20 feet, width of 8 feet and height of 8 feet and 6 inches. A forty-foot equivalent unit equals two twenty-foot equivalent units while both of them are the common units in measuring containers;
"Xing Yuan"	Xing Yuan (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Company ;
"Yuantong"	Yuantong Marine Service Co. Limited, a wholly-owned subsidiary of the Company.

**for identification purpose only*

COMPANY INFORMATION

DIRECTORS

Executive Directors

Mr. Ye Weilong *(Chairman)*
Mr. Zhang Liang *(Vice Chairman)*
Mr. Liang Yanfeng *(resigned on 10th April 2012)*
Mr. Wang Xiaodong *(Managing Director)*
Mr. Lin Wenjin *(resigned on 10th April 2012)*
Mr. He Jiale *(appointed on 10th April 2012)*

Non-executive Directors

Mr. Jia Lianjun *(resigned on 10th April 2012)*
Mr. Meng Qinghui *(resigned on 10th April 2012)*
Mr. Chen Xuewen *(resigned on 10th April 2012)*
Mr. Wang Wei *(appointed on 10th April 2012)*
Mr. Wu Shuxiong *(appointed on 10th April 2012)*

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.
Mr. Alexander Reid Hamilton

COMPANY SECRETARY

Ms. Chiu Shui Suet

QUALIFIED ACCOUNTANT

Mr. Lo Siu Leung, Tony

AUDIT COMMITTEE

Mr. Alexander Reid Hamilton *(committee chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.

EXECUTIVE COMMITTEE

Mr. Zhang Liang *(committee chairman)*
(appointed on 10th April 2012)
Mr. Wang Xiaodong *(resigned as committee chairman but remained as committee member on 10th April 2012)*
Mr. Liang Yanfeng *(ceased on 10th April 2012)*
Mr. Lin Wenjin *(ceased on 10th April 2012)*
Mr. He Jiale *(appointed on 10th April 2012)*

INVESTMENT COMMITTEE

Mr. He Jiale *(committee chairman)*
(appointed on 10th April 2012)
Mr. Zhang Liang
Mr. Wang Xiaodong
Mr. Liang Yanfeng
(ceased to be committee chairman and committee member on 10th April 2012)
Mr. Lin Wenjin *(ceased on 10th April 2012)*

NOMINATION COMMITTEE

Mr. Tsui Yiu Wa, Alec *(committee chairman)*
Mr. Jiang, Simon X.
Mr. Alexander Reid Hamilton
Mr. Wang Xiaodong

REMUNERATION COMMITTEE

Mr. Jiang, Simon X. *(committee chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Alexander Reid Hamilton
Mr. Wang Xiaodong
Mr. Lin Wenjin *(ceased on 10th April 2012)*

RISK MANAGEMENT COMMITTEE

Mr. Zhang Liang *(committee chairman)*
(appointed on 10th April 2012)
Mr. Wang Xiaodong *(resigned as committee chairman but remained as committee member on 10th April 2012)*
Mr. Liang Yanfeng *(ceased on 10th April 2012)*
Mr. He Jiale *(appointed on 10th April 2012)*

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
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

2011 Annual General Meeting	: 9th June 2011
Announcement of 2011 Interim Results	: 31st August 2011
Announcement of 2011 Annual Results	: 22nd March 2012
2012 Annual General Meeting	: 31st May 2012

DIVIDEND

2011 Interim Dividend	: 2 HK cents per share
Proposed 2011 Final Dividend	: 7 HK cents per share
Total Dividends for 2011	: 9 HK cents per share

CORPORATE PROFILE

The Group is principally engaged in the provision of shipping services. Other business operation is general trading.

The shares of COSCO International have been listed on the Main Board of the Stock Exchange since February 1992 under the stock code of 00517. The Company has become a subsidiary of COSCO Hong Kong since July 1997 which in turn is a wholly-owned subsidiary of COSCO. 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 to all customers around the world.

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, offering diversified and specialised shipping related services or products to customers such as shipping companies, shipyards, container manufacturers, etc. Its businesses and services network cover China Mainland and Hong Kong, Singapore, Japan and other major fueling ports worldwide.

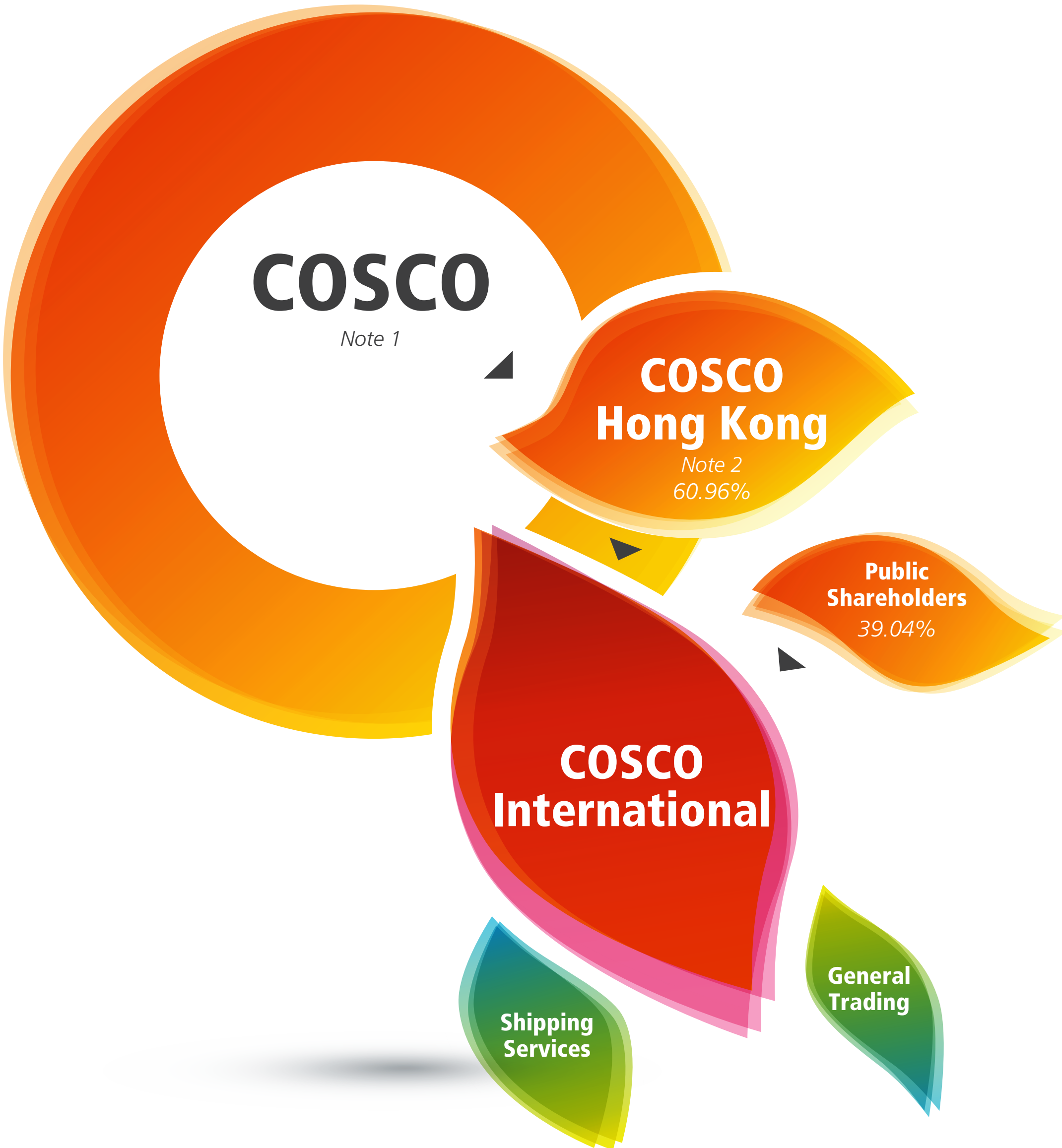
Vision

COSCO International's vision is to provide one-stop professional services for fleets in China and worldwide, through the establishment of a comprehensive, safe, reliable and efficient shipping services supply platform. Our vision is to establish itself as a global leading one-stop service provider focusing on shipping services.

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



Ship Trading Agency Services	COSCO International Ship Trading Company Limited 100%
Marine Insurance Brokerage Services	COSCO (Hong Kong) Insurance Brokers Limited 100%
Supply of Marine Equipment and Spare Parts	Yuantong Marine Service Co. Limited 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. 64.71% 中遠關西塗料化工（天津）有限公司 COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. 63.07% 中遠關西塗料化工（上海）有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*) 63.07% Jotun COSCO Marine Coatings (HK) Limited 50%
Trading and Supply of Marine Fuel and Related Products	Sinfeng Marine Services Pte. Ltd. 100% Double Rich Limited 18%

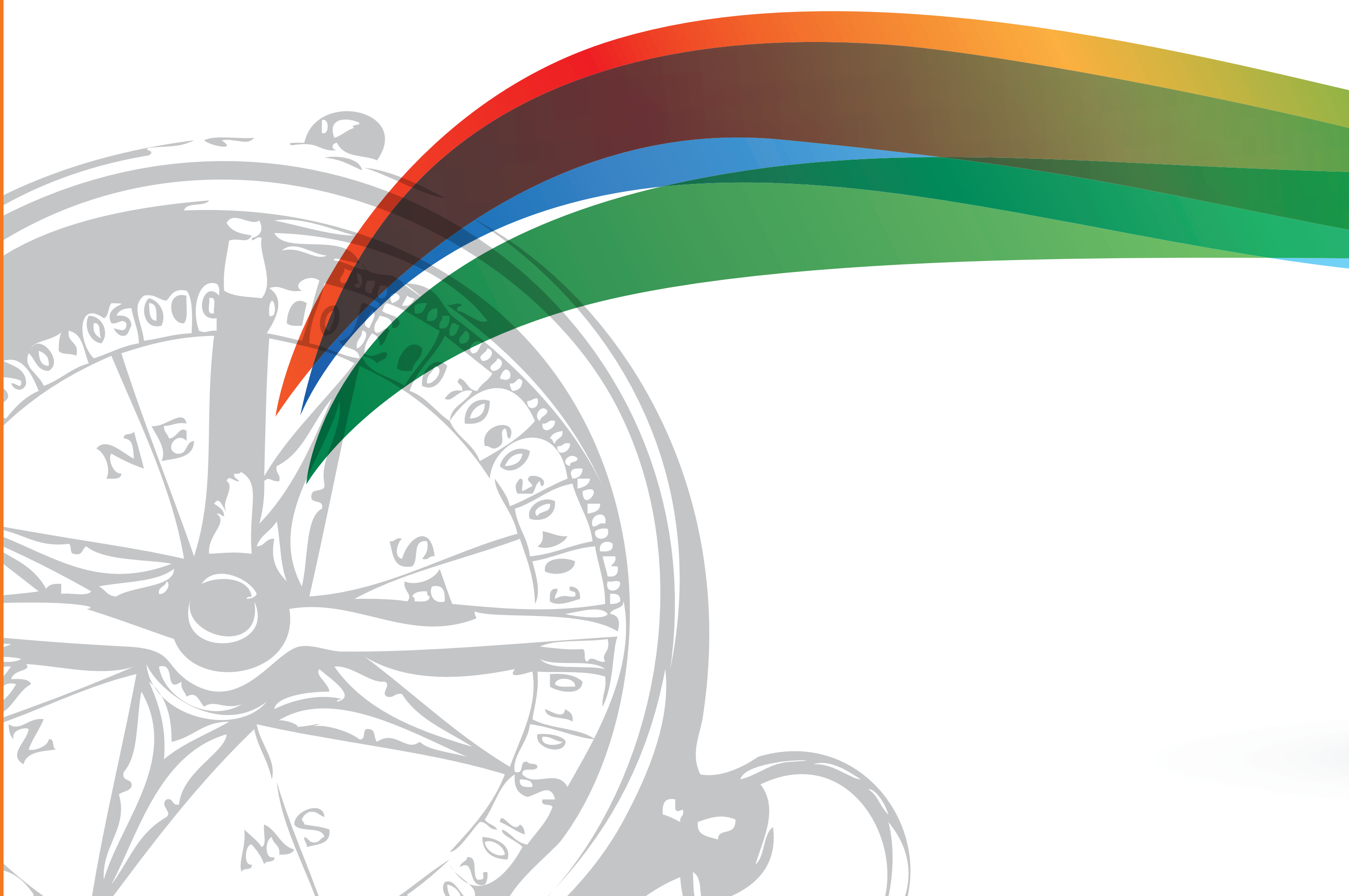
General Trading	中遠國際貿易有限公司 (COSCO International Trading Company Limited*) 100%

Note 1
COSCO is the ultimate holding company of COSCO International. It operates a fleet of about 750 modern commercial vessels with a total carrying capacity of about 55,100,000 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, Macau and China Mainland. The main business aspects of COSCO Hong Kong include shipping services, expressways, information technology, industries, freight services and property management, etc.

* *for identification purpose only*

To achieve a sustainable, steady and healthy development, the Group requires a comprehensive, effective and highly transparent corporate governance system in place. Not only can it increase the overall value of the Company, but also enhance the attractiveness to investors, create wealth and protect the interests of the Shareholders.



Inheritance

FINANCIAL HIGHLIGHTS

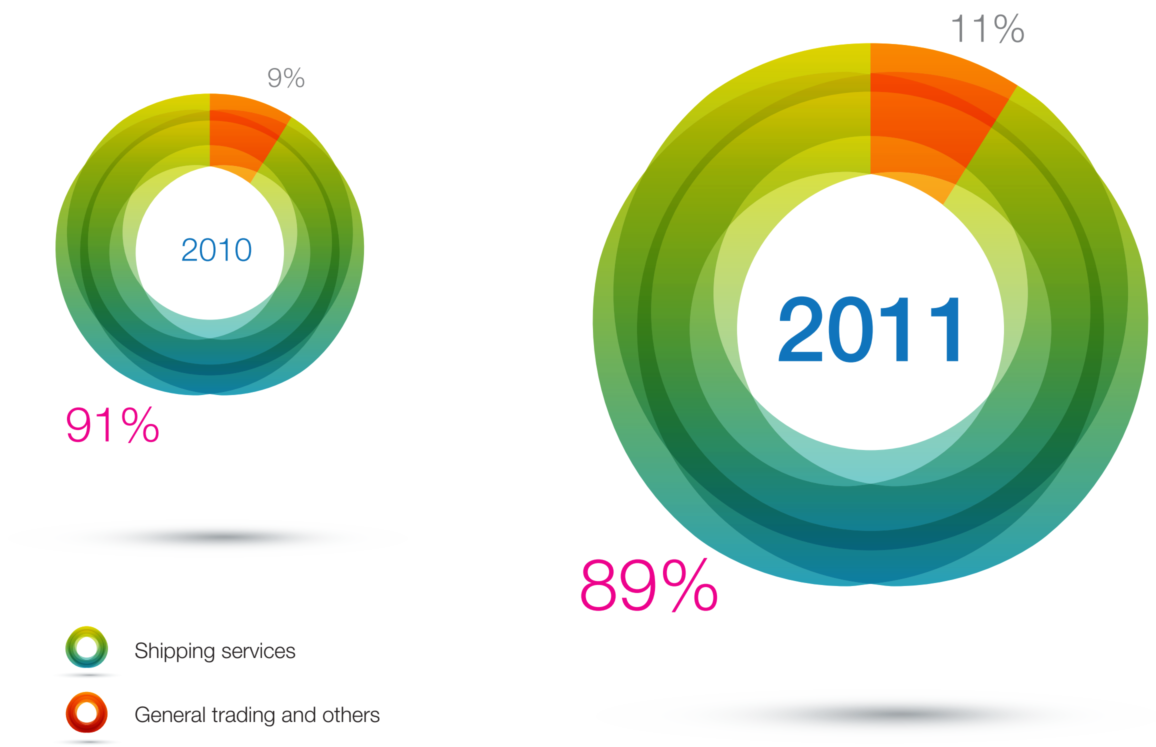
	2011 HK$'000	2010 HK$'000	Change (%)
ANNUAL RESULTS HIGHLIGHTS			
For the year ended 31st December			
Revenue	**10,656,121**	8,666,901	23%
Gross profit	**892,035**	715,176	25%
Operating profit	**370,979**	293,969	26%
Profit before income tax	**538,694**	1,358,752	-60%
Profit attributable to equity holders	**390,339**	1,268,600	-69%
Profit attributable to equity holders, excluding share of results of SOLHL, loss on deemed disposal of partial interest in SOLHL and gain on disposal of SOLHL	**390,339**	287,144	36%
Basic earnings per share (HK cents)	**25.80**	83.97	-69%
Dividends per share (HK cents)	**9.00**	40.00	-78%

	2011	2010
KEY FINANCIAL RATIOS		
For the year ended 31st December		
Gross profit margin	**8.4%**	8.3%
Interest coverage	**33.3 times**	89.0 times
Current ratio	**3.9 times**	4.7 times
Liquidity ratio	**3.6 times**	4.4 times
Total liabilities/total assets	**23.3%**	19.6%
Total borrowings/total assets	**0.4%**	2.2%

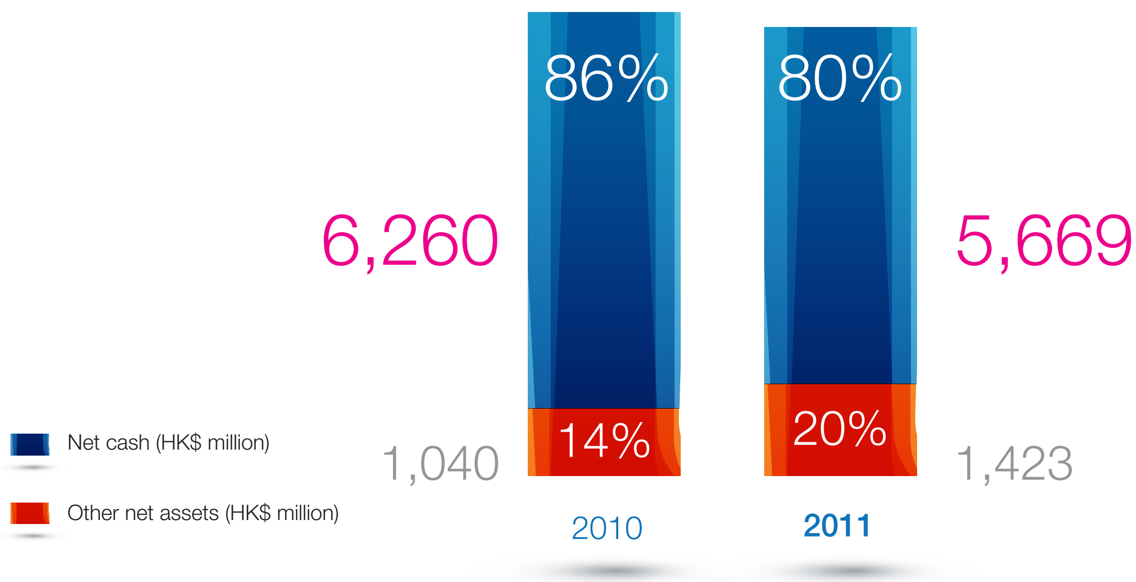
	2011 HK$'000	2010 HK$'000	Change (%)
SEGMENT REVENUE*			
For the year ended 31st December			
Sale of coatings	**1,608,654**	1,291,817	25%
Sale of marine equipment and spare parts	**970,159**	597,386	62%
Commission income from ship trading agency	**150,156**	159,034	-6%
Commission income from insurance brokerage	**85,486**	78,026	10%
Sale of marine fuel and other products	**6,679,864**	5,758,556	16%
Sale of asphalt and other products	**1,161,802**	780,890	49%
Sale of properties	**—**	130	—
Rental income	**—**	1,062	—
TOTAL	**10,656,121**	8,666,901	23%

* *external customers only*

REVENUE BY SEGMENTS



NET ASSETS



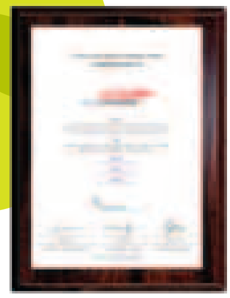
HIGHLIGHTS
AND HONORS OF THE YEAR 2011

24 March

Press Conference and analyst meeting for 2010 annual results were held in Hong Kong.

31 March

Honored with the Caring Company Logo by The Hong Kong Council of Social Service for the third consecutive year, which recognised the Company's commitment and contribution to the employees, the environment and the community.



31 March

Honored with the Asian Excellence Recognition Awards 2011 in the Best Investor Relations (China Company) category by Corporate Governance Asia magazine.

7 Jun

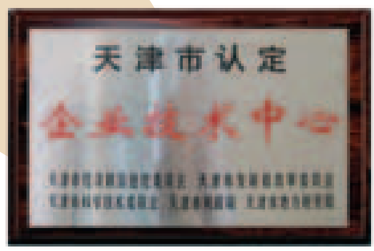
Yuantong signed a cooperation agreement in relation to the spare parts business with Hudong Heavy Machinery Company Limited, a subsidiary of China State Shipbuilding Corporation in Shanghai. This laid a solid foundation for Yuantong's development of supply of domestic marine spare parts.

9 Jun

2011 annual general meeting of the Company was held in Hong Kong. Mr. Alexander Reid Hamilton was elected as Independent Non-executive Director. Upon the conclusion of the annual general meeting, Mr. Kwong Che Keung, Gordon retired as Independent Non-executive Director.

13 Jun

The technology centre of COSCO Kansai (Tianjin) was recognised as an enterprise technology center by the Tianjin Municipal Government.



20 Jun

Awarded "The Best of Asia" in the Corporate Governance Recognition Awards 2011 by the Corporate Governance Asia magazine.

29 Jun

COSCO Kansai Companies were awarded with the title of "2010 China Top Ten Anti-corrosion Coating Brand" by the HC Coating Network.

18 Aug

2010 Annual Report was honored with three awards in the 25th International ARC Awards, i.e. Silver Awards in the Shipping Services categories of "Overall Annual Report" and "Chairman's Letter", and Bronze Award for "Printing and Production".

31 Aug

Press Conference and analyst meeting for 2011 interim results were held in Hong Kong.

2 Sep

Jotun COSCO (Qingdao) held a ground-breaking ceremony of its new plant in Qingdao, which marked the official start of the construction project of the coatings plant.

26 Oct

COSCO purchased, through its wholly-owned subsidiary, an aggregate of 326,000 ordinary shares of COSCO International at an average price of HK$3.247 per share. After the increase in its shareholding, COSCO holds 908,458,286 ordinary shares of the Company, representing approximately 60.01% of the Company's total issued share capital.

1 Nov

Yuantong held a cocktail reception in Hong Kong to celebrate its tenth anniversary and establishment of an operation headquarters.

15 Dec

The Company's website won "Grand Award for Best of Corporate Websites" in the 11th Anniversary International iNOVA Awards Competition.

19 Dec

Won the Gold Award for Social Responsibility and Investor Relations in the Asset Corporate Awards 2011 organised by The Asset magazine.

CHAIRMAN'S STATEMENT

In 2011, the slow recovery of the global economy, the weakening demand in Europe and the United States and the sharp decline in international trade volume had an adverse impact on the international shipping industry. Coupled with the large excess shipping capacity, the international shipping market continued to be weak. All these affected the various business segments of the Group's shipping services to different extents, as shipping enterprises were the Group's major customers. All the employees led by the management team of COSCO International reacted proactively against the complex and uncertain market situation by strict risk control, setting its foothold on core business and, active exploration of new business, new markets and new customers, thus achieving a comprehensive development of operational management and satisfactory results of shipping services in general.

OVERALL RESULTS AND BUSINESS EXPLORATION

The Group's profit attributable to equity holders amounted to HK$390,339,000, representing a decrease of 69% from 2010. Excluding items relating to the investment and disposal of shareholding in SOLHL in 2010, profit attributable to equity holders would have increased by 36% from 2010. Basic earnings per share was 25.80 HK cents. The Group's total revenue for the year was HK$10,656,121,000. The Board proposed a final dividend of 7 HK cents per share for 2011. Together with the interim dividend of 2 HK cents per share, total dividends for 2011 were 9 HK cents per share, representing a dividend payout ratio of 35%.

For business exploration and development, the Group has kept focusing on its strategic development positioning in shipping services, thus continuing to expand the scale of its core business. During the year, the Group engaged an internationally renowned management consultancy firm to assist the research and formulation of long-term strategic plan and corporate vision of "Establishing itself as a global leading one-stop service provider focusing on shipping services", with the aim to provide customers with one-stop services that strengthen their core competitiveness through its presence all over the world, provision of quality services and products with core competitiveness. In the coming five years, COSCO International will gradually establish the business mix and the service offerings of its one-stop service. It will also set up a global sales and service network and construct a customer-oriented business model to further enhance the capability for long-term sustainable development of COSCO International, thus providing impetus for sustainable profitability of COSCO Group.

CORPORATE GOVERNANCE AND RISK CONTROL

The Group recognises that in order to achieve sustainable, steady, healthy and transparent operation and development, a comprehensive and effective corporate governance system is crucial. Not only can it increase the overall value of the Company, but also enhance the attractiveness to investors and protect the interests of the shareholders. The Group strictly adheres to the relevant laws and regulations, regularly improves or formulates corporate governance policy in order to improve and enhance information disclosure and to ensure the shareholders' right of information. During the year, it enhanced its information disclosure policy based on its existing system. Moreover, the Group paid attention to balancing the interests of various stakeholders. It strived to analyse the existing problems of its governance and implement effective measures to reduce the potential risks.

The Group also focuses seriously on risk management. It regularly reviews its systems and processes to identify any weaknesses. Moreover, it promotes integrity in the working environment and increases the management's awareness of risk control through themed training so that crisis can be immediately kept under control when they arise, and also promotes the building of corporate integrity, thus ensuring the overall healthy and steady development of the Group's operations.

AWARDS

The Company's efforts in various aspects such as enhancing corporate governance, strengthening operational management, fulfiling social responsibility and maintaining good investor relations have gained recognition and affirmation from the investors and industry experts. During the year, COSCO International was awarded "The Best of Asia" in the Corporate Governance Asia Recognition Awards 2011 by Corporate Governance Asia magazine, an international authoritative magazine which recognised the Company's excellent performance in corporate governance. COSCO International's 2010 annual report respectively won two Silver Awards in the categories of "Overall Annual Report: Shipping Services" and "Chairman's Letter: Shipping Services" and a Bronze Award in the category of "Printing and Production: Shipping Services" of the 25th International ARC Awards Competition; and the Company's website won the "Grand Award for Best of Corporate Websites" in the 11th Anniversary International iNOVA Awards Competition, which represented that the disclosure and production of the Company's annual report and website was recognised by the market. In addition, the Company was also presented with the "Asset Corporate Awards 2011 — Gold Award for Social Responsibility and Investor Relations" by The Asset, an international financial magazine and the "Asian Excellence Recognition Awards 2011- Best Investor Relations (China Company)" by Corporate Governance Asia, which recognised the Company's high standard of investor relations and information disclosure.

OUTLOOK AND PROSPECTS

2012 is an important transitional year to implement the Twelfth Five-Year Plan. The recovery of the global economy is expected to continue at a slow pace. The situation of the shipping market will remain unfavourable as impacted by the oversupply of shipping capacity and tightening of market liquidity, making the operating environment more difficult. Confronted with the challenges ahead, the Group will grasp the opportunities arising from this complex and volatile market situation to make great strides in development. On one hand, we will strive to strengthen risk prevention and control and to drive profits and healthy development in all business units gradually. On the other hand, we will make use of the advantage of the existing core businesses to actively seek investment opportunities in the related businesses, including the expansion to the upstream and downstream industries, and will accelerate the establishment of a global sales and service network. With the support of COSCO and COSCO Hong Kong, the Group will actively explore business opportunities within and outside COSCO Group and will strive to increase its profit scale, with the aim to be a global leading 'one-stop shop' shipping services provider to create higher returns to the Shareholders.

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 sincere respect to our shareholders and business partners for their continued support and heartfelt gratitude to all members of the Board and the employees for their diligent services.

YE Weilong
Chairman
Hong Kong, 22nd March 2012

VICE CHAIRMAN'S STATEMENT

In 2011, the Group adhered to the guiding principles of "adjusting the structure, striving for returns and focusing on development", and achieved satisfactory operating results and made working accomplishments by actively adjusting its business structure and concentrating the privileged resources to strengthen business development.

PERFORMANCE AND DEVELOPMENT OF THE CORE BUSINESS

During the year, each of the Group's core shipping services business units proactively took advantage of the market situation, exercised strict risk control and innovative operation and achieved an overall steady growth. In general, revenue from the principal business, shipping services was HK$9,494,319,000, up 20% from 2010. Shipping services profit before income tax increased by 19% from 2010 to HK$487,770,000. The performance of each business unit of shipping services is as follows:

For ship trading agency services, under the weak market conditions, the Group overcame various unfavourable factors by carrying out a great deal of coordination with shipowners and shipyards, thus ensuring most of the new build vessel orders in hand made through the Group to be delivered as scheduled, and segment revenue from ship trading agency only decreased by 6% year-on-year and segment profit before income tax decreased by 11% from 2010. For marine insurance brokerage services, the Group grasped the market opportunities by developing new products and continued to offer new services, thus consolidated the existing customers and acquired new customers. Segment revenue from marine insurance brokerage increased by 10% year-on-year and segment profit before income tax increased by 6% year-on-year. For supply of marine equipment and spare parts, to strengthen of internal management of various business nodes in the network, an operation headquarters was formed to capitalise on their regional advantages and synergy. Segment revenue increased by 62% year-on-year and segment profit before income tax increased by 36% from 2010. For production and sale of coatings, COSCO Kansai Companies took advantage of the favourable opportunities arising from the container manufacturing market to seize market share, thus achieving record high operating results. They also strongly developed the business of industrial anti-corrosion coatings. Jotun COSCO proactively promoted the products with the features of energy saving and emission reduction, adopted effective marketing strategies and continued to provide products and services which meet the latest market needs, thus achieving record high business volume. Segment revenue from production and sale of coatings increased by 25% year-on-year and segment profit before income tax increased by 58% from 2010. For trading and supply of marine fuel and related products, facing continued downturn in the shipping market and the risk of deterioration in the operating environment of shipping industry, we timely adjusted our sales strategy and prudently operated business. Despite the decrease in business volume, segment revenue from trading and supply of marine fuel and related products increased by 16% year-on-year due to the rise in oil prices. However, segment profit before income tax decreased by 41% from 2010 as a provision for impairment of HK$29,752,000 was made for part of the account receivables which was in line with our principle of cautious financial management.

INVESTOR RELATIONS

The Group believes that investor relations policy has always been based on the grounds of proper information disclosure, maintaining two-way and effective communications with the shareholders and investors, and increasing and reinforcing shareholders' and investors' confidence through enhancement of transparency and corporate governance level of the Company, with the aim of increasing the value of the Company. During the year, the Company continued to maintain good communications with the Shareholders, institutional investors and analysts through press conferences, analyst meetings, roadshow activities and the annual general meeting, company visits, conference calls and individual meetings, as well as luncheons with the media. Meanwhile, through communications, the Company also understood the expectations of our Shareholders and investors and their opinions and suggestions on the future development of the Company, which provided valuable references for corporate strategic decisions making. In addition, we also continued to strengthen maintenance and updates of the corporate website to ensure accurate and timely information disclosure, and further enriched the website content to facilitate investors to understand the Company's business development and latest situation more easily.

CORPORATE SOCIAL RESPONSIBILITY

As a public listed company, COSCO International has placed great emphasis on its corporate social responsibilities by taking its responsibilities in four areas, i.e. safety, environment protection, employee and community, as important considerations in corporate operations and decision making, with the aim to achieve harmony between the Company and the society, environment and the economy, and sustainable development. During the year, the Group continued to strengthen the standardised "Health, Safety and Environment" ("HSE") management system, raise employees' awareness of occupational safety and foster a safety focused corporate culture; support green shipping, engage in research and development of energy-saving products, co-operate with various environmental groups and social institutions, and enhance employees' knowledge on energy-saving and carbon reduction, recycling and reuse and environmental conservation; optimise the performance appraisal mechanism and the staff welfare system and strengthen team building; and participate in social charitable activities to promote volunteering. Under the concerted efforts of the management and all employees, the Company was awarded the Caring Company Logo for the fourth consecutive year by the Hong Kong Council of Social Service in recognition of the Company's contribution made in caring for the community, the employee and the environment.

FUTURE DEVELOPMENT

In 2012, facing the complex and volatile market environment, COSCO International will, with the guiding principles of "Development through Innovation and Innovation through Inheritance", explore to expand existing businesses and extend into new business segments while striving to ensure smooth production and operation. It will also actively conduct studies on asset acquisitions within and outside COSCO Group, and establish the shipping services network and expand related operations along the business chain of shipping services. It will provide customers with one-stop services through its global sales and service network, quality services and products with core competitiveness. 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. Under the full support of COSCO and COSCO Hong Kong, the Group will seize the opportunities to explore development in shipping services and gain momentum for sustainable development, expand in operation scale and enhance its core competitiveness, thus enhancing the momentum of the Company for sustainable development and continuously creating wealth for the Shareholders.

ZHANG Liang
Vice Chairman
Hong Kong, 22nd March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded gross profit of HK$892,035,000 in 2011, representing an increase of HK$176,859,000 or 25% when compared to 2010 (2010: HK$715,176,000). Overall gross profit margin remained stable at 8%.

up25%

gross profit

OVERALL RESULTS ANALYSIS

Profit attributable to the equity holders was HK$390,339,000 representing a 69% decrease as compared to 2010 (2010: HK$1,268,600,000). Basic earnings per share decreased from 83.97 HK cents in 2010 to 25.80 HK cents in 2011.

Due to the Group's disposal of its entire shareholding in SOLHL, a former associate, in December 2010, the Group's financial results for the year no longer included items relating to the investment and disposal of shareholding in SOLHL. If items relating to the investment and disposal of shareholding in SOLHL were excluded from the 2010 results, profit attributable to equity holders of the Company increased by 36% from HK$287,144,000 in 2010 to HK$390,339,000. Such increase was mainly attributable to the remarkable increase in both operating profit of the shipping services businesses and interest income derived from the Group's large bank deposits as compared to 2010.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of HK$10,656,121,000 in 2011, representing an increase of 23% when compared to 2010 (2010: HK$8,666,901,000). During the year, the three major segments accounting for the largest proportion of the Group's core shipping services revenue, coatings, marine equipment and spare parts, and marine fuel and other products increased by 25%, 62% and 16% respectively as compared to 2010. Revenue of the remaining shipping services businesses remained stable as compared to 2010. As a result, segment revenue of the core shipping services businesses increased by 20% to HK$9,494,319,000 (2010: HK$7,885,881,000) and accounted for 89% (2010: 91%) of the Group's total revenue. Moreover, revenue of general trading increased by 49% to HK$1,161,802,000 (2010: HK$780,890,000) and accounted for 11% (2010: 9%) of the Group's total revenue.

Gross Profit and Gross Profit Margin

The Group recorded gross profit of HK$892,035,000 in 2011, representing an increase of HK$176,859,000 or 25% when compared to 2010 (2010: HK$715,176,000). Overall gross profit margin remained stable at 8%.

Other Income and Gains

The Group reported other income and gains of HK$46,264,000 (2010: HK$35,994,000). Other income and gains mainly comprised net exchange gains of HK$13,825,000, gain on disposal of available-for-sale financial assets of HK$12,642,000 as a result of the disposal of non-core listed equity investments and gain on disposal of a jointly controlled entity of HK$4,318,000 as a result of the disposal of 50% equity interests in 上海遠洋國際貿易有限公司 (Shanghai Ocean International Trading Co. Ltd.) ("Shanghai Ocean"). Other income and gains also included reversal of provision for impairment of inventories (net of provision) of HK$3,841,000 and fair value gains on investment properties of HK$3,249,000. In 2010, the main items included in other income and gains were: (i) net exchange gains, of HK$19,690,000; (ii) fair value gains on investment properties of HK$5,347,000 and gain on disposal of asset held for sale of HK$5,147,000.

Other Expenses and Losses

The Group reported other expenses and losses of HK$28,199,000 (2010: HK$5,291,000). Other expenses and losses mainly comprised provisions for impairment of inventories and trade and other receivables (net of reversals) of HK$27,807,000 (2010: HK$4,577,000).

Selling, Administrative and General Expenses

The Group's selling, administrative and general expenses recorded HK$539,121,000, representing a 19% increase when compared to 2010 (2010: HK$451,910,000) among which selling expenses increased 19% to HK$218,768,000 (2010: HK$183,337,000). Triggered by the increase in coating revenue and marine equipment and spare parts revenue, the selling activities and selling expenses also increased. The major components of selling expenses were sales staff remuneration, technology usage fees and transportation costs. Moreover, due to the inclusion of full year's operating expenses of Xing Yuan and Shin Chung Lin in the Group's administrative and general expenses in 2011 (whereas only several months' operating expenses were included in 2010), increase in research and development expenses, office rental and others, administrative and general expenses rose by 19% to HK$320,353,000 in 2011 (2010: HK$268,573,000).

Operating Profit

Due to the factors stated above, the Group's operating profit increased by 26% to HK$370,979,000 (2010: HK$293,969,000).

Finance Income — Net

The Group's finance income of HK$108,736,000 (2010: HK$10,332,000) represented primarily interest income on bank deposits. The substantial increase in this item was attributable to the Group's increased bank balances as a result of the recouping of net cash proceeds of HK$5,258,294,000 from the disposal of the Group's entire shareholding in SOLHL in December 2010. The Group's finance costs mainly represented interest expenses on short term bank loans of HK$11,727,000 (2010: HK$5,532,000) and other finance charges of HK$5,201,000 (2010: HK$3,673,000). The increase in finance costs was primarily due to the general increase in financing requirement as a result of the rapid expansion in trading activities during the year.

Share of Results of Jointly Controlled Entities

The Group's share of results of jointly controlled entities decreased by 37% to HK$50,152,000 (2010: HK$79,725,000). This item primarily represented the share of profit of Jotun COSCO of HK$48,677,000 (2010: HK$76,552,000) which was included in the coatings segment. The profit contribution from Jotun COSCO reduced by 36% when compared to 2010 as a result of the rising material costs which drove down the gross profit margin.

Share of Results of Associates

The Group's share of results of associates primarily comprised the share of profit of Double Rich of HK$25,091,000 (2010: HK$1,071,000) which was included in the marine fuel and other products segment. The Group's share of results of associates declined substantially by 94% to HK$25,755,000 (2010: HK$438,995,000) because the Group disposed of its entire shareholding in SOLHL in December 2010.

Income Tax Expense

The Group's income tax expense for the year increased to HK$90,963,000 (2010: HK$65,793,000). Excluding the share of profits of jointly controlled entities and associates and non-taxable gain on disposal of an associate, the ratio of income tax expense to profit before income tax decreased from 22% in 2010 to 20% and was in line with the decrease in Group's profit before income tax.

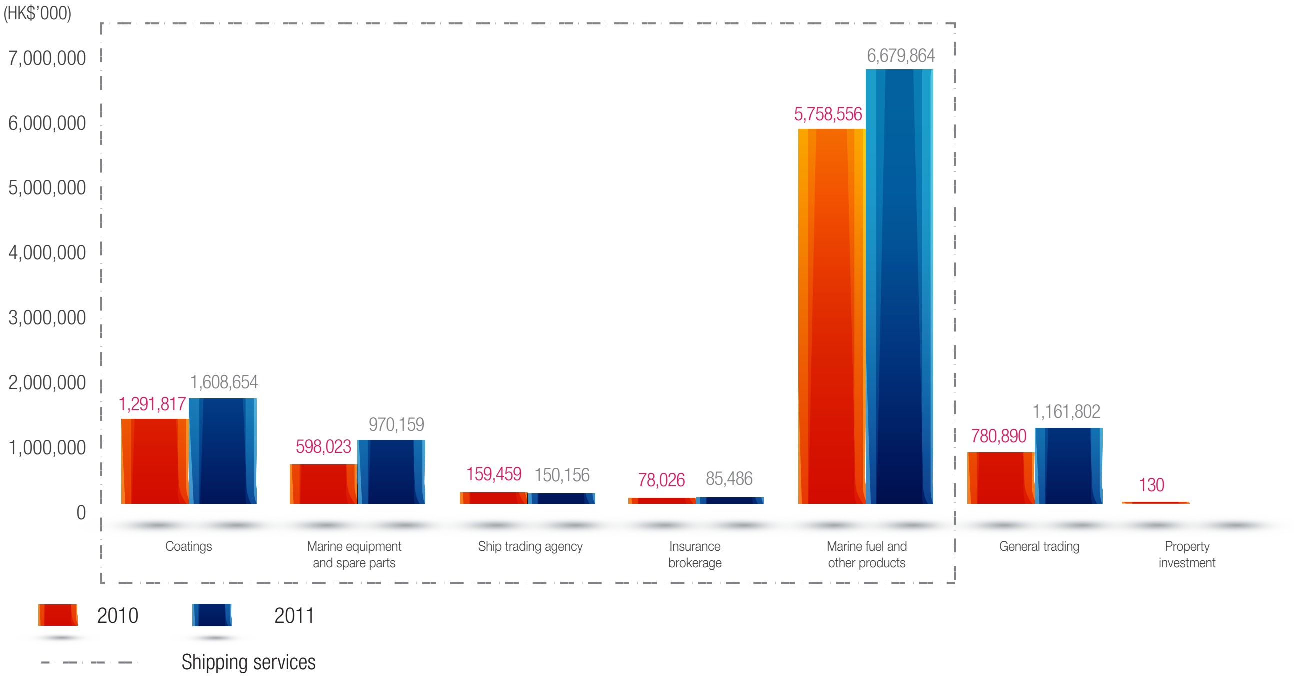
Profit Attributable to the Equity Holders

The Group's profit attributable to the equity holders decreased by 69% to HK$390,339,000 (2010: HK$1,268,600,000). If items relating to the investment and disposal of shareholding in SOLHL were excluded from the 2010 results, profit attributable to equity holders of the Company increased by 36% from HK$287,144,000 in 2010 to HK$390,339,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

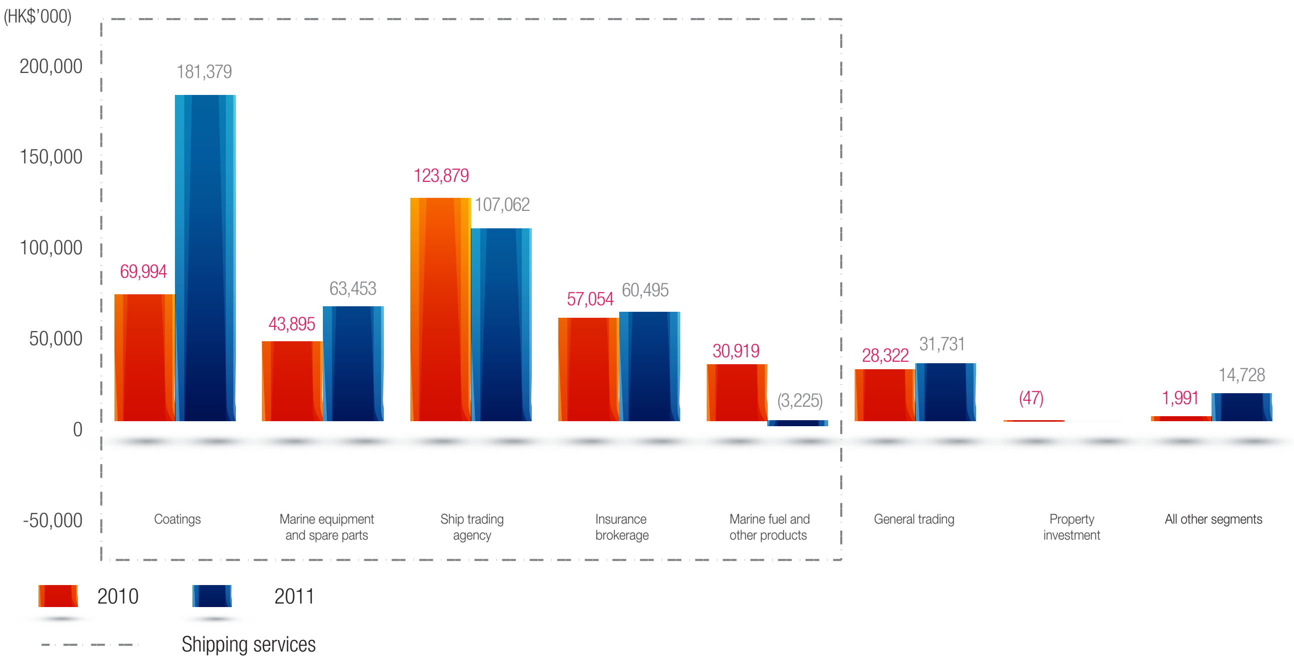
SEGMENT REVENUE*



*external customers only

During the year, the three major segments accounting for the largest proportion of the Group's core shipping services revenue, coatings, marine equipment and spare parts, and marine fuel and other products increased by 25%, 62% and 16% respectively as compared to 2010. Revenue of the remaining shipping services businesses remained stable as compared to 2010. As a result, revenue of the core shipping services businesses increased by 20% to HK$9,494,319,000 (2010: HK$7,885,881,000) and accounted for 89% (2010: 91%) of the Group's total revenue.

SEGMENT OPERATING PROFIT



Steady core profit growth: segment operating profit from shipping services businesses increased by 26% to HK$409,164,000. Segment operating profit from coatings, marine equipment and spare parts, insurance brokerage business segments increased by 159%, 45% and 6% respectively.

Financial Results (Continued)

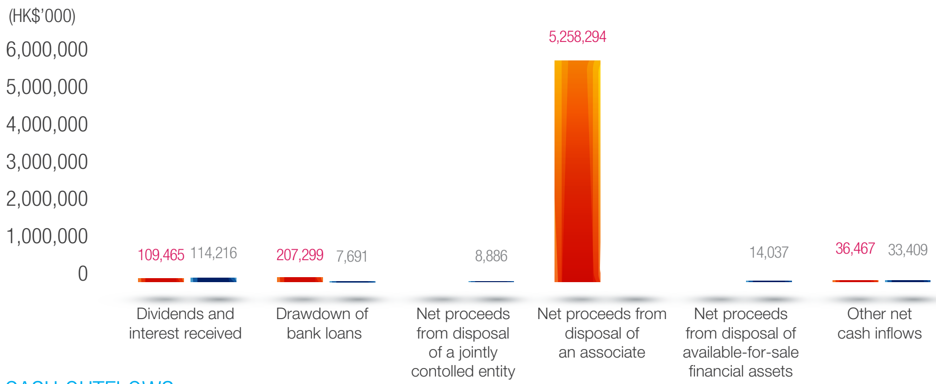
For the year ended 31st December	2011 HK$'000	2010 HK$'000	Change HK$'000	%	Remark
Shipping services	**409,164**	325,741	83,423	26	The increase was attributable to the obvious growth of operating profit from the businesses of coatings and marine equipment and spare parts as compared to 2010.
General trading	**31,731**	28,322	3,409	12	CITC actively participated in tendering new asphalt projects and had succeeded in bidding various tender projects in the regions like Yunnan, Sichuan and Guizhou. During the year, CITC completed the delivery of asphalt of 125,102 tonnes, representing an increase of 23% over 101,303 tonnes in 2010.
Property investments	**—**	(47)	47	N/A	
All other segments	**14,728**	1,991	12,737	640	Mainly gain on disposal of available-for-sale financial assets (including revaluation reserves realised of HK$12,921,000) and dividend income from listed and unlisted investments.
Corporate expenses, net of income	**(83,106)**	(61,966)	(21,140)	34	Mainly increase in administrative expenses.
Elimination of segment income from corporate headquarters	**(74)**	(72)	(2)	3	
Elimination of unrealised profit on inter-segment revenue	**(1,464)**	—	(1,464)	N/A	
Operating profit	**370,979**	293,969	77,010	26	
Finance income-net	**91,808**	1,127	90,681	8,046	The substantial increase was attributable to the Group's increased bank balances as a result of the recouping of net cash proceeds of HK$5,258,294,000 from the disposal of the Group's entire shareholding in SOLHL in December 2010.
Share of results of jointly controlled entities	**50,152**	79,725	(29,573)	(37)	The profit contribution from Jotun COSCO reduced by 36% when compared to 2010 as a result of the rising material costs which drove down the gross profit margin.
Share of results of associates	**25,755**	438,995	(413,240)	(94)	The Group's share of results of associates declined substantially because the Group disposed of its entire shareholding in SOLHL in December 2010.
Loss on deemed disposal of partial interest in an associate	**—**	(768)	768	N/A	
Gain on disposal of an associate	**—**	545,704	(545,704)	N/A	The Group disposed of its entire shareholding in SOLHL in December 2010.
Profit before income tax	**538,694**	1,358,752	(820,058)	(60)	
Income tax expense	**(90,963)**	(65,793)	(25,170)	38	Excluding the share of profits of jointly controlled entities and associates and non-taxable gain on disposal of an associate, the ratio of income tax expense to profit before income tax decreased from 22% in 2010 to 20% and was in line with the decrease in Group's profit before income tax.
Profit for the year	**447,731**	1,292,959	(845,228)	(65)	

Financial Results (Continued)

As at 31st December	2011 HK$'000	2010 HK$'000	Change HK$'000	%	Remark
Intangible assets	**98,542**	91,733	6,809	7	
Property, plant and equipment, prepaid premium for land leases and investment properties	**205,476**	199,103	6,373	3	
Jointly controlled entities	**376,877**	320,401	56,476	18	
Associates	**85,053**	57,689	27,364	47	
Other non-current assets	**138,827**	198,054	(59,227)	(30)	
Completed properties held for sale and inventories	**665,842**	454,544	211,298	46	
Trade and other receivables	**2,191,709**	1,574,998	616,711	39	
Restricted bank deposits	**36,890**	27,809	9,081	33	1
Deposits and cash and cash equivalents	**5,666,734**	6,439,721	(772,987)	(12)	1
Other current assets	**22,585**	1,357	21,228	1,564	
Total assets	**9,488,535**	9,365,409	123,126	1	
Deferred income tax liabilities	**20,358**	13,216	7,142	54	
Trade and other payables	**2,122,464**	1,574,823	547,641	35	
Current income tax liabilities	**31,998**	39,843	(7,845)	(20)	
Short-term borrowings	**34,801**	207,299	(172,498)	(83)	2
Non-controlling interests	**187,119**	230,201	(43,082)	(19)	
Total liabilities and non-controlling interests	**2,396,740**	2,065,382	331,358	16	
Net assets attributable to equity holders	**7,091,795**	7,300,027	(208,232)	(3)	

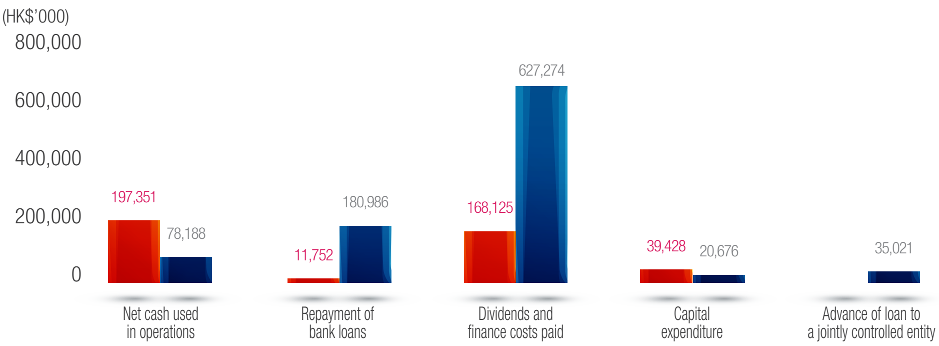
1 MAJOR SOURCES AND USE OF CASH

CASH INFLOWS



Cash (including restricted bank deposits) decreased by HK$763,906,000 in aggregate during the year. Sources of cash principally included dividends and interest received of HK$114,216,000, drawdown of bank loans of HK$7,691,000, net proceeds from disposal of a jointly controlled entity of HK$8,886,000, net proceeds from disposal of available-for-sale financial assets of HK$14,037,000 and other net cash inflows of HK$33,409,000. Use of cash principally included net cash used in operations of HK$78,188,000, repayment of bank loans of HK$180,986,000, payment of dividends and finance costs totalling HK$627,274,000, addition of intangible, property, plant and equipment of HK$20,676,000 and advance of loan to a jointly controlled entity of HK$35,021,000.

CASH OUTFLOWS

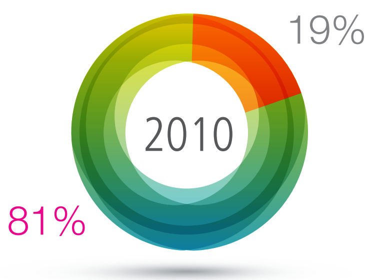


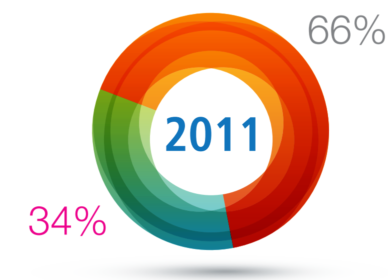
2010

2011

2 ANALYSIS OF SHORT-TERM BORROWINGS

DEBT ANALYSIS



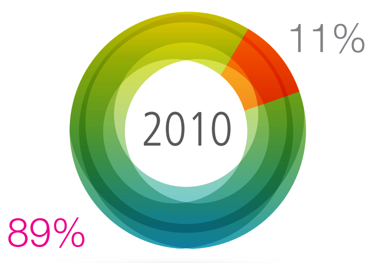


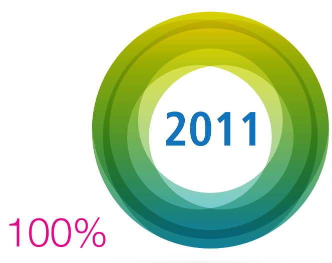
Short-term borrowings as at the end of the year decreased by HK$172,498,000 due to the Group adopts a prudent yet flexible approach towards financial management which aims at maintaining a healthy balance sheet and a relatively low level of borrowings.

Bank loans utilised by general trading business

Bank loans utilised by coatings business

CLASSIFIED BY CURRENCY





United States dollars

Renminbi

MANAGEMENT
DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent yet flexible approach towards financial management which aims at maintaining a healthy balance sheet, a relatively low level of borrowings and 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 ensures sufficient financial resources for merger and acquisition opportunities that fit in well with the Group's strategic direction.

The main sources of liquidity comprised cash and bank balances and unutilised committed bank facilities. The major liquidity needs are to fund general working capital requirements, dividends and future capital expenditure. At 31st December 2011, deposits and cash and cash equivalents held by the Group accounted for 66% (2010: 76%) of the Group's total current assets.

At 31st December 2011, the Group's total assets increased by 1% to HK$9,488,535,000 (2010: HK$9,365,409,000). Total liabilities increased by 20% to HK$2,209,621,000 (2010: HK$1,835,181,000). Due to the Group's substantial revenue growth in coating and general trading businesses during the year, the Group's trade receivable and trade payable increased sharply. On the other hand, deposits and cash and cash equivalents decreased primarily due to the payment of dividends and repayment of bank borrowings.

Net asset value attributable to equity holders was HK$7,091,795,000 (2010: HK$7,300,027,000). The decrease was mainly due to the payment of dividends during the year. Net asset value per share was HK$4.69 (2010: HK$4.83), dropped 3% from the end of 2010.

At 31st December 2011, the Group's total bank borrowings decreased substantially to HK$34,801,000 (2010: HK$207,299,000), mainly due to the repayment of short term borrowings. For the maturity profile, please refer to below table. The Group's total cash in hand and committed yet unutilised standby facilities decreased by 12% to HK$5,703,624,000 (2010: HK$6,467,530,000) and increased by 40% to HK$1,565,592,000 (2010: HK$1,119,696,000) respectively.

Gearing ratio, which represents total borrowings over total assets, was 0.4% (2010: 2.2%).

At 31st December 2011, the Group's did not pledge any assets, other than restricted bank deposits, to banks as security for bank credit facilities (2010: nil). In addition, the Group had restricted bank deposits of HK$36,890,000 (2010: HK$27,809,000).

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.

Debt Analysis

	31st December 2011		31st December 2010	
	HK$'000	**%**	HK$'000	%
Classified by maturity:				
— repayable within one year	**34,801**	**100**	207,299	100
Classified by type of loan:				
— unsecured	**34,801**	**100**	207,299	100
Classified by currency:				
— Renminbi	**–**	**–**	23,590	11
— United States dollars	**34,801**	**100**	183,709	89
	34,801	**100**	207,299	100

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 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. During the year, the Group experienced fast expansion of the coating and asphalt trading businesses which required high level of working capital and a tightening credit environment in China Mainland as well as widening gap between borrowing and deposit rates. To utilise our financial resources, the Group decided to provide financial support to major business units and to reduce the level of external borrowings.

At 31st December 2011, borrowings of the Group carried interest at rates calculated with reference to the London Interbank Offered Rate. The Group will consider using forward foreign exchange contracts to hedge its foreign currency exposure should the need arise.

As to usage of surplus funds, the Group selects suitable financial instruments based on perceived balance of security, return and liquidity. During the year, the Group placed deposits with highly reputable financial institutions both in Hong Kong and China Mainland. The Group seeks to enhance income from cash resources through the placement of time deposits after considering the cash flow factors.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2011, sales to the largest customer and aggregate sales to the five largest customers accounted for 13% and 37% respectively (2010: 9% and 39% respectively) of total revenue of the Group, while purchases from the largest supplier and aggregate purchases from the five largest suppliers accounted for 14% and 40% respectively (2010: 14% and 46% respectively) of the total cost of sales of the Group.

To the best knowledge of the directors, at no time during the year, had the directors, their associates or any shareholders of the Company (which owned more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

EMPLOYEES

As of 31st December 2011, excluding jointly controlled entities and associates, the Group had 747 (2010: 702) employees, of which 110 (2010: 111) are Hong Kong employees. For the year ended 31st December 2011, total employee benefit expenses, including directors' emoluments and provident funds, were HK$229,436,000 (2010: HK$192,583,000). 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 entity 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

COSCO International established the guidelines of "Scientific Analysis and Prediction and Adaptable and Innovative with Profound Vision" at the beginning of the year, and requested its subsidiaries to, while maintaining stable operation and production, identify business opportunities in face of market changes and form creative plans and outstand on innovations by undertaking scientific research and prediction.

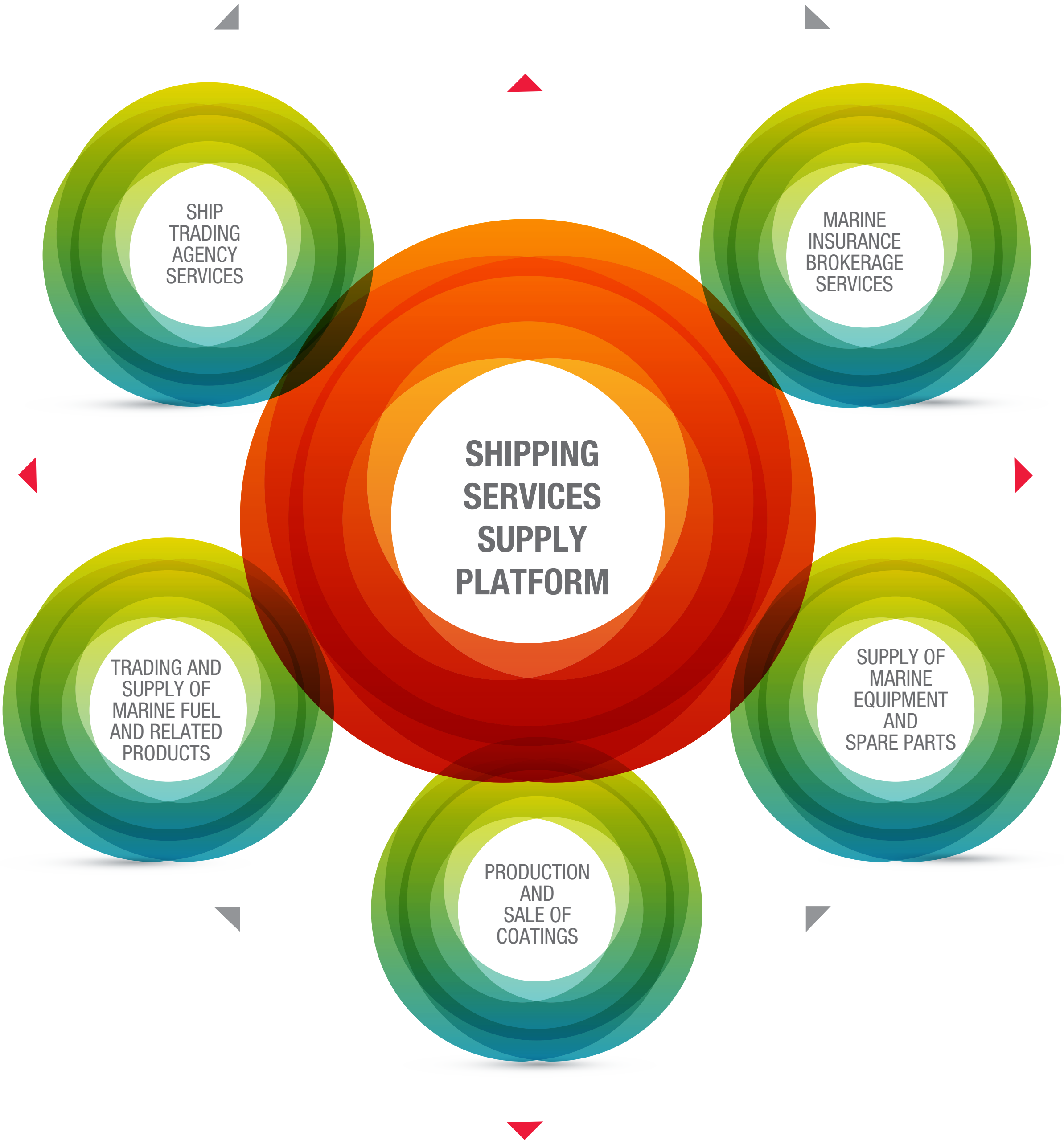
BUSINESS REVIEW

In 2011, the global economy continued to recover, though the pace of recovery has slowed down significantly. The deepening of European sovereign debt crisis and accelerating inflation pressure and unemployment among various countries created further difficulties to the implementation of global macroeconomic policies. Progress of economic recovery was further clouded by the regional political instability, the occurrence of natural disasters and contingent events. The shipping industry was facing imbalanced supply and demand. Meanwhile, shipping overcapacity, rising costs and the increasingly difficult operating environment affected the Group, which is principally engaged in the provision of shipping services, to different extents. Faced with such tremendous difficulties, COSCO International established the guidelines of "Scientific Analysis and Prediction and Adaptable and Innovative with Profound Vision" at the beginning of the year, and requested its subsidiaries to, while maintaining stable operation and production, identify business opportunities in face of market changes and form creative plans and outstand on innovations by undertaking scientific research and prediction. Additionally, the Group strengthened its corporate governance, risk control on operating procedures and enhanced its management, as well as speeded up its internal resources integration to fully optimise synergy between its various business units and enhance their profitability. In consideration of its long-term development, the Group engaged the service of an internationally renowned management consultancy firm to set the directions and formulate the plan for its strategic development. As a whole, the shipping services of the Group achieved satisfactory results during the year with a stable profit growth, while the formulation of the strategic plan has provided valuable guidelines for future business development.

1. Core Business — Shipping Services

The Group's shipping services mainly include ship trading agency services, marine insurance brokerage services, supply of marine equipment and spare parts, production and sale of coatings, and trading and supply of marine fuel and related products.

Driven by economic globalisation and increasing international trade volume, the global fleet size has continuously expanded, which laid a foundation for growth and created broad prospects for the shipping services businesses that primarily serves vessels. According to the statistic data released by Clarkson Research Services Limited, the world fleet size exceeded 1.46 billion dead weight tonnages as at the end of 2011 with an annual growth rate of 8.6%. Although the shipping market was weak in 2011 resulting from over expansion of shipping capacity and natural disasters, which adversely affected the shipping services market to a certain extent. The impact was limited because the revenue from the shipping services was not directly correlated with the change of shipping freight rate and a large amount of new build vessel delivery created favourable factors.



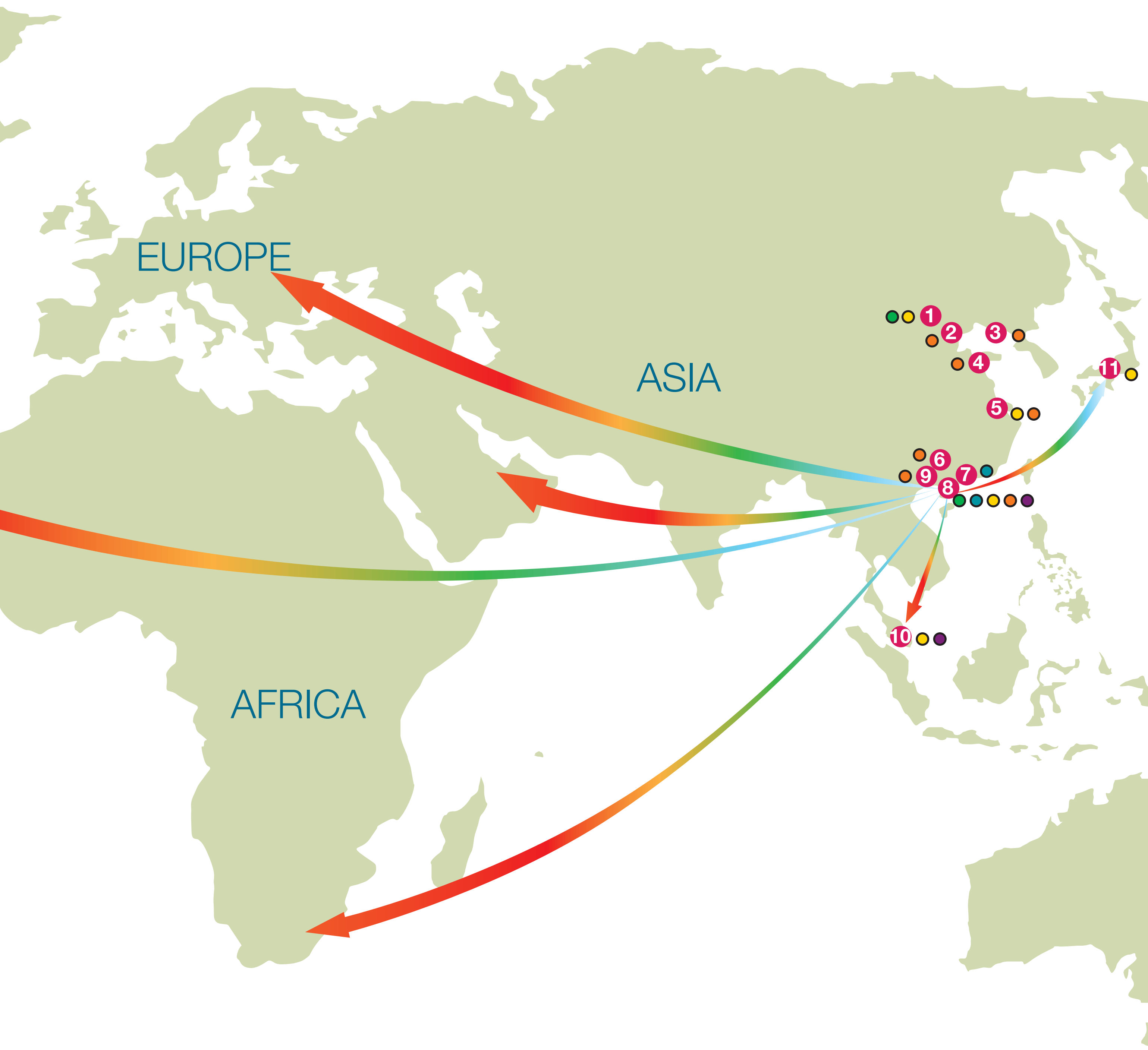
The diversified business units of the shipping services of the Group were able to cope with market changes and adopted counter measures according to their actual situation. In particular, certain business units had successfully developed the business outside COSCO Group. Coupled with the gradual achievement of the synergy amongst business units, the revenues from the Group's various business units either maintained stable or grew in varying degrees in 2011.

During the year, revenue from the Group's shipping services was HK$9,494,319,000 (2010: HK$7,885,881,000), representing an increase of 20% as compared to 2010, which was mainly attributable to the increased revenues from coatings, marine equipment and spare parts and marine fuel and other products when compared to 2010. Profit before income tax from shipping services was HK$487,770,000 (2010: HK$409,574,000), representing an increase of 19% over 2010. The increase was attributable to the obvious growth of profit before income tax from the businesses of coatings and marine equipment and spare parts as compared to 2010.

core business coverage

1 Beijing
2 Tianjin
3 Dalian
4 Qingdao
5 Shanghai
6 Guangzhou
7 Shenzhen
8 Hong Kong
9 Zhuhai
10 Singapore
11 Japan

- 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
- Other than China, the Business Coverage and Scope of Supply of Shipping Services


EUROPE
ASIA
AFRICA
1
2
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11

MANAGEMENT
DISCUSSION AND ANALYSIS

SHIP TRADING AGENCY SERVICES

1.1 Ship Trading Agency Services

COSCO Ship Trading, is principally engaged in the provision of agency services relating to shipbuilding, ship trading and chartering for the fleet of COSCO Group, and is the sole platform for vessel sale and purchase of COSCO Group. COSCO Ship Trading also provides similar services for non-COSCO Group shipowners or shipping companies. COSCO Ship Trading mainly derives its revenue from agency services. In the case of new build vessels, commissions are paid to COSCO Ship Trading by shipbuilders according to the relevant contracts and are periodically collected based on the shipbuilding schedule. For the trading of second-hand vessels, commissions are paid to COSCO Ship Trading according to the contracts after the vendors have delivered vessels to buyers.

During the year, the global economy was volatile and the shipping market remained stagnant. Shipowners and shipping companies were pessimistic towards the future, coupled with greater difficulties in vessel financing, thereby greatly affecting new build vessel delivery. Impacted by this, COSCO Ship Trading consummated transactions for the sale and purchase of 40 vessels (including new build vessels

and second-hand vessels), fewer than 53 vessels recorded in 2010, aggregating 1,524,000 dead weight tonnages (2010: 1,605,000 dead weight tonnages). COSCO Ship Trading mainly derives its commission revenue from the number of delivery of new build vessel orders in hand. As affected by the market conditions during the year, there were delays in new build vessel delivery. However, the management of COSCO Ship Trading carried out in-depth market research, enhanced communication and coordination with shipbuilders and shipowners in order to ensure most of the new build vessel orders in hand delivered on schedule. New build vessels of 2,710,000 dead weight tonnages (2010: 2,870,000 dead weight tonnages) ordered through COSCO Ship Trading were delivered, which greatly reduced the unfavourable impact brought about by the market conditions. During the year, COSCO Ship Trading continued to make efforts to develop its business. On the one hand, it actively strengthened communication with domestic and foreign shipping companies, shipbuilders and ship brokers, regularly released market information and provided customers with value-added services so as to consolidate and establish their long-term and good partnership. On the other hand, it conducted research on and actively studied the development of new businesses and business models, in order to lay a foundation for future development.

During the year, revenue from ship trading agency segment decreased by 6% over 2010 to HK$150,156,000 (2010: HK$159,459,000). The decrease was mainly attributed to the fewer number of new build vessel delivery during the year, thereby reducing commission income from ship trading agency services. Segment profit before income tax was HK$112,530,000 (2010: HK$126,592,000), representing a decrease of 11% from 2010.

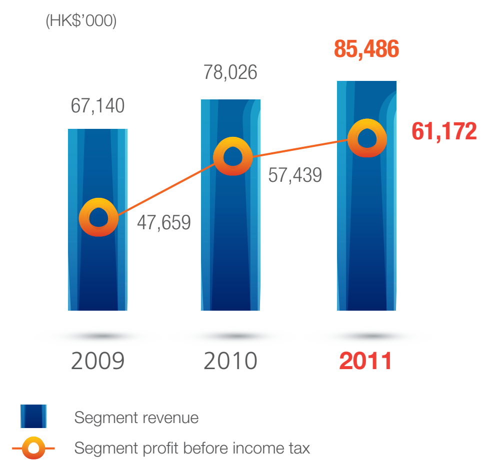
MARINE INSURANCE BROKERAGE SERVICES

1.2 Marine Insurance Brokerage Services

COSCO Insurance Brokers are primarily engaged in the provision of insurance intermediate services including risk assessment, designing insurance program, placing insurance cover, loss prevention, claims handling to vessels insured worldwide for commissions.

In response to market changes, COSCO Insurance Brokers strengthened its existing customer base, attracted new customers and secured future business by developing new products, identifying new customers and launching new

services. During the year, COSCO Insurance Brokers carefully analysed the shipping market conditions and timely launched and further promoted new insurance products such as war risks insurance, kidnap and ransom insurance and kidnap detention insurance against piratic activities for customers. In addition, COSCO Insurance Brokers co-operated with internationally renowned insurance companies and signed insurance agreements of full insurance coverage with preferential premium rates, which helped provide better services for customers and created profit. These became a new profit driver for COSCO Insurance Brokers. In response to market changes, COSCO Insurance Brokers actively shifted the focus of its business to emerging shipping companies under major state-owned enterprises, coupled with the successful promotion of hull and machinery co-insurance to customers outside COSCO Group, thereby achieving satisfactory revenue growth in business with customers outside COSCO Group during the year. In addition, COSCO Insurance Brokers established a market information department to reinforce its forward-looking research on market changes and to provide customers with comprehensive, timely and accurate information and consultation services on insurance, in order to enhance its after-sales service and attract new business with its quality claim settlement services. Through the implementation of the above arrays of business strategies, COSCO Insurance Brokers maintained steady growth in commission income from its marine insurance brokerage services.



During the year, revenue from insurance brokerage segment was HK$85,486,000 (2010: HK$78,026,000), increased by 10% as compared to 2010. Segment profit before income tax was HK$61,172,000 (2010: HK$57,439,000), representing an increase of 6% over 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

SUPPLY OF MARINE EQUIPMENT AND SPARE PARTS

1.3 Supply of Marine Equipment and Spare Parts

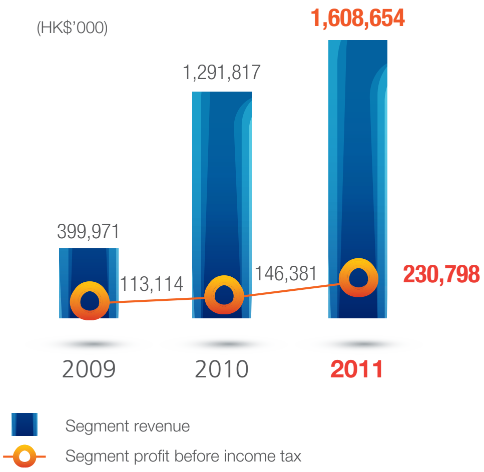
Yuantong and its subsidiaries (including Shin Chung Lin, Xing Yuan and Shanghai Yuantong) (collectively "Yuantong Platform") are principally engaged in the sale and installation of marine equipment and spare parts for existing and new build vessels, as well as equipment of radio communication systems, satellite communication and navigation system for ships, offshore facilities, coastal station and land users, and marine material supply and voyage repair. Its existing business network spreads across Hong Kong, Shanghai, Japan, Singapore, etc.

Since the establishment of Yuantong Platform in 2010, Yuantong focused on enhancing the business and management consolidation of various business nodes in the network and established an operation headquarters

during the year, thus facilitating various nodes to capitalise on their regional advantages and synergy, and expanding the business scale as well as promoting business growth. Preferential terms had been obtained in the procurement of spare parts from domestic and foreign spare parts suppliers through the advantage of large scale group purchase in order to seek greater economic benefits to Yuantong Platform and achieve synergies with actual outcomes. Alongside with the exploration of new business and strengthening of cooperation with traditional internationally renowned suppliers, Yuantong had signed cooperation agreements with certain major state-owned enterprises. This was a solid achievement in supplying domestic spare parts in China at Yuantong Platform. In addition, Yuantong Platform gradually established its market image and branding through multi-channel promotion, which laid a solid foundation for the next stage of business integration along with industry chain and business expansion.

During the year, revenue from marine equipment and spare parts segment was HK$970,159,000 (2010: HK$598,023,000), increased by 62% as compared to 2010. Segment profit before income tax was HK$64,767,000 (2010: HK$47,625,000), representing an increase of 36% over 2010, which included provision for impairment of trade receivables (net of reversal) of HK$4,724,000 (2010: reversal of provision for impairment of trade receivables (net of provision) of HK$5,041,000).

PRODUCTION AND SALE OF COATINGS



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 are principally engaged in 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 coatings manufacturer Jotun A/S, Norway, is principally engaged in production and sale of marine coatings.

During the year, benefitting from the thriving container manufacturing market and huge volume of new build vessels completed in China, COSCO Kansai Companies and Jotun COSCO seized the market opportunities and adopted effective sales strategies, resulting in the significant increase income growth as compared to 2010 and maintained the largest market share in both container coatings and marine coatings markets in China. Sales volume of Jotun COSCO hit historic high, though profit was offset by the rise in prices of raw materials. In addition, in consideration of the development of coatings segment business units, as well as to maintain its well-established country-wide distribution network and increase production capacity, the Group pushed forward the construction of new plants of the two joint ventures. At present, the construction of Jotun COSCO's new plant in Qingdao had commenced, while the relocation of COSCO Kansai's new plant in Shanghai was underway.

During the year, revenue from coatings segment was HK$1,608,654,000 (2010: HK$1,291,817,000), increased by 25% as compared to 2010. Segment profit before income tax was HK$230,798,000 (2010: HK$146,381,000), representing an increase of 58% over 2010.

1.4.1 Container Coatings and Industrial Heavy-Duty Anti-Corrosion Coatings

COSCO Kansai Companies have coating plants in Zhuhai, Shanghai and Tianjin respectively. These three coating plants are respectively located in the Pearl River Delta, the Yangtze River Delta and the Pan-Bohai Rim Area, the three most economically developed regions of China, with a total annual production capacity of 100,000 tonnes.

Strengthening of container coating business remained the foundation of COSCO Kansai Companies. During the year, COSCO Kansai Companies grasped the favourable container manufacturing market trend and maintaining effective communication and cooperation with container manufacturing enterprises and container owners, as well as timely adjusted its sales strategies according to market changes and adopted win-win sales strategies, thus winning recognition from container owners and container manufacturing enterprises and attracting new businesses. During the year, the sales volume of container coatings of COSCO Kansai Companies amounted to 56,979 tonnes, representing an increase of 2% as compared with 55,594 tonnes in 2010, thereby maintaining the leading position in China's container coating market. Meanwhile, COSCO Kansai Companies increased investment and strengthened research and development of technology and adopted a market-oriented approach, resulting in cost reduction and increase in gross profit margin. COSCO Kansai Companies also placed great emphasis on building corporate image, and was committed to winning the recognition of container owners through participation in and organisation of various kinds of activities, and was dedicated to increasing

the influence of its brand as the leading container coatings supplier. COSCO Kansai Companies were also proactive in reacting to and fulfilling its social responsibilities by increasing investment in the research and development of water-based container coatings and the promotion of the production of environmental friendly products.

Product structure adjustment was another important goal of COSCO Kansai Companies, which involved the development of industrial heavy-duty anti-corrosion coatings in order to strengthen its core competitiveness. With the steady growth of China's economy, the launch of "Twelfth Five-year Plan" and a series of policies aiming at boosting infrastructure and domestic consumption in China, the market of industrial heavy-duty anti-corrosion coatings had shown stable growth. In view of such favourable factors, COSCO Kansai Companies grasped the market opportunities and conducted various project researches by classification of industries and set up task forces for follow-up. They began to set up sales networks in Western China such as Chengdu and Central China such as Wuhan, with a focus on expansion of coating businesses for bridges, oil storage tanks, wind turbines and nuclear power generators in order to strive for the formation of new business. During the year, COSCO Kansai Companies recorded sales volume of industrial heavy-duty anti-corrosion coatings together with workshop primer of 10,701 tonnes (2010: 10,379 tonnes), representing an increase of 3% over 2010.

In addition, during the year, the technology centre of COSCO Kansai (Tianjin) was recognised as an "Enterprise Technology Centre" in Tianjin and COSCO Kansai Companies were awarded "The Top 10 Anti-Corrosion Coating Brands Awards of China 2010" by 慧聰塗料網 (HC Coating Network), totally showing the recognition and support of the brand among its peers and customers in China's coating industry.

1.4.2 Marine Coatings

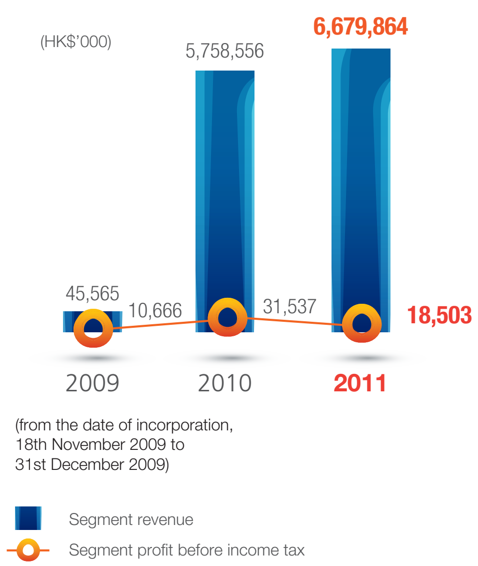
Jotun COSCO is principally engaged in production and sale of marine coatings in China including China Mainland, Hong Kong and Macau Special Administrative Regions. Jotun COSCO, with its sole production plant in Guangzhou at present, accelerated the construction of a new coating plant in Qingdao, China to line up with the production capacity expansion for future development.

During the year, China's shipbuilding industry maintained good development and delivered numerous new build vessels. Leveraging such favourable circumstances, while adopting a flexible sales strategy, Jotun COSCO kept itself abreast of the industry and market norms and also the market trends for environmentally-friendly coatings. They continued to launch products and services which met the latest market demand, achieving a historic high business volume and maintaining its leading position in China's marine coating market. During the year, the sales volume of marine coatings amounted to 97,918,000 litres (equivalent to approximately 132,189 tonnes) (2010: 74,530,000 litres (equivalent to approximately 100,616 tonnes)), representing an increase of 31% as compared to 2010. Sales volume of new build vessel coatings amounted to 81,550,000 litres, increased by 41% as compared to 2010. Sales volume of coatings for repair and maintenance was 16,368,000 litres, slightly decreased by 3% as compared to 2010. Gross profit margin decreased significantly mainly due to the rising raw material prices; although Jotun COSCO had tightened its cost control, profit still showed a significant decline as a result of the decrease in ratio of earnings to charges as compared to 2010. During the year, the Group's share of profit from Jotun COSCO was HK$48,677,000 (2010: HK$76,552,000), decreased by 36% as compared to 2010.

In addition, as at 31st December 2011, Jotun COSCO had coatings contracts in hand for new build vessels amounting to 39,750,000 dead weight tonnages pending delivery. The coatings were scheduled to be delivered in the coming two to three years, which guaranteed Jotun COSCO's future business to a certain extent.

MANAGEMENT
DISCUSSION AND ANALYSIS

TRADING AND SUPPLY OF MARINE FUEL AND RELATED PRODUCTS



1.5 Trading and Supply of Marine Fuel and Related Products

Sinfeng established in Singapore, is primarily engaged in the provision of marine fuel supply, trading of marine fuel and related products and brokerage 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 which have representative offices in Singapore. Currently, its business network primarily covers Singapore, Malaysia and other major oil ports all over the world.

In response to the weak global economy and the shrinking shipping market during the year, Sinfeng objectively analysed the market situation, timely adjusted its sales strategies and prudently operated. In particular, it reduced the oil supply for bulk cargo vessels. The total sales volume of marine fuel products for the year was 1,370,644 tonnes, declined by 13% as compared to 1,578,000 tonnes in 2010. Despite a drop in business volume, revenue from marine fuel and other products segment was HK$6,679,864,000, up by 16% as compared with HK$5,758,556,000 in 2010 as

a result of rising oil prices. Sinfeng strengthened its risk management of trade receivables to protect its interest. It had initiated legal proceedings against a customer who had long deferred payments of receivable. Based on the management's analysis and assessment of current circumstances, part of the receivable from such customer will be recoverable. Based on cautious financial management principle and taking into account the uncertainty of recovery, an impairment provision of HK$29,752,000 was made for part of such receivable.

In addition, Double Rich, which the Group owns 18% equity interest, is principally engaged in trading of fuel 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 major customers or end users are shipowners and ship operators. During the year, the Group's share of profit from Double Rich was HK$25,091,000 (2010: HK$1,071,000), increased by 2243% as compared to 2010. A significant increase in profit was primarily due to the implementation of effective corresponding measures by Double Rich to cope with the competition in Hong Kong marine fuel market, which had helped its major jointly controlled entity to turn around from losses.

Profit before income tax of marine fuel and other products segment was HK$18,503,000 (2010: HK$31,537,000), representing a decrease of 41% from 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

2. General Trading

CITC is principally engaged in trading of asphalt, general marine equipment and marine supplies, as well as other comprehensive trading. CITC is familiar with the PRC's market and the market operations and has abundant experience in international trading. It has steady suppliers and stable market share, which will generate synergies with the Group's shipping services businesses, serving as an important platform for the Group to tap into the PRC's market.

During the year, while making good progress on the delivery for successfully tendered projects, CITC actively participated in tendering new asphalt projects, in accordance with the development trend of the asphalt market on China Mainland. Having succeeded in bidding various tender projects in the regions like Yunnan, Sichuan and Guizhou, CITC further expanded its market share in the traditional asphalt markets in Southwest China. During the year, CITC completed the delivery of asphalt of 125,102 tonnes, which hit historic high, representing an increase of 23% over 101,303 tonnes in 2010. Meanwhile, leveraging its existing business volume and good market reputation, CITC also focused on developing new models for business development, and with a focus in Guangxi regions, signed a strategic cooperation agreement with local strategic partner, laying a solid foundation for its future development in the region. In response to the change in the mode of asphalt delivery upstream, CITC timely adjusted its strategies and conducted systematic research on warehouse leasing, warehousing and asphalt processing and logistics, which helped to lay the groundwork for future business development and cost control.

During the year, revenue from general trading segment was HK$1,161,802,000 (2010: HK$780,890,000), increased by 49% as compared to 2010. Segment profit before income tax decreased by 39% over 2010 to HK$14,688,000, which included gain of HK$4,318,000 on disposal of 50% equity interest in Shanghai Ocean (2010: HK$24,075,000, which included gain of HK$5,147,000 on disposal of asset held for sale). The decline in profit was attributed to the increase in finance costs as a result of faster growth in the level of trade receivables and inventory brought forth by the business development and growth.

3. Property Investments

As the Group had disposed of its entire shareholding interest in SOLHL in December 2010, property investments were no longer identified as a reportable segment in 2011. Segment profit before income tax from property investments for 2010 was HK$981,409,000 which mainly included the profit contribution from SOLHL.

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 the Shareholders' interest in general.

Innovation

PROFILE OF DIRECTORS
AND SENIOR MANAGEMENT

we are committed to moving the company forward

Mr. Ye Weilong *Mr. Zhang Liang*

DIRECTOR

Mr. Ye Weilong

(Chairman)

aged 49, has been an Executive Director and the Chairman of the Board of the Company since February 2012. He is also the chairman of the board of COSCO Shipping Co. Ltd. (listed in the PRC) and a deputy general manager of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company). He was the assistant to general manager, deputy general manager and general manager of Shanghai International Freight Forwarding Company, the general manager of COSCO Shanghai International Freight Co., Ltd., the general manager of COSCO International Freight Co., Ltd., the deputy general manager of COSCO Container Lines Co., Ltd., the managing director of COSCO Logistic Co., Ltd. and the deputy general manager of China COSCO Holdings Company Limited. Mr. Ye has extensive experience in corporate operation management, international cargo transportation as well as the operation and management of modern logistics strategy. He obtained a Master's degree in Business Administration from Shanghai Maritime College and Maastricht School of Management in the Netherlands and a Doctoral degree in Transportation Planning and Management from Dalian Maritime University, and is a senior economist.

Mr. Zhang Liang

(Vice Chairman)

aged 58, has been an Executive Director and the Vice Chairman of the Board of the Company since February 2012. He is also the chairman of Executive Committee and Risk Management Committee and a member of Investment Committee of the Company. Mr. Zhang is a director of two subsidiaries of the Company, the director, executive vice chairman and president of COSCO (Hong Kong) Group Limited. Mr. Zhang was the department head of Personnel Department, assistant to the general manager, deputy general manager (and safety control manager) and general manager of Tianjin Ocean Shipping Company, the deputy general manager, general manager and chairman of COSCO Bulk Carrier Co., Ltd., the chief legal consultant and vice president of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the general manager of China COSCO Holdings Company Limited and the chairman of Qingdao Ocean Shipping Co., Ltd., COSCO Logistics Co., Ltd., Shenzhen Ocean Shipping Co., Ltd., the chairman of the board of directors of COSCO (H.K.) Shipping Co., Limited and the executive director of China COSCO Holdings Company Limited (listed in Hong Kong and the PRC) up to his resignation in February 2012. Mr. Zhang was a marine captain. He has over 30 years of experience in the shipping industry and has extensive experience in corporate operation and management. Mr. Zhang graduated from Dalian Maritime University, majoring in navigation and obtained a Master's degree in Transportation Planning and Management from Shanghai Maritime College as well as a Doctoral degree in Corporate Management from Nankai University, and is a senior engineer.

PROFILE OF DIRECTORS
AND SENIOR MANAGEMENT

Mr. Jia Lianjun

Mr. Liang Yanfeng

Mr. Jia Lianjun[1]

aged 51, 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 the Strategic Development Division of China COSCO Holdings Company Limited, a director of Chinese-Tanzanian Joint Shipping Company, COSCO Japan Co., Ltd, COSCO (Cayman) Fortune Holding Co., Ltd., Hainan COSCO Boao Co., Ltd., Qingdao Ocean Shipping Co., Ltd. and Bright Sea Management Limited. Mr. Jia has a Master's degree in 產業經濟學 (Industrial Economics) from Capital University of Economics and Business, and is a senior engineer. He had been the department officer, deputy department head, department head of Corporate Management Department and the manager of Corporate Management Office of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), and the director of COSCO (Hong Kong) Group Limited. He has extensive experience in corporate management.

Mr. Liang Yanfeng[2]

aged 46, has been an Executive Director of the Board of the Company since August 2006 and had been the Managing Director of the Company from August 2006 to December 2009. He is also the chairman of Investment Committee, a member of Executive Committee and Risk Management Committee of the Company. Mr. Liang is a director of subsidiaries of the Company, a director and the vice president of COSCO (Hong Kong) Group Limited, a director of True Smart International Limited. Mr. Liang has a Master's degree in Laws from the Department of Social Sciences 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 the Ministry of Communications of the PRC. Mr. Liang previously served as the deputy general manager of Human Resources Division and the general manager of Capital Operations Division of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), an executive director of COSCO Pacific Limited, the director of COSCO Corporation (Singapore) Limited, the general manager of COSCO Human Resources Development Company, the non-executive director of Sino-Ocean Land Holdings Limited (listed in Hong Kong) until his resignation in March 2011 and the non-executive director and non-executive vice chairman of Soundwill Holdings Limited (listed in Hong Kong) until his resignation in April 2011. 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.

1 resigned as Non-executive Director of the Company on 10th April 2012
2 resigned as Executive Director of the Company, ceased to be the chairman of Investment Committee, member of Executive Committee and Risk Management Committee of the Company on 10th April 2012

Mr. Wang Xiaodong

Mr. Meng Qinghui

Mr. Chen Xuewen

Mr. Wang Xiaodong

(Managing Director)

aged 53, has been an Executive Director of the Board of the Company since January 2006 and was appointed as the Managing Director of the Company since December 2009. Mr. Wang is a member of Executive Committee, Risk Management Committee, Investment Committee, Nomination Committee and Remuneration Committee of the Company. He is a director of subsidiaries of the Company. 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, the Executive Master's degree in Business Administration from China Europe International Business School and senior engineer qualification awarded by Ministry of Communications of the PRC. He previously served as the deputy general manager of Trade Division and head of Consolidated Trade Department of 中國遠洋運輸(集團)總公司 (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.), the general manager of COSCO Industry Company (presently known as COSCO Shipbuilding Industry Company) and the non-executive director of Sino-Ocean Land Holdings Limited (listed in Hong Kong) until his resignation in March 2011. 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.

Mr. Meng Qinghui[3]

aged 56, 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, a director of True Smart International Limited and a non-executive director of Chong Hing Bank Limited (listed in Hong Kong). Mr. Meng graduated from Central South University and has the PRC Accountant qualification. Mr. Meng had been the non-executive director of Soundwill Holdings Limited (listed in Hong Kong) until his resignation in April 2011. He has extensive experience in corporate financial management and accounting and is also familiar with corporate financial planning.

Mr. Chen Xuewen[4]

aged 47, 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 Strategic Planning and Development Division of COSCO (Hong Kong) Group Limited. Mr. Chen graduated from the Peking University in Economics and Management. He had been the department head of the Planning Department of Strategic Planning Division of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the general manager of Beijing Ocean Plaza Co., Ltd. and the deputy general manager of COSCO H.K. (Beijing) Investment Co., Ltd.. Mr. Chen has extensive experience in corporate management and operation.

3 resigned as Non-executive Director of the Company on 10th April 2012
4 resigned as Non-executive Director of the Company on 10th April 2012

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Wenjin

Mr. Tsui Yiu Wa, Alec

Mr. Lin Wenjin[5]

aged 53, has been an Executive Director of the Board of the Company since August 2006 and a member of Executive Committee, Investment Committee and Remuneration Committee of the Company. He also serves as a Deputy Managing Director and a director of subsidiaries of the Company. Mr. Lin is in charge of investor relations, administrative 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 the marine chief engineer certificate, senior engineer qualification awarded by the Ministry of Communications of the PRC. He had worked in 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company) and had been the assistant manager of Technical Department, the chief of New Building Section in Japan, the manager of Development Department of Ocean Tramping Company, Limited and had been the deputy general manager of Development Division and Strategic Planning Division, the managing director of 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.

Mr. Tsui Yiu Wa, Alec

aged 62, has been an Independent Non-executive Director of the Board of the Company since February 2004 and the chairman of Nomination Committee, a member of Audit Committee and Remuneration Committee of the Company. Mr. Tsui is also the chairman of WAG Worldsec Corporate Finance Limited, a director of Industrial and Commercial Bank of China (Asia) Limited (previously listed in Hong Kong and delisted in December 2010). He is also an independent non-executive director of a number of listed companies in Hong Kong, namely, China Power International Development Limited, China Chengtong Development Group Limited, China BlueChemical Ltd., Pacific Online Limited, China Oilfield Services Limited (also listed in the PRC), Summit Ascent Holdings Limited (formerly known as Arnhold Holdings Limited) as well as an independent director of companies listed on NASDAQ including Melco Crown Entertainment Limited (also listed in Hong Kong) 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 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 the independent non-executive director of the following listed companies in Hong Kong, namely, Vertex Group Limited (presently known as National Arts Holdings Limited) until his retirement in April 2009, Greentown China Holdings Limited until his retirement in June 2010 and China Huiyuan Juice Group Limited until his resignation in July 2010.

5 Mr. Lin Wenjin, the deputy general manager of the Company, resigned as Executive Director of the Company and ceased to be member of Executive Committee, Investment Committee and Remuneration Committee of the Company on 10th April 2012

Mr. Jiang, Simon X. *Mr. Alexander Reid Hamilton* *Mr. Wang Wei*

Mr. Jiang, Simon X.

aged 58, has been an Independent Non-executive Director of the Board of the Company since April 2007 and is the chairman of Remuneration Committee, a member of Audit Committee and Nomination Committee of the Company. He is also the chairman of Cyber City International Limited and an independent non-executive director of 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 of England. He is currently a member of the National Committee of the Chinese People's Political Consultative Conference 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 Economics from Cambridge University of England. Mr. Jiang was the deputy chief of United Nations Joint Staff Pension Fund Investment Management Service, a director of Zi Corporation, the advisory board member of Capital International Inc. of United States, Rothschild Investment Bank of England and the independent non-executive director of China Oilfield Services Limited (listed in Hong Kong and the PRC) until his retirement in May 2010. He has experience in fund management.

Mr. Alexander Reid Hamilton

aged 70, has been an Independent Non-executive Director of the Board of the Company since June 2011 and the chairman of Audit Committee, a member of Nomination Committee and Remuneration Committee of the Company. Mr. Hamilton is also an independent non-executive director of a number of listed companies, namely, CITIC Pacific Limited (listed in Hong Kong), Esprit Holdings Limited (listed in Hong Kong), Shangri-La Asia Limited (listed in Hong Kong) and JF China Region Fund, Inc. (a USA registered closed end fund quoted on the New York Stock Exchange). He previously served as a director of China Central Properties Limited (delisted from Alternative Investment Market of the London Stock Exchange in June 2009) until his resignation in September 2009 and an independent non-executive director of China COSCO Holdings Company Limited (listed in Hong Kong and the PRC) until his retirement in May 2011. Mr. Hamilton is a member of the Institute of Chartered Accountants of Scotland, a fellow member of the Hong Kong Institute of Certified Public Accountants and Institute of Directors. He was a partner of Price Waterhouse for 16 years and has more than 20 years of audit and accounting experience.

Mr. Wang Wei

aged 40, has been a Non-executive Director of the Board of the Company since April 2012. He is also a non-executive director of COSCO Pacific Limited (listed in Hong Kong), a director of COSCO Shipping Co., Ltd. (listed in the PRC) and general manager of Organisation Division/Human Resources Division of China COSCO Holdings Company Limited. Mr. Wang had been the deputy manager of Executives Management Department of Organisation Division/Human Resources Division, the manager of Executives Management Department of Organisation Division/Human Resources Division and the deputy general manager of Organisation Division/Human Resources Division of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the deputy general manager of Organisation Division/Human Resources Division of China COSCO Holdings Company Limited. Mr. Wang graduated from Renmin University of China, majoring in human resources management.

PROFILE OF DIRECTORS
AND SENIOR MANAGEMENT

Mr. Wu Shuxiong

Mr. He Jiale

Mr. Wu Shuxiong

aged 57, has been a Non-executive Director of the Board of the Company since April 2012. He is also executive vice president of COSCO (Hong Kong) Group Limited. Mr. Wu had been the marine chief engineer, the section manager of safety and technology of ship management department, the deputy manager of ship management department of Shanghai Ocean Shipping Company, the general manager of Shanghai Far East Container Manufacturing Co. Ltd., the deputy general manager of Shanghai Ocean Shipping Company, the deputy general manager and director of COSCO Container Lines Co., Ltd. and the supervisor of China COSCO Holdings Company Limited. Mr. Wu has over 30 years of experience in the shipping industry and has extensive experience in corporate operational management and ship management. Mr. Wu graduated from Shanghai Jiao Tong University, majoring in transportation management and is a senior engineer.

Mr. He Jiale

aged 57, has been an Executive Director of the Board of the Company since April 2012. He is also the chairman of Investment Committee, a member of Executive Committee and Risk Management Committee of the Company. Mr. He is an executive director of COSCO Pacific Limited (listed in Hong Kong) and the financial controller of COSCO (Hong Kong) Group Limited. Mr. He was the executive director of the Company during 2003 to 2006 and had been the deputy director of Finance Division of Shanghai Ocean Shipping Company, the deputy general manager of Finance Department of the COSCO Container Lines, the deputy general manager of Finance and Capital Department of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the chief accountant of COSCO Container Lines Co., Ltd. and the chief financial officer of China COSCO Holdings Company Limited. Mr. He has over 30 years of experience in the shipping industry and has extensive experience in corporate finance and financial management. Mr. He graduated from the postgraduate studies of management science and engineering from Shanghai University. He is a senior accountant.

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 2011 are disclosed in the section headed "DIRECTORS' INTERESTS IN SECURITIES" of the Directors' Report.

Mr. Liang Yanfeng and Mr. Meng Qinghui are directors of True Smart International Limited ("True Smart"). Mr. Zhang Liang is the director, executive vice chairman and president of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"), Mr. Liang Yanfeng is the director and vice president of COSCO Hong Kong, Mr. Wu Shuxiong is the executive vice president of COSCO Hong Kong and Mr. He Jiale is the finance controller of COSCO Hong Kong. Each of Mr. Meng Qinghui and Mr. Chen Xuewen is the managing director of Finance Division and Strategic Planning and Development Division of COSCO Hong Kong respectively. Mr. Ye Weilong is the deputy general manager of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company) ("COSCO"). True Smart has, COSCO Hong Kong and COSCO are 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 the 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 past 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, substantial shareholders or controlling shareholders of the Company as at 10th April 2012.*

Each of Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X., being the Independent Non-executive Directors, has entered into the letter of appointment with the Company on 30th June 2010 for a term commencing from 1st June 2010 to the conclusion of the 2012 annual general meeting of the Company ("2012 AGM"). Mr. Alexander Reid Hamilton, being the Independent Non-executive Director, has entered into the letter of appointment with the Company on 9th June 2011 for a term commencing from 9th June 2011 to the conclusion of the 2012 AGM. Mr. Wang Xiaodong, being an Executive Director, has entered into the letter of appointment with the Company on 16th January 2012 for a term commencing from 1st June 2010 to the conclusion of the 2012 AGM. Each of Mr. Ye Weilong and Mr. Zhang Liang, being the Executive Directors, has entered into the letter of appointment with the Company on 24th February 2012 for a term commencing from 24th February 2012 to the conclusion of the 2014 annual general meeting of the Company ("2014 AGM"). Mr. He Jiale, being the Executive Director, has entered into the letter of appointment with the Company on 10th April 2012 for a term commencing from 10th April 2012 to the conclusion of the 2014 AGM. Each of Mr. Wang Wei and Mr. Wu Shuxiong, being the Non-executive Directors, has entered into the letter of appointment with the Company on 10th April 2012 for a term commencing from 10th April 2012 to the conclusion of the 2014 AGM. Each of Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen, the Non-executive Directors who resigned on 10th April 2012, has entered into the letter of appointment with the Company on 30th June 2010 for a term commencing from 1st June 2010 to the conclusion of the 2012 AGM. Each of Mr. Liang Yanfeng and Mr. Lin Wenjin, the Executive Directors who resigned on 10th April 2012, has entered into the letter of appointment with the Company on 16th January 2012 for a term commencing from 9th June 2011 to the conclusion of the 2013 annual general meeting of the Company. Each of the above letters of appointment is subject to termination by either party giving one month's prior notice in writing or such other shorter notice period as may be agreed by both parties.

The Directors referred to under "PROFILE OF DIRECTORS AND SENIOR MANAGEMENT" section (except (i) Non-executive Directors and (ii) Mr. Liang Yanfeng, being Executive Director) received the Directors' emoluments for the year 2011 which was 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 for the year ended 31st December 2011 on a named basis are disclosed in note 29 to the financial statements.*

The Directors referred to under "PROFILE OF DIRECTORS AND SENIOR MANAGEMENT" section (except (i) Non-executive Directors and (ii) Mr. Ye Weilong, Mr. He Jiale and Mr. Liang Yanfeng being Executive Directors) will receive the Directors' emoluments for the year 2012 which will be determined with reference to the prevailing market conditions, directors experience, qualifications and responsibilities involved in the Company.*

* resigned as Executive Director of the Company on 10th April 2012

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Tong Changbing

aged 47, has been Deputy General Manager of the Company since July 2011. Mr. Tong is in charge of strategic development, capital operation and project investment of the Company. Mr. Tong holds a Doctor of Philosophy degree in Industrial Economics from Beijing Jiaotong University and a Master's degree in Automatic Control Engineering from Harbin College of Shipbuilding Engineering. Mr. Tong previously served as deputy manager of General Department of Asset Operation Center, director of Domestic Listed Company Administrative Department of Capital Operation Division, and manager of Board Affairs Department of Strategic Development Division of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), as well as deputy general manager of COSCO (H.K.) Industry & Trade Holdings Ltd. Mr. Tong is familiar with the capital operation of listed company and he has extensive experience in the operation of initial public offering, strategic development, mergers and acquisitions, investment management, corporate governance and risk management.

Mr. Lo Siu Leung, Tony

aged 48, 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 of Hong Kong Limited and several listed companies. He has extensive experience and expertise in corporate finance, corporate governance and financial planning.

Ms. Chiu Shui Suet

aged 45, 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 listed companies. She has extensive experience and solid knowledge in dealing with the company secretarial and legal matters of listed company.

Mr. Chen Daming

aged 54, 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 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company) and in charge of the sale and purchase of second-hand vessels, scrap vessels and containers businesses. Mr. Chen has awarded senior engineer qualification and has extensive experience in ship trading.

Mr. Song Chunfeng

aged 43, has been the General Manager of COSCO (Hong Kong) Insurance Brokers Limited since March 2012. Mr. Song graduated from Peking University with a Doctor Degree in Civil and Commercial Law, obtained a Master Degree in Maritime Law from Shanghai Maritime University and a Bachelor Degree in Law from Liaoning University. Mr. Song has joined COSCO Group for 20 years and he previously served as general manager of Commercial Department of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company). Mr. Song is currently a member of Documentary Committee in BIMCO, a member of Insurance and Legal Committee in INTERTANKO, the chairman of Maritime Law Research Professional Committee in China Institute of Navigation (CIN), a member and an arbitrator of China Maritime Arbitration Commission, a mediator in China Chamber of International Commerce (CCOIC), a guest research fellow to Maritime Law Research Center in Peking University, a director of China Maritime Law Association (CMLA) and a member of Marine Insurance Committee in CMLA, a member of the legal consultant Committee of China Shipowner's Association (CSA). He has sound knowledge in marine insurance and extensive experience in the management of marine and commercial legal cases.

Mr. Qiu Ming

aged 51, 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 Safety and Technology Division of the Second Department and as division chief of Equipment Division of Technology Department of Shanghai Ocean Shipping Company. In 1999, Mr. Qiu worked as the general manager of Chung Lin Marine Service Corporation 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 54, 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 Macau University of Science and Technology in 2002. Mr. Dong worked as a manager of the Production Department and the Sales Department of International Paints of Shanghai Co. Ltd. during the period from 1981 to 1996. Since 1998, he worked as the general manager of Jotun Paints (H.K.) Limited Shanghai Representative Office. Mr. Dong has extensive experience in coatings technology, sales, marketing management and purchasing management.

Mr. Xin Liwen

aged 46, 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 general manager of Jotun COSCO Marine Coatings (HK) Limited. Mr. Xin has senior engineer qualification and has extensive management experience in ship technology, marine coatings enterprises and trading in marine equipment and spare parts.

Mr. Li Min

aged 48, 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 中國遠洋運輸(集團)總公司 (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 Hanyuan Technical Service Center 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 (Petro China) 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. Zhang Mai

aged 41, has been the Managing Director of Sinfeng Marine Service Pte. Ltd. since April 2011. Mr. Zhang graduated from Shanghai Maritime University and joined Shipping Department of Shanghai Ocean Shipping Company in 1992 and Business Division of COSCO Bulk Carrier Company in 1995. He also joined Liner Department of COSCO Container Lines Company Limited in 1999 and had been deputy manager of fuel oil business management, business manager and senior business representative. Mr. Zhang has been responsible for the supply of worldwide fuel oil business for COSCO Group's fleets. He has profound understanding and experience in the international fuel oil market and has extensive personal network in worldwide marine fuel oil market and among shipowners in China.

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 the 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 2011, 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.

The CG Code was amended and renamed as the Corporate Governance Code and Corporate Governance Report (the "New CG Code") with effect from 1st April 2012. In order to reinforce and enhance our commitment to maintaining high standards of corporate governance, the Company has complied with the certain recommended best practices in the CG Code indicated below which would be upgraded to code provisions in the New CG Code.

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 of the Company. The Directors have to make 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. As at the date of this Corporate Governance Report (the "CG Report"), the Board is composed of five Executive Directors (including the Chairman, the Vice Chairman and the Managing Director of the Company), three 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 2011. Notice of meeting was sent to the Directors at least 14 days prior to the 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 regular Board meetings during the year:

- adoption of the recommendations of Audit Committee;
- approval of revised information management policy;
- interim and annual review of the report on the business operations;
- approval of interim and annual 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; and
- approval of annual business plan and financial budget; review of the management accounts and financial forecast.

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.

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.

Where a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, a Board meeting will be 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 officers arising out of corporate activities.

Chairman and Managing Director

As at the date of the CG Report, the position of the Chairman, the Vice Chairman and the Managing Director are held by Mr. Ye Weilong, Mr. Zhang Liang 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 2011. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters may be openly discussed.

Board Composition

As at the date of the CG Report, the Board comprises eleven Directors, namely, Mr. Ye Weilong (Chairman), Mr. Zhang Liang (Vice Chairman), Mr. Liang Yanfeng, Mr. Wang Xiaodong (Managing Director) and Mr. Lin Wenjin as Executive Directors; Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen as Non-executive Directors; and Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton 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 will meet the requirements of the amended Listing Rules relating to have at least one-third Independent Non-executive Directors by the end of 2012.

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 Rules.

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

Appointments, Re-election and Removal

Each of Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen, being the Non-executive Directors, each of Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X., being the Independent Non-executive Directors and Mr. Kwong Che Keung, Gordon, being the ex-Independent Non-executive Director has entered into the letter of appointment with the Company on 30th June 2010 for a term commencing from 1st June 2010 to the conclusion of the 2012 annual general meeting of the Company.

Mr. Alexander Reid Hamilton, being the Independent Non-executive Director, has entered into the letter of appointment with the Company on 9th June 2011 for a term commencing from 9th June 2011 to the conclusion of the 2012 annual general meeting of the Company.

Mr. Wang Xiaodong, being the Executive Director, has entered into the letter of appointment with the Company on 16th January 2012 for a term commencing from 1st June 2010 to the conclusion of the 2012 annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

Each of Mr. Liang Yanfeng and Mr. Lin Wenjin, being the Executive Directors, has entered into the letter of appointment with the Company on 16th January 2012 for a term commencing from 9th June 2011 to the conclusion of the 2013 annual general meeting of the Company.

Each of Mr. Ye Weilong and Mr. Zhang Liang, being the Executive Directors, has entered into the letter of appointment with the Company on 24th February 2012 for a term commencing from 24th February 2012 to the conclusion of the 2014 annual general meeting of the Company.

Pursuant to the bye-laws of the Company, any Director appointed to fill vacancy shall hold office until the next following general meeting or annual general meeting of the Company and shall then be eligible for re-election at that meeting, and every Director is subject to retirement by rotation at least once every three years and shall be eligible for re-election at such annual general meeting of the Company.

In order to enable the Shareholders 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 accompanied with annual report 2010.

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 Audit, Remuneration and Nomination Committees. There were satisfactory attendances and active participations at the Board meeting(s), 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 as 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. In order to ensure Directors' dealings in the securities of the Company are conducted in accordance with the Model Code and 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 Model Code and the Securities Code during the year of 2011, all Directors confirmed that they had complied with the required standards as set out in the Model Code and the Securities Code during the year.

Well Done

Each of the Directors had confirmed their other directorships held in public companies or organisations at least twice a year. Independent Non-executive Directors and Non-executive Directors had during the year contributed to the Board their constructive and valuable advice in the development of the Company's strategy, in particular the internal controls of the Company.

Supply of and Access to Information

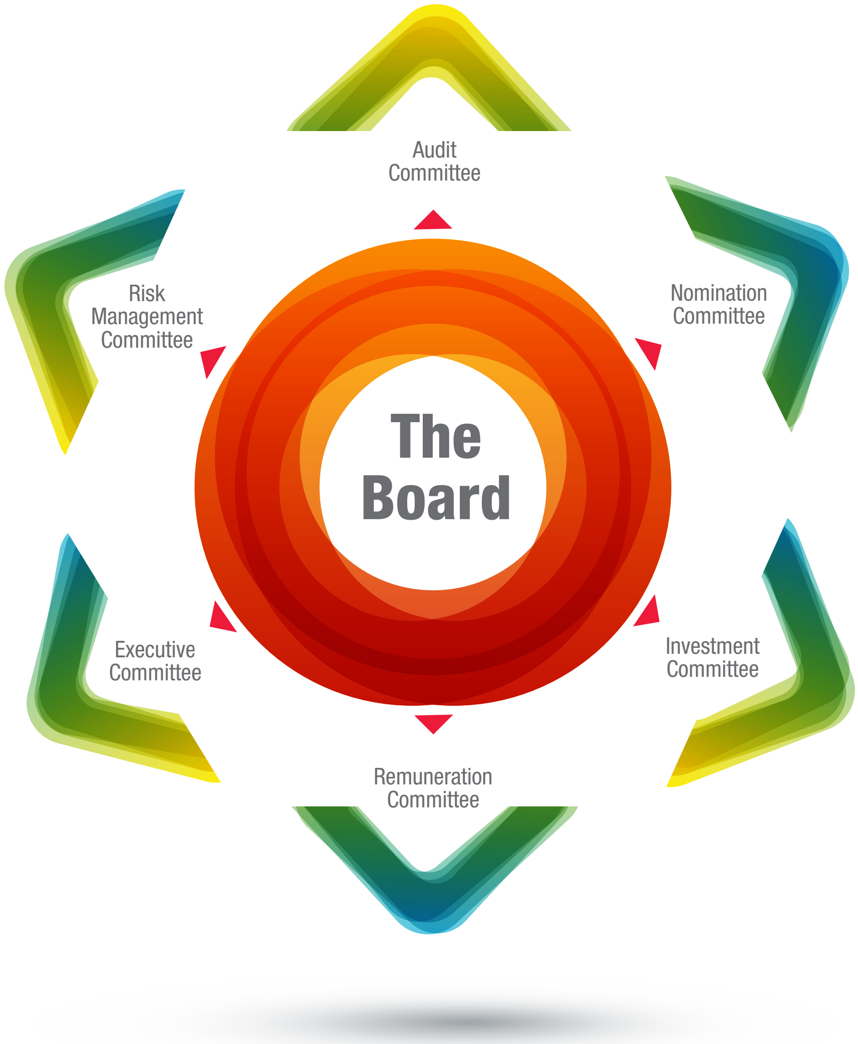
The Company Secretary assists the Chairman to prepare the agenda of the regular Board meetings. Agenda and accompanying board papers were sent to all Directors at least 3 days (generally at least 7 days) before the meeting unless it was on an urgent basis in order to ensure that they had sufficient time 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 a 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 clearly 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 the Shareholders' value to the management; and
- monitoring performance of the 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 subsidiaries of the Company.

Board Committees

In order to assist the Board in the execution of its duties, the Board has established Audit Committee, Remuneration Committee, Nomination Committee, Investment Committee, Risk Management Committee and Executive Committee with respective terms of reference which clearly defined its authorities 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.

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 Remuneration Committee is available on the Company's website. A majority of members of Remuneration Committee are Independent Non-executive Directors. As at the date of the CG Report, Remuneration Committee comprises all Independent Non-executive Directors, namely Mr. Jiang, Simon X. (chairman of Remuneration Committee), Mr. Tsui Yiu Wa, Alec and Mr. Alexander Reid Hamilton; and two Executive Directors, namely Mr. Wang Xiaodong and Mr. Lin Wenjin.

The main duties of Remuneration Committee include:

- making recommendations 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 of the Company 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 expense.

During the year, Remuneration Committee held three meetings in June, July and September 2011 to review the Directors' fees of Independent Non-executive Directors with reference to the market survey, to approve the salary of the deputy general manager of the Company and to approve the remuneration report of the Group respectively.

Draft minutes of Remuneration 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. 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 for the year 2011 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 authorities 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.

Other than covering the scope of duties as required in the code provisions of the CG Code, Audit Committee's scope of duties were extended to include reviewing the complaint 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) confidential, 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 is treated as confidential and in a sensitive manner. The chairman of Audit Committee will review the complaint and decide how the investigation should proceed. Details of the whistleblowing policy are available on the Company's website. Up till now, no complaint from the employee of the Company 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. Alexander Reid Hamilton (chairman of Audit Committee) who is a certified public accountant, Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X.. Except Mr. Alexander Reid Hamilton, the Independent Non-executive Director, who was a partner of Price Waterhouse for 16 years, none of the members of Audit Committee are former partners of the Company's existing auditing firm.

The main duties of Audit Committee include:

- reviewing the 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.

During the year, Audit Committee held three meetings with the external auditor and the senior management of the Company, in March, August and November 2011 respectively. The major works performed by Audit Committee in 2011 included:

- reviewing and making recommendations for the Board's

approval on the draft annual report 2010 as well as the audited consolidated financial statements for the year ended 31st December 2010 and interim report 2011 and the unaudited consolidated financial statements for the period ended 30th June 2011;
- 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 2010 and the period ended 30th June 2011;
- reviewing the cash flow forecast and financial budget for the year of 2011;
- making recommendations to the Board that, subject to the Shareholders' approval at the annual general meeting, PricewaterhouseCoopers would be re-appointed as the external auditor of the Company;
- reviewing the internal audit plan for 2012 and external audit plan for the year ending 2011; 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.

Draft minutes of 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 circulated to the Board and kept by the secretary of the Committee.

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 Nomination Committee), Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton; and the Executive Director, Mr. Wang Xiaodong. The terms of reference of 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 the 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 the 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, Nomination Committee held two meetings in April and December 2011. The major works performed by Nomination Committee in 2011 included:

- recommending the election of Mr. Alexander Reid Hamilton as independent non-executive director of the Company at the 2011 annual general meeting;
- reviewing the Board composition and assessing the independence of Independent Non-executive Directors and the contribution from the members of the Board; and
- recommending the directors' re-election arrangement at 2012 annual general meeting of the Company.

Draft minutes of Nomination 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.

Executive Committee

The Executive Committee was established in March 2005, with specific written terms of reference. As at the date of the CG Report, Executive Committee comprises Mr. Wang Xiaodong (chairman of Executive Committee), Mr. Zhang Liang, Mr. Liang Yanfeng 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, Executive Committee held a meeting in December 2011 to review the business operations, strategic development, corporate governance and performance of safety production during the year of 2011.

Draft minutes of Executive Committee meeting prepared by the secretary of the Committee was circulated to the Committee members for comments after the meeting. Full minutes of the meeting was kept by the secretary of the Committee.

Investment Committee

The Investment Committee was established in March 2005, with specific written terms of reference. As at the date of the CG Report, Investment Committee comprises Mr. Liang Yanfeng (chairman of Investment Committee), Mr. Zhang Liang, 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.

During the year, Investment Committee held two meetings in February and March 2011 respectively in relation to the setting up of coatings plant in Qingdao and disposal of 50% of equity interests in 上海遠洋國際貿易有限公司 (Shanghai Ocean International Trading Co., Ltd.).

Draft minutes of Investment 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.

Risk Management Committee

The Risk Management Committee was established in March 2005, with specific written terms of reference. As at the date of the CG Report, Risk Management Committee comprises Mr. Wang Xiaodong (chairman of Risk Management Committee), Mr. Zhang Liang and Mr. Liang Yanfeng, all being Executive Directors. The terms of reference of 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, Risk Management Committee held a meeting in December 2011 to discuss a report submitted by the Internal Audit Department. The report was about the risk management analysis on credit risk, hedging risk and certain subsidiaries/associates and the risk management planning for 2012. The Board was satisfied with the said report submitted to the first regular Board meeting in 2012.

Draft minutes of Risk Management Committee meeting prepared by the secretary of the Committee was circulated to the Committee members for comments after the meeting. Full minutes of the meeting was circulated to the Board and kept by the secretary of the Committee.

Attendance Record at the Board Meetings 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 *Note (1)*	2/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Wang Futian *Note (2)*	3/4	N/A	1/1	2/2	N/A	N/A	1/1
Mr. Liang Yanfeng	2/4	N/A	1/1	2/2	N/A	N/A	1/1
Mr. Wang Xiaodong	4/4	N/A	1/1	2/2	2/2	3/3	1/1
Mr. Lin Wenjin	4/4	N/A	1/1	2/2	N/A	3/3	N/A
Non-executive Directors							
Mr. Jia Lianjun	4/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Meng Qinghui	3/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Chen Xuewen	3/4	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors							
Mr. Tsui Yiu Wa, Alec	4/4	3/3	N/A	N/A	2/2	3/3	N/A
Mr. Jiang, Simon X.	4/4	3/3	N/A	N/A	2/2	3/3	N/A
Mr. Alexander Reid Hamilton *Note (3)*	3/3	2/2	N/A	N/A	1/1	2/2	N/A
Ex-Directors							
Mr. Kwong Che Keung, Gordon *Note (4)*	1/1	1/1	N/A	N/A	1/1	1/1	N/A

Notes

(1) Mr. Zhang Fusheng resigned as Executive Director and Chairman of the Company on 24th February 2012.

(2) Mr. Wang Futian resigned as Executive Director and Vice Chairman of the Company on 24th February 2012 and accordingly ceased to be committee member of each of Executive Committee, Investment Committee and Risk Management Committee.

(3) Mr. Alexander Reid Hamilton was elected as Independent Non-executive Director of the Company on 9th June 2011. On the same day, he was appointed as committee chairman of Audit Committee and committee member of each of Remuneration Committee and Nomination Committee.

(4) Mr. Kwong Che Keung, Gordon retired as Independent Non-executive Director of the Company on 9th June 2011 and accordingly ceased to be committee chairman of Audit Committee and committee member of each of Remuneration Committee and Nomination Committee.

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 in accordance with the disclosure requirements under the Listing Rules.

The Board aimed at presenting a balanced, clear and understandable assessment of the Company's position to the 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 of the Company relating to the price-sensitive information (if any) 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 takes into account adequately 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 results of analysis, the Group identifies the main risk and the management target. The management of each business unit 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 Group. 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 activities. The Audit Committee assesses the effectiveness of the internal control system by reviewing the work of the Internal Audit Department and its findings. The results of each audit and agreed-upon management action plan are reported on a timely basis to the management responsible for implementing changes, which should ensure the action plan to be implemented within an appropriate and reasonable timeframe. A follow-up review will be performed by the Internal Audit Department approximately three to six months after the date of the audit response to determine if the audit recommendations have been implemented. Follow-up work will continue until all recommendations have been appropriately addressed.

Management of each business unit should 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 (if any).

During the year, the Internal Audit Department had performed reviews on all major aspects of the Group's operations in Hong Kong, the PRC and overseas 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 Audit Committee reported to the Board on key findings regarding internal audit work at least two times 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 Audit Committee in March 2011. The chairman of Audit Committee reported to the Board the results of the review in March 2011. 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 then Chairman of the Board attended the annual general meeting of the Company held on 9th June 2011 (the "2011 AGM") and the then chairman of Audit Committee and the chairmen of Remuneration and Nomination Committees were available to answer questions at the 2011 AGM. Moreover, the representative of the independent board committee will attend the special general meetings of the Company to approve the connected transactions of the Company, if any.

At the 2011 AGM, a separate resolution for each substantially separate issue was proposed, including election of individual Directors. Separate resolutions will be proposed at the other general meetings on each substantially separate issue, if any.

During the year, notice of general meeting to the Shareholders had been sent in the case of annual general meeting at least 20 clear business days before the meeting. Notice of general meeting to the Shareholders will be sent 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 the Shareholders to have one vote for every share of the Company 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 the Shareholders regarding voting by way of poll. The poll voting results of the general meetings would be published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings.

AUDITOR'S REMUNERATION

During the year, the remuneration paid or payable to the Company's external auditor, PricewaterhouseCoopers in respect of audit and non-audit services provided to the Group were approximately HK$3,027,588 and HK$1,780,500 respectively.

The above non-audit services included professional advisory on taxation, professional services in relation to the Company's announcements, financial and taxation due diligence reviews, interim results and continuing 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, Investor Relations Department is designated to respond to enquiries from the 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 the Shareholders.

MANAGEMENT MEETINGS

Members of Executive Committee and the senior management meet together basically 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 is 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 in accordance with the Listing Rules. The connected persons will be 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 in 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 all the 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, 22nd March 2012

Recommended Best Practices of the CG Code complied by the Company

DIRECTORS' REPORT

The board of directors of the Company (the "Director(s)" or the "Board") presents this Directors' Report (the "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

The Company's principal activity is investment holding. The principal activities of the Group include shipping services and general trading. 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 2011 are set out in the consolidated income statement on page 108 of this annual report. The Board has recommended the payment of a final dividend of 7 HK cents (2010: 3 HK cents) per share for the year ended 31st December 2011. Subject to the approval of shareholders of the Company (the "Shareholders") in the annual general meeting of the Company to be held on Thursday, 31st May 2012 (the "AGM"), approximately HK$105,954,000 will be payable on or before Thursday, 28th June 2012 to the Shareholders whose names appear on the register of members of the Company (the "Register of Members") on Monday, 11th June 2012.

For the purpose of ascertaining the Shareholders' right to attend and vote at the AGM, the Register of Members will be closed from Tuesday, 29th May 2012 to Thursday, 31st May 2012, both days inclusive, during which no transfer of the shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, 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 (the "Branch Share Registrar") at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 28th May 2012.

For the purpose of ascertaining the Shareholders' entitlement to the proposed final dividend, the Register of Members will be closed from Thursday, 7th June 2012 to Monday, 11th June 2012, 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 2011, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Branch Share Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 6th June 2012.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company 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 2011 calculated under Companies Act of Bermuda amounted to HK$5,659,822,000.

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 and of the Company 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 during the year are set out in note 22 to the financial statements.

DONATIONS

Donations made by the Group during the year amounted to approximately HK$214,000 (2010: HK$202,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on pages 187 and 188.

DIRECTORS

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

Executive Directors

Mr. Ye Weilong *(Chairman)*
(appointed on 24th February 2012)
Mr. Zhang Liang *(Vice Chairman)*
(appointed on 24th February 2012)
Mr. Liang Yanfeng
Mr. Wang Xiaodong *(Managing Director)*
Mr. Lin Wenjin
Mr. Zhang Fusheng
(resigned on 24th February 2012)
Mr. Wang Futian
(resigned on 24th February 2012)

Non-executive Directors

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

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.
Mr. Alexander Reid Hamilton
(appointed on 9th June 2011)
Mr. Kwong Che Keung, Gordon
(retired on 9th June 2011)

In accordance with bye-law 99 of the Company's bye-laws, every Director shall be subject to retirement by rotation at least once every three years and a retiring Director shall be eligible for re-election at such annual general meeting of the Company. In accordance with bye-law 102(B) of the Company's bye-laws, any Director appointed to fill a causal vacancy shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen, being the Non-executive Directors, each of Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X., being the Independent Non-executive Directors and Mr. Kwong Che Keung, Gordon, being the ex-Independent Non-executive Director, has entered into the letter of appointment with the Company on 30th June 2010 for a term commencing from 1st June 2010, the date of 2010 annual general meeting to the conclusion of the 2012 annual general meeting of the Company.

Mr. Alexander Reid Hamilton, being the Independent Non-executive Director, has entered into the letter of appointment with the Company on 9th June 2011 for a term commencing from 9th June 2011, the date of his appointment to the conclusion of the 2012 annual general meeting of the Company.

Mr. Wang Xiaodong, being the Executive Director, has entered into the letter of appointment with the Company on 16th January 2012 for a term commencing from 1st June 2010, the date of 2010 annual general meeting to the conclusion of the 2012 annual general meeting of the Company.

Each of Mr. Liang Yanfeng and Mr. Lin Wenjin, being the Executive Directors, has entered into the letter of appointment with the Company on 16th January 2012 for a term commencing from 9th June 2011, the date of 2011 annual general meeting to the conclusion of the 2013 annual general meeting of the Company.

Each of Mr. Ye Weilong and Mr. Zhang Liang, being the Executive Directors, has entered into the letter of appointment with the Company on 24th February 2012 for a term commencing from 24th February 2012, the date of his appointment to the conclusion of the 2014 annual general meeting of the Company.

Each of the above letters of appointment is subject to termination by either party giving one month's prior notice in writing or such other shorter notice period as may be agreed by both parties.

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 companies, or any of its subsidiaries or fellow subsidiaries, a 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 below:

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. Ye Weilong	Companies controlled by 中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company) ("COSCO")	— Shipping services	director
Mr. Zhang Liang	Companies controlled by COSCO	— Shipping services	director
Mr. Jia Lianjun	Companies controlled by COSCO	— Shipping services	director
Mr. Liang Yanfeng	Companies controlled by COSCO	— Shipping services	director
Mr. Meng Qinghui	Companies controlled by COSCO	— Shipping services	director
Mr. Chen Xuewen	Companies controlled by COSCO	— Shipping services	director
Ex-Directors			
Mr. Zhang Fusheng*	Companies controlled by COSCO	— Shipping services	director
Mr. Wang Futian#	Companies controlled by COSCO	— Shipping services	director

* Mr. Zhang Fusheng resigned as Executive Director and Chairman of the Company on 24th February 2012.

\# Mr. Wang Futian resigned as Executive Director and Vice Chairman of the Company on 24th February 2012.

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.

A. Continuing Connected Transactions

1. (a) *Supply Continuing Connected Transactions*

A master supply agreement was entered into between the Company and COSCO (Hong Kong) Group Limited, an intermediate holding company of the Company ("COSCO Hong Kong") on 10th November 2010 in relation to (1) provision of marine and general insurance brokerage services by the Group 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 (other than the Group) (collectively "COSCO Group"); and (2) provision of shipping services and sale of shipping related and other materials and products by the Group to COSCO Group, including without limitation: (a) the provision of ship agency services including those for the sale and purchase of new and second-hand vessels, bareboat chartering businesses and the sale and purchase of marine equipment and other related services; (b) the provision of supply and installation, repair, logistics and agency services in relation to (i) ship facilities and accessories, which include equipment, materials, spare parts for vessels, oil drills, projects at sea or on land and ports, (ii) marine mobile or land base radio communication, satellite communication and navigation equipment on board or offshore as well as coast radio stations, and (iii) building materials and facilities, chemicals and information management systems; and (c) the sale of coatings (collectively called the "Supply Continuing Connected Transactions") for the three financial years ending 31st December 2013 (the "Master Supply Agreement"). Pursuant to the Master Supply Agreement, COSCO Hong Kong agreed and would procure the Supply Continuing Connected Transactions be conducted on normal commercial terms and at such fee and consideration no less favourable than those available to or from (as appropriate) independent third parties. The aggregate amount of the Supply Continuing Connected Transactions for each of the financial year ending 31st December 2011, 2012 and 2013 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Supply Caps").

(b) *Purchase Continuing Connected Transactions*

A master purchase agreement was entered into between the Company and COSCO Hong Kong on 10th November 2010 in relation to the provision of shipping services and sale of shipping related materials and products by COSCO Group to the Group, including without limitation: (a) the provision of agency services, technical services and ancillary services, including the collection of market information, technical advisory, promotion and marketing, coordination with suppliers and customers, purchase of raw materials from suppliers, the provision of assistance in collecting sale proceeds and the procurement or provision of certain after-sale services; (b) the provision of shipping transportation services; and (c) the solicitation and referral of businesses by COSCO Group to the Group, including recommending products manufactured by the Group to the customers and manufacturers of COSCO Group (collectively called the "Purchase Continuing Connected Transactions") for the three financial years ending 31st December 2013 (the "Master Purchase Agreement"). Pursuant to the Master Purchase Agreement, COSCO Hong Kong agreed and would procure the Purchase Continuing Connected Transactions be conducted on normal commercial terms and at such fee and consideration no less favourable than those available to or from (as appropriate) independent third parties. The aggregate amount of the Purchase Continuing Connected Transactions for each of the financial year ending 31st December 2011, 2012 and 2013 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Purchase Caps").

(c) *Financial Services Continuing Connected Transactions*

A financial services master agreement was entered into between the Company and COSCO Hong Kong on 10th November 2010 in relation to the provision of a range of financial services, including the deposits services, settlement services and remittance services 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 "Financial Services Continuing Connected Transactions") for the three financial years ending 31st December 2013 (the "Financial Services Master Agreement"). Pursuant to the Financial Services Master Agreement, COSCO Hong Kong agreed and would procure the Financial Services Continuing Connected Transactions be conducted on normal commercial terms and at such fee no less favourable than those available to or from (as appropriate) independent third parties. The aggregate amount of the Financial Services Continuing Connected Transactions for each of the financial year ending 31st December 2011, 2012 and 2013 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Financial Services Caps").

(d) *Fuel Oil Continuing Connected Transactions*

A fuel oil master agreement was entered into between the Company and COSCO Hong Kong on 10th November 2010 in relation to the trading and supply of fuel oil and/or related products and services between the Group and COSCO Group, including without limitation: (a) purchase or sale of fuel oil and/or related products by the Group from or to COSCO Group (the "Fuel Oil Transactions"); and (b) provision of services by COSCO Group to the Group to carry out arrangements at the instruction of and for and on behalf of the Group from time to time to enter into fuel oil and/or related products swap contracts and/or derivatives with independent third parties to facilitate the Group to hedge against the risk of fuel oil and/or related products price fluctuation under the fuel oil and/or related products transactions of its business of providing fuel oil and/or related products and services including marine bunker supplies, trading of fuel oil and related products and brokers services (the "Fuel Oil Financial Services") (the Fuel Oil Transactions and the Fuel Oil Financial Services collectively called the "Fuel Oil Continuing Connected Transactions") for the three financial years ending 31st December 2013 (the "Fuel Oil Master Agreement"). Pursuant to the Fuel Oil Master Agreement, COSCO Hong Kong agreed and would procure the Fuel Oil Continuing Connected Transactions be conducted on normal commercial terms and at such fee and consideration for the Fuel Oil Transactions no less favourable than those available to or from (as appropriate) independent third parties. The aggregate amount of the Fuel Oil Continuing Connected Transactions for each of the financial year ending 31st December 2011, 2012 and 2013 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Fuel Oil Caps").

(e) *Management Services Continuing Connected Transactions*

A management services master agreement was entered into between the Company and COSCO Hong Kong on 10th November 2010 in relation to the provision of administrative services including information technology and fixed line network support, business management and manpower resources (including without limitation manpower resources with expertise and experience in the business carried on by the Group from time to time and management of human resources), technical support and other administrative and ancillary support (including without limitation sharing of office equipment, network and communication system, information technology, other technical support, system management, financial system and maintenance) by COSCO Group to the Group and sharing of office premises by the Group (the "Management Services Continuing Connected Transactions") for the three financial years ending 31st December 2013 (the "Management Services Master Agreement"). Pursuant to the Management Services Master Agreement, COSCO Hong Kong agreed and would procure the Management Services Continuing Connected Transactions be conducted on normal commercial terms. The aggregate amount of the Management Services Continuing Connected Transactions for each of the financial year ending 31st December 2011, 2012 and 2013 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Management Services Caps").

(f) *Tenancy Continuing Connected Transactions*

A master tenancy agreement was entered into between the Company and COSCO Hong Kong on 10th November 2010 in relation to the leasing or sub-leasing of any of the properties owned by or leased to COSCO Group from time to time by COSCO Group to the Group (the "Tenancy Continuing Connected Transactions") for the three financial years ending 31st December 2013 (the "Master Tenancy Agreement"). Pursuant to the Master Tenancy Agreement, COSCO Hong Kong agreed and would procure the Tenancy Continuing Connected Transactions be conducted on normal commercial terms. The aggregate amount of the Tenancy Continuing Connected Transactions for each of the financial year ending 31st December 2011, 2012 and 2013 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Tenancy Caps").

The Management Services Master Agreement, the Master Tenancy Agreement, the Management Services Caps and the Tenancy Caps were exempted from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 10th November 2010. The Master Supply Agreement, the Master Purchase Agreement, the Financial Services Master Agreement, the Fuel Oil Master Agreement, the Supply Caps, the Purchase Caps, the Financial Services Caps and the Fuel Oil Caps were approved by the independent Shareholders at the special general meeting of the Company held on 23rd December 2010.

Caps with COSCO Group

	Caps for the year ending 31st December 2011	Caps for the year ending 31st December 2012	Caps for the year ending 31st December 2013
Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement	**HK$1,200,000,000**	HK$1,300,000,000	HK$1,400,000,000
Aggregate amount payable by the Group for transactions contemplated under the Master Purchase Agreement	**HK$177,000,000**	HK$196,000,000	HK$203,000,000
Daily cash balance(s) of all cash deposits accounts of the Group maintained with COSCO Finance (together with interests accrued thereon) and all fees (including service fees) payable by the Group to COSCO Finance for transactions contemplated under the Financial Services Master Agreement	**RMB380,000,000**	RMB400,000,000	RMB420,000,000
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	**US$600,000,000**	US$700,000,000	US$800,000,000
Aggregate amount payable by the Group to COSCO Group for transactions contemplated under the Management Services Master Agreement	**HK$28,000,000**	HK$34,000,000	HK$41,000,000
Aggregate amount payable by the Group to COSCO Group for transactions contemplated under the Master Tenancy Agreement	**HK$36,000,000**	HK$40,000,000	HK$40,000,000

The Supply Continuing Connected Transactions, the Purchase Continuing Connected Transactions, the Financial Services Continuing Connected Transactions, the Fuel Oil Continuing Connected Transactions, the Management Services Continuing Connected Transactions and the Tenancy Continuing Connected Transactions for the financial year ended 31st December 2011 were as follows:

Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement	HK$998,830,408
Aggregate amount payable by the Group for transactions contemplated under the Master Purchase Agreement	HK$153,051,696
Daily cash balance(s) of all cash deposits accounts of the Group maintained with COSCO Finance (together with interests accrued thereon) and all fees (including service fees) payable by the Group to COSCO Finance for transactions contemplated under the Financial Services Master Agreement	Not exceeded RMB380,000,000
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	US$245,276,361
Aggregate amount payable by the Group to COSCO Group for transactions contemplated under the Management Services Master Agreement	HK$17,273,172
Aggregate amount payable by the Group to COSCO Group for transactions contemplated under the Master Tenancy Agreement	HK$26,216,369

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

2. *COSCO Kansai Continuing Connected Transactions*

On 15th June 2010, 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)"), 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.) ("COSCO Kansai (Shanghai)") 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)") (collectively "COSCO Kansai Companies", all being non-wholly owned subsidiaries of the Company) entered into a technology transfer agreement with Kansai Paint Co., Ltd., a substantial shareholder of certain non-wholly owned subsidiaries of the Company ("Japan Kansai") whereby Japan Kansai has agreed, inter alia, to provide necessary technology and know-how in relation to the production of container coatings, marine coatings and heavy-duty anti-corrosion coatings to COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai), and to provide necessary technology and know-how in relation to the production of container coatings and heavy-duty anti-corrosion coatings to COSCO Kansai (Zhuhai) (collectively called the "Technology Transfer Agreements") in return for fees to be paid by the respective COSCO Kansai Companies. The Technology Transfer Agreements will remain in effect until the expiry of the joint venture contract(s) for the relevant COSCO Kansai Companies. The following agreements were entered into on 28th December 2010 for the three financial years ending 31st December 2013 on normal commercial terms:

(a) agreements were entered into between each of COSCO Kansai Companies and Japan Kansai in relation to the purchase of raw materials and semi-finished products by COSCO Kansai Companies from Japan Kansai (the "COSCO Kansai Purchase Agreements");

(b) 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 by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) from NKM (the "NKM-COSCO Kansai Purchase Agreement");

(c) agreement was entered into between COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and NKM in relation to the introduction of businesses by NKM or its subsidiaries to COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) (the "NKM Referral Services Agreement");

(d) agreement was entered into between COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and NKM in relation to the sale of coatings and provision of related services by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) to NKM (the "NKM-COSCO Kansai Supply Agreement"); and

(e) agreement was entered into between COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and 蘇州關西塗料有限公司 (Suzhou Kansai Paint Co., Ltd.), in which Japan Kansai holds more than 50% of its equity interest and thus being an associate of Japan Kansai ("Suzhou Kansai"), in relation to the sale of coatings and provision of related services by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) to Suzhou Kansai (the "Suzhou Kansai Supply Agreement").

The agreements set out in items (a), (b), (c), (d) and (e) are collectively called the "COSCO Kansai Agreements" and transactions contemplated under the Technology Transfer Agreements and the COSCO Kansai 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 2011, 2012 and 2013 would not exceed the relevant cap amounts set out below in the table headed "Caps with Japan Kansai Group" (the "COSCO Kansai Caps"). The Technology Transfer Agreements, the COSCO Kansai Agreements and the COSCO Kansai Caps were exempted from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 28th December 2010.

Caps with Japan Kansai Group

	Caps for the year ending 31st December 2011 RMB	Caps for the year ending 31st December 2012 RMB	Caps for the year ending 31st December 2013 RMB
Aggregate amount payable by COSCO Kansai Companies for transactions contemplated under the COSCO Kansai Purchase Agreements and by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for transactions contemplated under the NKM-COSCO Kansai Purchase Agreement	**18,000,000**	18,000,000	18,000,000
Aggregate amount payable by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for transactions contemplated under the NKM Referral Services Agreement	**5,000,000**	5,000,000	5,000,000
Aggregate amount receivable by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for transactions contemplated under the NKM-COSCO Kansai Supply Agreement and the Suzhou Kansai Supply Agreement	**15,000,000**	15,000,000	15,000,000
Aggregate amount payable by COSCO Kansai Companies for transactions contemplated under the Technology Transfer Agreements	**18,000,000**	18,000,000	18,000,000

The COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2011 were as follows:

	RMB
Aggregate amount payable by COSCO Kansai Companies for transactions contemplated under the COSCO Kansai Purchase Agreements and by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for transactions contemplated under the NKM-COSCO Kansai Purchase Agreement	3,055,748
Aggregate amount payable by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for transactions contemplated under the NKM Referral Services Agreement	6,499
Aggregate amount receivable by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for transactions contemplated under the NKM-COSCO Kansai Supply Agreement and the Suzhou Kansai Supply Agreement	2,818,910
Aggregate amount payable by COSCO Kansai Companies for transactions contemplated under the Technology Transfer Agreements	6,080,454

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

The Independent Non-executive Directors had reviewed 1) the Supply Continuing Connected Transactions; 2) the Purchase Continuing Connected Transactions; 3) the Financial Services Continuing Connected Transactions; 4) the Fuel Oil Continuing Connected Transactions; 5) the Management Services Continuing Connected Transactions; 6) the Tenancy Continuing Connected Transactions; and 7) the COSCO Kansai Continuing Connected Transactions (collectively called "the Group's Continuing Connected Transactions") and were of the opinion that the Group's Continuing Connected Transactions for the financial year ended 31st December 2011 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 (as appropriate) 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 as a whole.

For the purposes of Rule 14A.38 of the Listing Rules in relation to the Group's Continuing Connected Transactions, the Board engaged the auditor of the Company to report on the Group's Continuing Connected Transactions for the year ended 31st December 2011 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 an unqualified letter containing the findings and conclusions in respect of the Group's Continuing Connected Transactions for the year ended 31st December 2011, in accordance with Rule 14A.38 of the Listing Rules. A copy of aforesaid auditor's letter has been provided by the Company to the Stock Exchange.

B. Connected Transactions

1. *Security Arrangement*

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 would 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 at the special general meeting of the Company 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 at the special general meeting of the Company held on 21st April 2009. However, the aforesaid bank guarantees were still provided by COSCO Hong Kong up to the date of the Report. Neither the Group nor New Renown has provided the bank guarantees to the relevant banks.

2. *Disposal of 50% Equity Interests in Shanghai Ocean International Trading Co., Ltd.*

On 29th March 2011, 中遠國際貿易有限公司 (COSCO International Trading Company Limited), a wholly-owned subsidiary of the Company ("CITC"), entered into the equity transaction contract with 上海遠洋運輸有限公司 (Shanghai Ocean Shipping Co., Ltd.), being an indirect non-wholly owned subsidiary of COSCO ("Shanghai Ocean Shipping") pursuant to which CITC agreed to sell the 50% equity interests in 上海遠洋國際貿易有限公司 (Shanghai Ocean International Trading Co., Ltd.) to Shanghai Ocean Shipping at a consideration of RMB7,264,372.39 (equivalent to approximately HK$8,525,000). The disposal was exempted from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 29th March 2011.

As set out in note 38(d) to the financial statements, the related party transaction also constituted connected transaction as disclosed above.

RELATED PARTY TRANSACTIONS

Material related party transactions of the Group are set out in note 38 to the financial statements. In relation to those related party transactions that also 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 with.

SHARE OPTIONS

The following is a summary of the Company's share option scheme approved and adopted by the Shareholders on 17th May 2002 and with amendment approved by the Shareholders at the special general meeting of the Company 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 substantial shareholder of the Company 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 the issued share capital of the Company as at the said date. A 10% limit refreshment was approved by the Shareholders at the general meeting of the Company 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 96,129,129 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 71,758,000 shares representing 4.74% 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 exceed 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.

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 2011**	**Granted during the year**	**Category changed during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31st December 2011**	**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. 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 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 entity(ies)	1.37	7,230,000	—	—	(340,000)	—	6,890,000	0.455%	(1),(4),(5)
	1.21	600,000	—	—	—	—	600,000	0.040%	(2),(4),(5)
	3.666	14,900,000	—	(180,000)	(1,140,000)	(150,000)	13,430,000	0.887%	(3),(4),(5)
Other participants	1.37	21,966,000	—	—	(728,000)	—	21,238,000	1.403%	(1),(4),(5)
	1.21	550,000	—	—	—	—	550,000	0.036%	(2),(4),(5)
	3.666	22,420,000	—	180,000	(350,000)	—	22,250,000	1.470%	(3),(4),(5)

* Mr. Wang Futian resigned as Executive Director and Vice Chairman of the Company on 24th February 2012.

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 participant as beneficial owner.

(5) Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Share Option Scheme during the year.

(6) During the year, the weighted average closing price of the share of the Company immediately before the dates on which the share options were exercised was HK$4.94.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2011, 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 underlying shares of equity derivatives of associated corporations

(a) Share options

Name of Director	Name of associated corporation	Exercise price (HK$)	Outstanding as at 1st January 2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2011	Approximate percentage of total issued share capital of associated corporation	Exercisable period	Notes
Mr. Zhang Fusheng*	COSCO Pacific Limited ("COSCO Pacific")	13.75	1,000,000	—	—	—	1,000,000	0.037%	03.12.2004– 02.12.2014	(1),(2),(3)
Mr. Meng Qinghui	COSCO Pacific	13.75	500,000	—	—	—	500,000	0.018%	29.11.2004– 28.11.2014	(1),(2),(3)

* Mr. Zhang Fusheng resigned as Executive Director and Chairman of the Company on 24th February 2012.

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 represent personal interest held by the relevant participants as beneficial owner.

(3) 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 2011	Units granted during the year	Units exercised during the year	Units lapsed during the year	Outstanding as at 31st December 2011	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. 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)

* Mr. Zhang Fusheng resigned as Executive Director and Chairman of the Company on 24th February 2012.

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", 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 as at 31st December 2011.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2011, the following persons and entities, other than Directors or chief executives 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	908,458,286	60.01%
COSCO Hong Kong	Interest of controlled corporation	Corporate interest	908,458,286	60.01%
True Smart International Limited ("True Smart")	Beneficial owner	Beneficial interest	908,458,286	60.01%

Note

True Smart has beneficial interest in 908,458,286 shares of the Company. 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 2011, the Company has not been notified by 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 39% 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 2011.

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 to the Listing Rules during the year ended 31st December 2011.

The audit committee of the Company ("Audit Committee") consists of three Independent Non-executive Directors and the chairman of which is a certified public accountant. The duties of Audit Committee include reviewing the 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 2011. 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 the Independent Non-executive Director 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. In order to ensure the Directors' dealings in the securities of the Company are conducted in accordance with the Model Code and 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 Model Code and the Securities Code during the year ended 31st December 2011, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Securities Code during the year.

By order of the Board

WANG Xiaodong
Managing Director
Hong Kong, 22nd March 2012

Under the full support of COSCO and COSCO Hong Kong, the Group will continuously advance towards the objective of becoming a specialised and sizable shipping services provider with "competitive advantages" and "comprehensive coverage of shipping services industry chain" to create value for the Shareholders.

Development

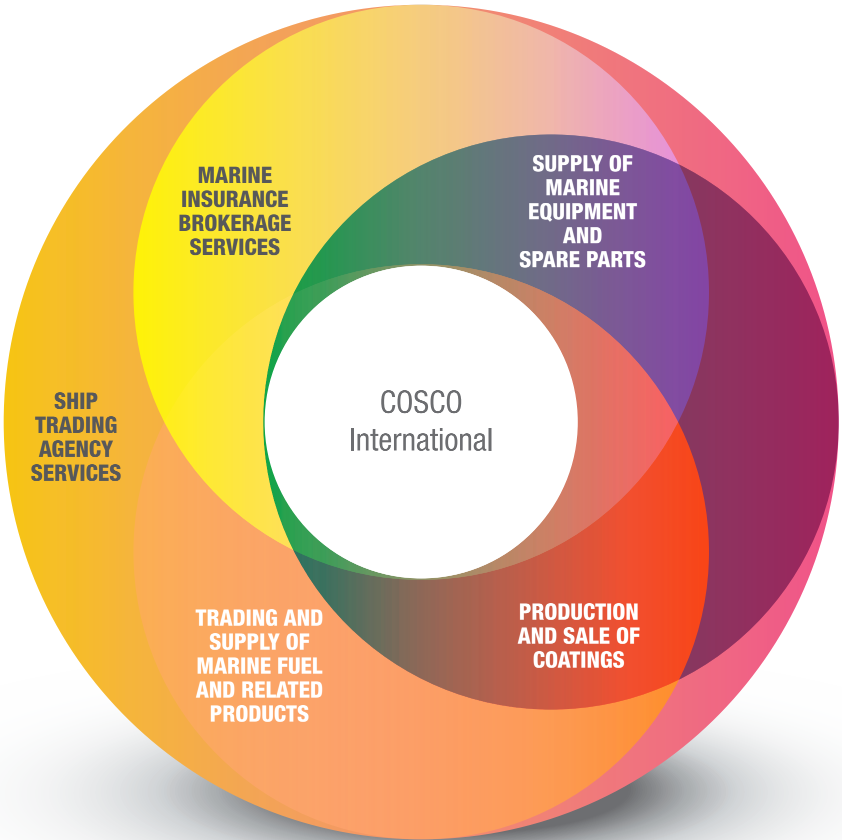
PROSPECTS

The global economy will still be clouded by various uncertainties in 2012. The spread of European sovereign debt crisis will slow down the pace of recovery of global economy. Coupled with regional political instability, it is expected that global economic growth will remain slow with downward risk in 2012. However, compared to 2011, there are more favourable factors for economic recovery: the easing monetary policy adopted by various countries will be favourable to the continuing recovery of global economy; economic growth of developed countries such as the United States and Japan will be better than previous years; and emerging economies including China will maintain fast stable growth.

Faced with uncertain economic conditions, the outlook for the overall shipping market is still not optimistic. On one hand, the weakened consumption demand in developed countries will slow down the growth in global trading volume. On the other hand, the large amount of new build vessel delivery created excess shipping capacity which will be a substantial source of conflict. According to the forecast by Clarkson Research Services Limited, the amount of new build vessel delivery will be 152 million dead weight tonnages in 2012, representing a decrease of 6% compared to 2011. It is expected that the shipping companies will adopt measures including delaying new build vessel delivery and tightening cost control due to the continued decline of the shipping market and high costs, which will bring challenges to the shipping services sector.

Facing excess shipping capacity in the global market, surge in oil price and environmental protection requirements of International Maritime Organization, shipowners have to enhance their profitability by improving operating efficiency and reducing operating costs. To meet the requirements of shipowners, COSCO International has formulated its vision of "Establishing itself as a global leading one-stop service provider focusing on shipping services". It will provide one-stop professional service all over the world to help shipowners reduce their operating costs. It will also enhance operating efficiency of shipowners to provide them with differentiated services to upgrade their core competitiveness. In the coming five years, COSCO International will explicitly establish the business portfolio and the service offerings of the one-stop service of the Group. It will also set up a global sales and services network and construct a customer-oriented business model.

Confronted with opportunities and challenges, COSCO International will adhere to the guiding principle of "inheritance, innovation, development" in 2012, pursue a combination of asset management and capital operation, as well as adapt itself to the market trend. While ensuring smooth production and operation, it will extend and expand its business segments by innovative moves. For existing businesses, we will timely grasp the market trends and strictly control different operational risks to consolidate the existing foundation of different business units and enhance synergy effect, in order to increase the core competitiveness and synergies of all business units. As for new business development, COSCO



International will continuously move forward the establishment of global sales and services network and the acquisition projects inside and outside COSCO Group, study the expansion of upstream and downstream in industry chain in accordance with its strategic development plan. In order to support sustainable growth and to accelerate developments, the Company's total capital expenditure is expected to be approximately HK$3.05 billion, including the capital expenditure for potential acquisition and investment and other expenditure on operating facilities. The Company expects that such capital expenditure will strongly support its growth in the future.

For the three traditional shipping services businesses, i.e. ship trading agency services, marine insurance brokerage services and supply of marine equipment and spare parts, with the continuously depressed shipping freight rates, it is expected that the stringent cost control measures adopted by shipping companies including delay in new build vessel delivery, request for insurance premium reduction and delay in change of marine spare parts may reduce the Group's business volume from certain major customers. However, the urgent need of small and medium shipowners to reduce operating costs will provide opportunities for the Group in leveraging its competitive advantages in low cost bulk procurement and professional skills, as well as in exploring new customers and new businesses. Thus, these three businesses are expected to seek opportunities amid the challenges during 2012. For ship trading agency services, the new build vessels ordered through COSCO Ship Trading have been scheduled to be delivered in coming two to three years. In 2012, delays in new build vessel delivery are expected to affect commission income. Confronted with such weak market, COSCO Ship Trading will focus on tracking the operating conditions of shipyards and shipowners and coordinate with various parties well to ensure smooth delivery of new build vessels on hand, and will grasp new opportunities arising from new build vessels for orders. The fall in prices of second-hand vessels provided new investment opportunities for shipowners. COSCO Ship Trading will grasp this opportunity by providing timely information and advice to shipowners in order to win more business. Meanwhile, COSCO Ship Trading will proactively expand non-COSCO Group businesses as new business channels to foster business growth and further explore new business development in order to provide driving force for the sustainable development. For marine insurance brokerage services, confronted with such unfavourable market conditions, COSCO Insurance Brokers will continue to take effective measures in 2012 to closely follow up the businesses within COSCO Group, proactively develop the insurance business of delivery of new vessels by the shipping companies, continuously strive for the development and promoting of the hull and machinery co-insurance business, further strengthen maintenance and development of non-COSCO Group business, proactively explore new insurance products, closely monitor the latest development of the Somali piratic activities and extensively promote the business of kidnap and ransom insurance and kidnap detention insurance to capture market opportunities, thus achieving

PROSPECTS

comprehensive development. For supply of marine equipment and spare parts, a strategic cooperation agreement has been entered into between COSCO International and China Transport Telecommunications & Information Centre, which clearly set out the cooperation in the areas of logistics services, warehousing services, business development and technical cooperation. It lays down the foundation for further development. In addition, the Group will improve its overseas network for spare parts supply and accelerate the business and proactively move forward the business restructuring in key regions including America, Europe and Africa; and accelerate the network development in major ports in China, in order to achieve a global service network of Yuantong Platform. Meanwhile, Yuantong will improve its existing computer management system, enhance the standardisation of operation and lean management of its various nodes, and proactively explore the opportunity for cooperation with large scale international commercial network companies. Through the above measures, Yuantong Platform will launch new products and services, provide value-added services and achieve economy of scale in order to establish itself as a conglomerate that offers one-stop service.

For container coatings, as the unfavourable global economy and shipping market will directly affect the market demand for new build containers, the overall demand for container coatings is expected to decrease in 2012. In addition, with increasing awareness of environmental protection all over the world, traditional solvent products will face increasing pressure. Demand for water-based container coatings with low pollution and new technology will increasingly grow. COSCO Kansai Companies will continue to strive to reduce their purchase costs, strengthen internal management, optimise business process and accelerate research and development of water-based container coatings in order to increase their corporate competitiveness and maintain their market share. For industrial heavy-duty anti-corrosion coatings, COSCO Kansai Companies will grasp the opportunities offered by the sustainable growth of China's economy and implementation of the "Twelfth Five-year Plan", stress environmental protection as a focus, conduct research on various industries and consolidate resources in order to develop leading business segments with sustainable performance. Meanwhile, they will strengthen introduction and absorption of technology and research and development capabilities to ensure sustainable growth.

For marine coatings, as new orders for vessels dropped significantly during the past two years, the new build vessel delivery by Chinese shipyards will decline year by year. Coupled with the possible delays in certain new build vessels, the overall demand for marine coatings is expected to decrease in 2012. At the same time, prices of raw material will remain high. Jotun COSCO will continue to implement strategies for customer stratification management and major customer management and optimise customer management and sales workflow, promote green shipping, advocate low-carbon vessels and promote the leading advantage of the energy saving technology of anti-fouling paint. It will timely adjust sales strategies, continue to expand business of coatings for maintenance and repair to increase revenue; proactively adopt effective measures, strictly control all costs and expenses, reduce operating costs and improve operating efficiency; and conduct thorough credit assessment of customers, enforce collection of receivables, as well as raise funds from multi-channels, so as to meet the need for working capital. Jotun COSCO will proactively procure its wholly-owned subsidiary, Jotun COSCO (Qingdao) to move forward the construction of a new plant in Qingdao. The project is expected to be completed by 2012, with annual production capacity reaching 50,000,000 litres upon the commencement of production, which will further strengthen Jotun COSCO's leading position in the marine coating market in China.

For trading and supply of marine fuel and related products, Sinfeng will focus on its risk prevention and control in view of the operating pressure experienced by shipping companies. On this basis, it will prudently develop new businesses, and at the same time further improve collection of trade receivables.

For general trading, CITC will timely adjust its operation model and make careful planning to fulfil the successfully tendered asphalt projects, and at the same time underpin its market share in such regions with a solid market base as Sichuan, Guizhou, Yunnan and Shaanxi while actively seeking business opportunities in new projects from the markets such as Guangxi, Hunan, Jiangxi, Jiangsu and Anhui, striving to achieve new market breakthrough.

With the full support of COSCO and COSCO Hong Kong, the Group will continuously advance towards the objective of becoming a specialised and sizable shipping services provider with "competitive advantages" and "comprehensive coverage of shipping services industry chain" to create value for the Shareholders.

INVESTOR RELATIONS

COSCO International's investor relations strategy is to implement proper information disclosure and to maintain effective communication with the shareholders and investors. By increasing transparency and enhancing corporate governance, we can consolidate and strengthen the confidence of the shareholders and investors, thereby enhanced the Company's value and maximised the shareholders' value.

IMPROVING COMMUNICATIONS SYSTEM TO SAFEGUARD SHAREHOLDERS' RIGHT TO KNOW

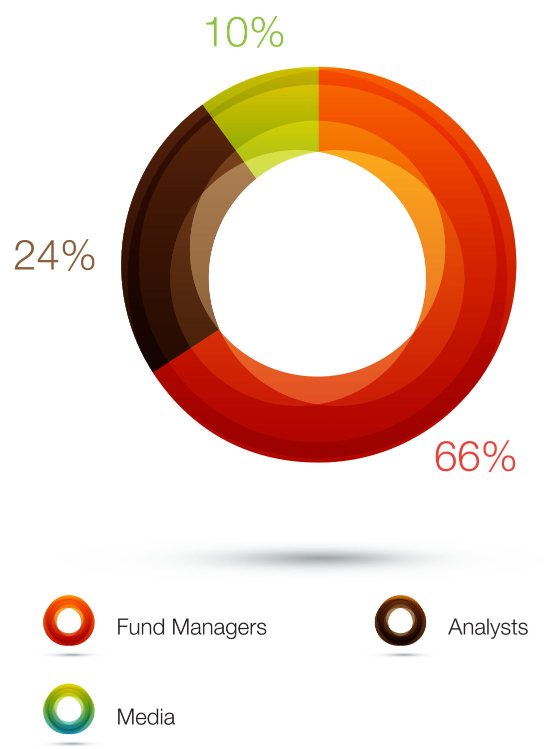
The Company believes that good corporate governance is based on a sound and effective management system. As a result, COSCO International has consistently implemented the Regulations for Investor Relations Management, the Information Management Policy and the Website Management Policy for many years, and taken initiative to maintain effective communication with the shareholders and investors in a honest, equal and proactive manner through fair, just and open channels. In addition, the Company improves the relevant policies from time to time in accordance with the latest requirements of laws and regulations. The Company formulated the Shareholder Communication Policy to ensure the shareholders and investors have full, equal and timely access to corporate information through various effective channels, thereby further protecting the right to know of the shareholders and investors and establishing a good culture of information disclosure.

OPEN DIALOGUE TO BUILD A TWO-WAY COMMUNICATIONS BRIDGE

The management of COSCO International believes that a good investor relations management is an important element to implement high level of corporate governance. To this end, the investor relations officers 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 provide up-to-date, accurate and complete corporate information, including the latest operating conditions and the development strategy of the Company and the industry prospects, to the shareholders, investors and analysts to increase their understanding of the Company and the industry in which it operates, enabling them to assess the investment value of the Company effectively and make proper expectation for the Company's prospects. On the other hand, through close and effective communication with the shareholders and investors, we can learn about their expectations and opinions on the development of the Company and understand their focus and approach while considering to invest in the stock of the Company, which provide valuable references and suggestions for the management when formulating decisions, thereby further enhancing corporate governance and transparency and boosting its sustainable development in order to build up a solid foundation for greater value of the Company.

During the year, the Company promoted its business development model, operating conditions and future development strategy to the shareholders and investors in results announcements press conferences, analyst briefings, post-result roadshows, the annual general meeting, company visits, conference calls and one-on-one meetings, as well as luncheons with the media, and by participating in the presentations and industry seminars organised by the securities firms such as J.P. Morgan, Goldman Sachs and Gao Hua, Bank of America Merrill Lynch, UBS, Citigroup, SWS, BNP Paribas Capital, Deutsche Bank and DBS Vickers in Hong Kong, Singapore and on China Mainland. The Company met fund managers, analysts and the media for 257 attendances, 93 attendances and 40 attendances respectively, representing a total of 390 attendances (2010: 440 attendances), through multi-channels and sincere and proactive communication means during the year.

BREAKDOWN OF MEETINGS BETWEEN INSTITUTIONAL INVESTORS, ANALYSTS AND THE MEDIA, AND THE INVESTOR RELATIONS OFFICERS BY PERCENTAGE IN 2011



ENHANCING THE WEBSITE TO BOOST INVESTORS' CONFIDENCE

Keeping the Company's website with up-to-date and accurate information posted has played an important part in COSCO International's investor relations practices. This is the most direct and timely channel to disseminate corporate information to the stakeholders of the Company. In 2011, COSCO International continued to enhance its maintenance of and update on the information of its corporate website to make sure the accuracy of the information in a timely manner. It also further enriched the site content which enabled the investors to understand the business development of the Company and its recent changes through the website more easily. According to Google Analytics' analysis of the use of the Company's website, there were a total of 12,528 (2010: 12,282) visits on COSCO International's website from 146 countries and regions in 2011, in which visits from Singapore, United Kingdom, India, Japan and Germany increased significantly. The results of the statistics above reflected more and more investors know about COSCO International through the Company's website as the number of visitors has continued to increase. The different origins of visitors reflected that investors around the world had interest in COSCO International.

INVESTOR RELATIONS

VARIOUS ACTIVITIES TO DEVELOP INVESTOR RELATIONS

Conducting press conferences and analyst meetings 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 8 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 the shareholders and the directors and the management of the Company.

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

Participating in corporate presentation conferences and roadshows in different regions organised by securities firms to present the development strategy and operating conditions of the Company and the industry prospects to the investors from various regions around the world.

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 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 institutional investors 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 or media interviews with the management of the Company irregularly 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 2011

Month	Event
Jan	Attended DB Access China Conference 2011 organised by Deutsche Bank in Beijing, China
Feb	Organised a Chinese New Year media luncheon to keep contact with and update recent changes of the financial media
Mar	Organised a press conference and an analyst meeting to announce 2010 annual results of COSCO International Attended the 2010 annual results roadshow organised by DBS Vickers in Hong Kong Attended the 2010 annual results roadshow organised by Citigroup in Hong Kong
Apr	Attended the 2010 annual results roadshow organised by DBS Vickers in Singapore Attended China Investor Forum organised by Nomura International in Hangzhou, China Attended the 2010 annual results roadshow organised by SWS in Shanghai, China
May	Attended Greater China Conference organised by Macquarie in Hong Kong Attended Investor Forum organised by SWS in Hong Kong
Jun	Attended 2011 Annual China Conference organised by J.P. Morgan in Beijing, China Attended China & HK Transportation & Infrastructure Corporate Day organised by BNP Paribas in Hong Kong
Aug	Organised a press conference and an analyst meeting to announce 2011 interim results of COSCO International
Sept	Attended the 2011 interim results roadshow organised by DBS Vickers in Hong Kong Attended HK Investors Conference organised by Kingsway in Hong Kong
Oct	Attended 18th Annual China Conference organised by BNP Paribas in Qingdao, China Attended Greater China Investor Conference 2011 organised by Citigroup in Macau, China Attended China Investment Frontier Conference 2011 organised by Goldman Sachs & Gao Hua in Beijing, China
Nov	Attended New China Conference 2011 organised by Bank of America Merrill Lynch in Beijing, China

INVESTOR RELATIONS

PERFORMANCE OF SHARE PRICE AND TRADING IN 2011

On the last trading day of 2011, the closing share price of COSCO International was HK$3.26 (2010: HK$4.56). The shares in issue of COSCO International were 1,513,627,429 shares (2010: 1,511,069,429 shares). The market capitalisation of the Company was HK$4,934,425,000 (2010: HK$6,890,477,000). During the year, the highest share price was HK$5.08 and the lowest share price was HK$2.50. The daily average trading volume and daily average trading turnover were 3,829,000 shares (2010: 7,149,000 shares) and HK$17,511,000 (2010: HK$31,282,000).

CHANGE IN SHARE PRICE AND NO. OF SHARES TRADED IN 2011

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

EARNINGS PER SHARE AND DIVIDENDS PER SHARE

The basic earnings per share of the Group for 2011 was 25.80 HK cents. In order to share the operating results with the shareholders and as a return for the support of the shareholders, the Board of COSCO International has recommended a final dividend of 7 HK cents per share in accordance with the dividend policy of the Company, i.e. the dividend for the year is not less than 25% of the net profit. Together with the interim dividend of 2 HK cents per share, total dividends of 9 HK cents per share (2010: 40 HK cents, including a one-off special dividend of 35 HK cents per share) represented a dividend payout ratio of 35% (2010: 48%[Note]).

Note: COSCO International paid a one-off special dividend from the profits in relation to the disposal of the substantial non-core assets in 2010. Excluding the special dividend, the dividend of the Company for 2010 would have amounted to 5 HK cents per share.

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

	2007	2008	2009	2010	**2011**
Basic earnings per share (HK cents)	175.95	33.18	56.25	83.97	**25.80**
Dividends per share (HK cents)	6.30	7.40	9.40	40.00	**9.00**
— Interim and final dividends per share (HK cents)	4.50	7.40	9.40	5.00	**9.00**
— Special dividend per share (HK cents)	1.80	—	—	35.00	**—**
Dividend payout ratio (%)	4	22	17	48	**35**

MARKET RECOGNITION AND HONOUR

In 2011, COSCO International continued to make good progress in corporate governance, information disclosure and investor relations through its continued efforts and was awarded various international prizes as recognition and honour from the investment community and professionals. They are:

- Gold Award for Social Responsibility and Investor Relations in the Asset Corporate Awards 2011 granted by The Asset.
- Best Investor Relations (China Company) in the Asian Excellence Recognition Awards 2011 granted by Corporate Governance Asia.
- "The Best of Asia" in the Corporate Governance Asia Recognition Awards 2011 awarded by Corporate Governance Asia.
- Grand Award for Best of Corporate Websites in the 11th Anniversary International iNOVA Awards Competition awarded to the Company's website.
- Three awards in the 25th International ARC Awards, namely Silver Awards in the Shipping Services categories of "Overall Annual Report" and "Chairman's Letter", and Bronze Award for "Printing and Production", honoured to 2010 Annual Report.

INVESTOR RELATIONS PROSPECTS

Looking forward, the pace of global economic recovery is expected to continue to be slow in 2012 and the market is expected to be volatile. However, COSCO International 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, the Company 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 understanding of and 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, and thus to optimise 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 interest in the Company.

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

4. In compliance with the disclosure requirements of 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 enhance their understanding of 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 effectively.

FREQUENTLY ASKED QUESTIONS

1. What are the development strategies of COSCO International in 2012?

ANS: In 2012, the global economy is still full of uncertainties and the shipping market as a whole is not optimistic. It is expected that shipping companies will be affected by the persistent downturn of the shipping market and higher costs and, therefore, will take the measures such as delays in new build deliveries and strict cost control. As a result, the shipping service industry will face many challenges. For the Group, our major challenge will be how to grasp the opportunities and utilise the cash on hand to develop core business, so as to achieve a leap in the development of shipping services. Under the support of COSCO and COSCO Hong Kong, COSCO International has formulated its vision of "Establishing itself as a global leading one-stop service provider focusing on shipping services". Having committed itself on the strategy of positioning shipping services business as the core business, COSCO International will strive to provide one-stop professional service all over the world to help shipowners reduce their operating costs. It will also provide shipowners with differentiated services to enhance operating efficiency and to upgrade their core competitiveness. In 2012, COSCO International will adhere to the guiding principle of "inheritance, innovation, development". For the operating model, it will combine asset management and capital operation to effectively mitigate the earning fluctuation of shipping related businesses, thus broadening the earning base of the Company. Our development strategies include: actively seeking acquisition opportunities of large scale and profitable shipping services related businesses within and outside COSCO Group; exploring new value-added services to increase profit drivers along industry chain; leveraging on "China factor" to provide comprehensive shipping services for new investors in China's shipping industry; further expanding services network for better geographical presence; and increase synergies across business segments. Our aim is to become a specialised and integrated shipping related services provider with considerable scale, competitive advantages and a complete industry chain of shipping services. We will strive to create greater returns for our shareholders.

2. What is COSCO International's dividend policy? Will the Company distribute special dividend in future as the Company has plenty of cash?

ANS: COSCO International's dividend policy is to distribute no less than 25% of the net profit for the year as dividend. The profit attributable to equity holders of the Company for 2011 was HK$390 million and the basic earnings per share was 25.80 HK cents. As a return for the support of the shareholders to COSCO International, the Board has recommended a payment of final dividend of 7 HK cents per share to the shareholders. Together with the interim dividend of 2 HK cents per share, the total dividends of 9 HK cents per share for 2011 represented a dividend payout ratio of 35%.

The Board of the Company considers the dividend payout ratio each year mainly based on the profit and cash flow of the Company, the given dividend policy, the estimated funds required for future development of the Company, the dividend payout of the peer listed companies and investors' expectation. The Company recorded substantial extraordinary gain arising from the disposal of a non-core business in 2010 and appropriately shared the results with its shareholders by the payment of a one-off special dividend. Looking forward, COSCO International will actively work on the investment projects consistent with the strategic positioning of the Company and has to reserve funds for sustainable development as a result.

3. As at the end of 2011, what were the trade receivables of the Company? What was the change as compared to 2010? Which segment recorded the longer period of trade receivables? What was the corresponding measure taken by the Company?

ANS: As at the end of 2011, the net trade receivables of the Group was HK$1,562,392,000 (2010: HK$1,277,778,000), representing an increase of 22% from 2010 mainly due to the rise of the business volume in general. The turnover of the Group for 2011 was HK$10,656,121,000, representing an increase of 23% from 2010. The increase of the net trade receivables was in line with that of the turnover. Most of the trade receivables of the Group aged below 90 days, while those aged older (more than 180 days) mainly came from marine fuel and other products. It was because some clients of that segment were dry bulk shipping companies, which faced serious financial difficulties as a result of the weak dry bulk shipping market in 2011. In general, the collection of trade receivables as a whole was normal in 2011, except that a customer of Sinfeng, which was engaged in marine bunker trading, seriously defaulted on payment. Sinfeng had initiated legal proceeding against that customer and made an impairment of provision for part of the outstanding balance due from the customer in its accounts. The management consider that no further provisions have to be made in the current stage.

The management of the Company place emphasis on the receivable management. In addition to regularly reporting and tracking the collection of receivables, the subsidiaries of the Group also set up task forces to closely monitor the receivables and continuously strengthen their customer credit management as well as their efforts to collect receivables. They will terminate their business with the customers and take legal action to get back receivables if necessary.

4. For the revenue of shipping services, what is the proportion from COSCO group's fellow subsidiaries?

ANS: In 2011, revenue from COSCO Group's fellow subsidiaries accounted for about 10% (2010: 9%) of the 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 fellow subsidiaries were relatively high, i.e. 70%, 65% and 74% respectively. Segment revenues from coatings and trading and supply of marine fuel from COSCO Group's fellow subsidiaries were relatively low, accounted for about 0.3% and 1.6% respectively.

5. Will the shipping services business be affected by the cyclical change of the shipping industry? What is the greatest operating risk during the operation of the Company?

ANS: COSCO International is currently engaged in the shipping services business whose customers principally are the vessels. All of its revenue is the direct or indirect costs of shipowners or ship operators and does not correlate with freight rate change. In addition, the diversified business units of the shipping services are cyclically complementary to each other and generate stable earnings as a whole without obvious cycle.

The earnings volatility analysis of each business of COSCO International illustrates that:

1. The cycles of the businesses of ship trading agency and sale of marine coatings basically are the same with that of the shipbuilding industry. Their revenues mainly depends on the volume of new vessels delivered;

2. The revenues of the businesses of insurance brokerage and spare parts supply will slightly change with the shipping industry cycle;

3. The marine fuel supply business is not cyclical;

4. The cycle of the container coating business should theoretically change with the cycle of delivery of new build container vessels (shipping companies usually have their containers in place in accordance with the slot to box ratio of 1:1.8 to 2). This business benefits from the capacity growth of the container shipping market but also is affected by the demand for container shipping.

According to the above analysis, in our opinion, COSCO International serves both the shipping industry and the shipbuilding industry while the cycle of the shipbuilding industry usually lags behind that of the shipping industry for about two years, so the temporary volatility of the two industries have limited effect on the overall earnings of the Company. If a continuous global economic recession drives the shipping industry falling into a trough for a prolonged period and the total number of vessels in operation accordingly decreases, these will have negative effect on the overall earnings of COSCO International and this may be the greatest risk during the operation of the Company.

6. How does COSCO International manage its plenty of cash on hand? Does it acquire shares, bonds or other investment products? What would be the denomination and the interest rate if the investment was in the form of bank deposits? Why doesn't the Company maintain Renminbi deposits to take advantage of the significant trend of Renminbi appreciation?

ANS: As at the end of December 2011, the balance of cash and deposits was HK$5.7 billion. COSCO International has been prudent towards quoted securities investments as it manages its cash based on a balance among three principles, i.e. profit, security and liquidity. Nowadays, the cash held by the Group is mainly in the form of bank deposits, mainly of which are United States dollars (approximately 82%) primarily due to the United States dollars deposit rate higher than Renminbi deposit rate available from Hong Kong banks. During the year, the Company successfully secured better deposit rate through negotiation with various bankers and the average interest rate per annum after tax was approximately 1.8% (2010: approximately 0.6%) in 2011.

7. The number of new build ship orders is expected to decrease 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: The new build vessels ordered through COSCO Ship Trading have been scheduled to be delivered in the coming two to three years. It is estimated that the commission income from new build vessel delivery for 2012 will be affected due to delays in new build vessel delivery. Confronted with such market situation, COSCO Ship Trading will focus on tracking the operating conditions of shipyards and shipowners and coordinate with various parties well to ensure smooth delivery of new build vessels on the one hand, and will secure every order by grasping new opportunities arising from new build vessels. The decrease in the price of second-hand vessels will provide new investment opportunities for shipowners. Leveraging on the good opportunities, COSCO Ship Trading will provide information and recommendations to shipowners on a timely basis to facilitate more transactions. COSCO Ship Trading will also proactively explore new businesses of non-COSCO Group to foster business growth, and further explore new business development, thereby providing driving force for the sustainable development of COSCO Ship Trading.

8. When will the commission revenue of the 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. In recent years, more shipowners have insured against rampant piratic activities. What is the premium on insurance products against piratic activities in general? What are the advantages enjoyed by COSCO Insurance Brokers for this business? What is the future development of the Company in relation to this business?

ANS: In general, shipowners buy kidnap and ransom insurance against the ransom arising from bailing sailors, vessels and goods out in pirate kidnappings. The premium on the insurance is calculated according to the number of voyages. For example, the premium is approximately US$6,500 for an insurance policy of US$5 million. COSCO Insurance Brokers are among the first batch of insurance brokers to engage in this insurance business and offer lower premium rate. In recent years, COSCO Insurance Brokers have proactively conducted marketing activities on China Mainland. In 2011, an insurance company and a negotiator from the United Kingdom were invited to be the guests in a seminar in Hong Kong, which was well received by the customers. Currently, kidnap and ransom insurance accounted for about 11% of the total revenue of COSCO Insurance Brokers. From now on, COSCO Insurance Brokers will continue to closely monitor the latest developments and recent changes of the Somali pirate activities and proactively promote kidnap and ransom insurance and kidnap and detention insurance to seize the opportunities, thereby achieving all-round development.

10. After expansion of the overseas spare part network of the Company, what is the difference in the positioning, products and service offering and the client base of each subsidiary and how can they complement each other? What about the development of "actively consider the marine communications and navigation equipment production in order to establish itself as a conglomerate offering the one-stop service of the production, sales and service in the industry" as mentioned by the Company before?

ANS: Since 2010, COSCO International has begun to establish COSCO Group's overseas spare parts supply network. In the same year, the restructuring of the overseas spare parts supply resources in the regions such as Hong Kong, Japan and Singapore was completed through Yuantong. Nowadays, Yuantong in Hong Kong, Xing Yuan in Singapore and Shin Chung Lin in Japan are wholly-owned subsidiaries of COSCO International and centrally operated and managed by Yuantong. As the three companies have the same interests, there will be no internal competition because Yuantong is responsible for centralised management. On the basis of integrated business planning, the characteristics of each network will take effect. For example, Yuantong enjoys the regional advantage of Hong Kong (such as low taxation) and China Mainland. Xing Yuan enjoys the regional advantage of Singapore as a shipping hub. Shin Chung Lin has the advantage of proximity to the Japanese manufacturers and better communication.

In November 2011, Yuantong established its operation headquarters in Shanghai as the centre of the spare part supply platform. It coordinates the pricing mechanism of various regional network and enhances Yuantong's bargaining power for a preferential price for bulk purchase from the manufacturers. Leveraging from the regional advantages of various outlets, Yuantong strengthened its efforts to retain customers and explore suppliers. The level of product variety, product delivery time, maintenance service and proper inventory and customer service was enhanced, thereby effectively increasing the operation efficiency of the spare parts supply business.

Next, Yuantong will actively implement the second stage of business restructuring. It mainly includes:

(1) Improving the overseas regional spare parts supply network within COSCO Group;

(2) Enhancing the communications and navigation business network on China Mainland;

(3) Yuantong's network will become a global network of various shipping related products and services with stronger market competitiveness as the number of offices grow. Some major suppliers and small and medium spare parts manufacturers on China Mainland have entered into agency agreements with Yuantong in order to capitalise on the network of Yuantong to promote their products;

(4) Establishing and improving an electronic commerce platform that links the global network, thereby laying a technical foundation of the implementation of optimising the overall inventory for all the fleets within COSCO Group in the future.

11. The sales of container coatings of the Company significantly dropped in the second half of 2011, thus resulting in sharp reduction in profit contribution of container coatings. What about the estimated demand of container coatings in 2012?

ANS: The demand for container coatings mainly depends on the number of new build containers. It is expected the container exports from China in 2012 may show a trend of "from low to stable" growth due to the impacts from the slow recovery of world economy and declining consumption demand in Europe and the United States as affected by the deteriorating European sovereign debt crisis. According to the estimates of the industry, the total production volume of new containers in China in 2012 will be about 2,000,000 TEUs to 2,200,000 TEUs, which is lower than that of 2011 (approximately 2,880,000 TEUs). Based on the coating consumption of 0.075 tonne per TEU, the estimated demand for container coatings will be between 150,000 tonnes and 165,000 tonnes in 2012.

12. What are the major raw materials for the production of container coating products? What was the change of the gross profit margin of the coating products of COSCO Kansai Companies during the year?

ANS: The oil-refined products and metal products are the main raw materials of the container coating products. The oil-refined products such as epoxy resin, methylbenzene and solvent account for approximately 65% of the total production cost, while the metal products, including titanium dioxide and zinc dust, account for approximately 30% of the total production cost. The price of the above raw materials rose to different degrees in 2011. In the first half of 2011, the price of container coatings rose in line with the price of new containers and the costs of raw materials, thereby driving up the gross profit margin of COSCO Kansai Companies significantly. However, the shipping market weakened and, in turn, the demand for containers sharply dropped in the second half of the year, therefore the price of container went down. Together with rising raw material price, the gross profit margin of the container coatings business for the second half of the year dropped. The average gross profit margin increased slightly for the whole year.

13. Why did the profit contribution from Jotun COSCO decrease by 36% for 2011? What was the composition of the raw materials of marine coatings and the change in gross profit margin of Jotun COSCO during the year?

ANS: In 2011, the Group's share of profit from Jotun COSCO was HK$48,677,000, down 36% from 2010 primarily due to the overall decline in the gross margin as a result of Jotun COSCO being affected by the rising raw material prices during the year. Oil-refined by-products and metal products accounted for approximately 75% and 16% of the raw materials respectively used for marine coating production of Jotun COSCO. The prices of oil-refined products such as resin and solvent have continuously risen in 2011, being affected by the international crude oil price. The price of metal products such as copper, titanium dioxide and zinc has increased continuously during the year.

For 2011, as 83% of the marine coatings sales of Jotun COSCO was for new build vessels, whose selling price was fixed when the new build vessel contracts, normally long-term contracts, were entered into and the rise in raw material prices cannot be shifted to the price. As a result, the average gross profit margin of Jotun COSCO decreased in 2011. Jotun COSCO will actively develop the dock repair market for coatings, thus increasing its sales volume of maintenance and repair coating and reducing the pressure on gross profit margin resulted from higher costs.

14. How did the increase in oil prices in 2011 affect the gross profit and the gross profit margin of Sinfeng? Were there any other factors which led to a change in the gross profit margin?

ANS: The profit model of Sinfeng is built on the profit made on the spread between contracted transaction amounts, which falls within reasonable market level. 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 growth, and in turn affect the future business expansion of Sinfeng, and also its profit.

A GLANCE AT FIVE-YEAR FINANCIAL STATISTICS

For the year ended and as at 31st December	2007	2008	2009	2010	2011
Total number of shares issued (million)	1,478	1,490	1,511	1,511	**1,514**
Closing price[Note] (HK$)	7.62	1.65	3.31	4.56	**3.26**
Market capitalisation[Note] (HK$ million)	11,263	2,458	5,000	6,890	**4,934**
Basic earnings per share (HK cents)	175.95	33.18	56.25	83.97	**25.80**
Price/earnings ratio[Note] (times)	4.33	4.97	5.88	5.40	**12.64**
Dividends per share (HK cents)	6.30	7.40	9.40	40.0	**9.00**
Dividend payout ratio (by net profit) (%)	4%	22%	17%	48%*	**35%**
Net asset value per share (HK$)	3.32	3.72	4.25	4.83	**4.69**
Return on total assets (%)	51.9%	7.3%	11.4%	15.0%	**4.1%**
Return on shareholders' equity (%)	72.5%	9.4%	14.1%	18.5%	**5.4%**
Net cash-to-shareholders' equity ratio (%)	16.6%	21.2%	19.7%	85.8%	**80%**
Current ratio (times)	1.97	1.87	2.43	4.66	**3.92**
Quick ratio (times)	1.61	1.63	2.04	4.41	**3.62**
Interest coverage (times)	60.50	39.76	78.7	89.0	**33.3**

Note: As at the last trading day per year

* In 2010, COSCO International paid a one-off special dividend of 35 HK cents per share out of the profits in relation to the disposal of a substantial non-core asset.

CORPORATE SOCIAL RESPONSIBILITY

COSCO International has been adhering to the concept of social responsibility of COSCO Group and has insisted on the core values of human-orientation and established comprehensive, coordinative and sustainable scientific outlook of development. Following the four principles of corporate social responsibility (CSR) set by the Group, COSCO International takes its responsibilities with respect to safety, environmental protection, employees and the community as important consideration factors in its operation and decision-making, and makes them as day-to-day CSR practices. It aimes at striving for a harmony and its long-term and sustainable development of the enterprise with the society, the environment and the economy, and safeguarding and balancing the interests among its stakeholders including the shareholders, business partners, employees, customers and suppliers, and contributing to a better future and the well-being of the next generation.

SAFETY

As an enterprise operating various inflammable petrochemical coatings businesses on China Mainland, COSCO International believes that ensuring stable and safe production is the most important social responsibility to its shareholders, employees and the community where it operates. Therefore, ensuring safe and stable production has always been the primary task in corporate management. The 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 of safe production of its subsidiaries in accordance with the Safety Act of the PRC and the relevant safety management regulations of the HKSAR government. The safety management work of each coating company was comprehensively regulated and managed, and the employees of all levels gain heightened awareness in occupational health and production safety through the establishment of a normalised and standardised management system as well as the construction of a corporate culture of Health, Safety and Environment (HSE).

Continuous Consolidating HSE Standards

Currently, the coating manufacturing enterprises of COSCO International have Quality Management System Certification (ISO9001), Occupational Health and Safety Assessment Series Certification (OHSAS18001) and Environmental Management System Certification (ISO14001) formulated by the International Organisation for Standardisation (ISO). In 2011, the Group further developed and strictly supervised the implementation of each management system. In accordance with the requirements and audit procedures of the related management systems, the Group further strengthened the supervision and implementation of each of the coating companies in terms of product quality management, production environment and production procedure so as to ensure all of them meet the requirements in relation to occupational health, safety and environmental protection formulated by the international professional organisation, and further consolidated and enhanced the standardised establishments in relation to occupational safety and health of the Company, thereby laid an important foundation for its establishment of a long-term and effective safety management mechanism, and fully realised the Group's commitments to its customers, employees and the environment.

Absolute safety with "Three Zeros"

In 2011, each coating manufacturing subsidiary company of COSCO International still firmly adhered to "Absolute Safety with Three Zeros" as the general objective of the safety management. "Absolute Safety" referred to an overall production environment be ensured safe and "Three Zeros" referred to zero number of reports in accident, injury and pollution. To achieve the above two objectives, the Group implemented a three-pronged approach — training and education, supervision and inspection and emergency drills. During the year, the Group continuously adhered to its working principle of "Constant Improvement with Ever Higher Betterment" and a corporate safety risk identification system commenced full operation to check and rectify hidden hazards in different seasons and at different workplaces. To take precautions at an early stage, the Group carried out safety inspections of each operating unit regularly and irregularly so as to track the hidden hazards and make rectifications accordingly. In 2011, the Safety Management Committee of the Group conducted a total of 28 (2010: 19) on-site safety inspections in the four coating manufacturing enterprises on China Mainland. The rectification ratio of hidden safety hazards tracked in the four coating manufacturing enterprises amounted to 99.99% during the year. In 2011, the coating manufacturing subsidiaries of the Group did not record any significant incident in relation to production safety and information security.

Fully promoting a healthy and safety culture

The Group heightened the awareness of all employees towards safety, occupational health and environmental protection through diversified promotional and educational activities such as contest, training, testing, case study and analysis, seminar, speech and article writing, etc., thereby cultivated a corporate culture where occupational health and safety awareness were emphasised. The Group valued and advocated safety in a scientific way and strengthened the prospective study of potential safety problems so as to improve the corporate safety fundamentally. In addition, the Group placed great emphasis on employees' capabilities to cope with emergencies. Therefore, the Group not only increased the number of unannounced emergency drills, but also raised the number of examination and renewal of the contingency equipment. Hence, the employees' skills and capabilities in managing the contingency equipment and following the related procedures during emergency were enhanced. During the year, the Group held a total of 16 large-scale integrated emergency drills with 1,575 (2010: 1,322) attendances.

ENVIRONMENTAL PROTECTION

Advocating green shipping and research and development of energy saving products

In the context of aggravating global climate change, the development of a low-carbon economy has become a major strategy for the countries all over the world to achieve energy conservation and to pursue sustainable development of the society, the economy and the environment. Shipping is the world largest transportation means in terms of cargo volume, so it plays an important role in international trade and economic globalisation and shares responsibility in the development of a low-carbon economy. COSCO International, as a shipping services provider mainly serving vessels, actively responds to COSCO Group's call for green shipping and continuously promotes energy saving and emission reduction, as well as reduces environmental pollution.

The two coating manufacturing enterprises of COSCO International have researched and developed green products for vessels. Jotun COSCO, which commands a leading position in the marine coating industry in China, has endeavoured, for many years, to promote its marine coatings known as the Sea Quantum series product of anti-fouling coatings, which is an environmentally-friendly coating product researched and developed by itself. It has been well received by many customers. As the product used raw materials without solvents but with low volatile organic compounds, it can avoid an increase in marine fuel consumption by effectively lessening the roughness of the vessel body. They not only minimise the fuel cost of vessels, but also reduce pollution to the ocean and protect aquatic habitat. Besides marine coatings, COSCO Kansai Companies of the Group achieved interim breakthroughs in the course of the research and development of water-based container coatings. During the year, COSCO Kansai Companies researched and developed the second generation water-based container coatings on its own and successfully launched the test sample. With international advanced technology embedded, the product had high anti-corrosion effect. The water-based coatings were able to reduce environmental pollution and safeguard occupational health of the workers, thereby playing an important role in establishing environmental-friendly enterprises and enhancing corporate competiveness and brand influence.

Strengthening lean management and promoting environmental conservation

During the year, the Group continued to strengthen its lean management, put an emphasis on cost control and undertake conservation work and encouraged each subsidiary to follow. The coating manufacturing enterprises of the Group implemented the requirements in respect of environmental protection, energy saving and carbon reduction to each production process in accordance with Environmental Management System certification ISO14001. They not only required their suppliers to hold recognised PRC business licenses in respect of safety and green production, but also required their transportation contractors to hold recognised PRC qualifications for hazardous chemicals transportation. The Group also made a complete analysis and rectification as to raw materials procurement, use of energy, production techniques, equipment and device, process control, product packaging, waste management and awareness on environmental protection of the employees, and commenced a series of energy saving and carbon reduction activities with success to a certain extent. For example, the factories in Shanghai and Tianjin of COSCO Kansai Companies successfully saved water use of 200 tonnes and electricity use of 816,290 kWh through the energy saving measures such as improvement of production technology and equipment. The factory in Zhuhai of COSCO Kansai Companies also effectively reduced the air pollution in the factory through improvement in ventilation and dust collection ducts in the factory.

In addition, the Group also held diversified environmental protection activities such as training seminars and outdoor visits through cooperation with different environmental protection organisations and social institutions to enhance its employees' knowledge to energy saving and carbon reduction, recycling and environmental conservation, thereby further establishing a corporate culture of low-carbon office and life favourable for the sustainable development of the global climate, the community and the Company. They included:

- **Ecological conservation** — The Group joined the WWF-Hong Kong as its corporate member for the second year. During the year, the Group organised its employees to participate in guided ecotours to Hoi Ha Wan Marine Park and Mangrove Boardwalk in Mai Po Marshes through the cooperation with the WWF-Hong Kong, so as to enhance their awareness on the importance of marine conservation and foster their sense of caring for the environment. The Group held a training seminar on low-carbon office with Friends of the Earth to introduce the energy saving methods for daily life and in office and the ways to choose office/household energy saving electrical appliances and lighting products, thereby enhancing green awareness on energy saving and carbon reduction.

- **Recycling** — The Company cooperated with Christian Action for the third year, a charitable organisation, to organise a "Green Collection Day" programme in the office to encourage the employees to donate recycled items such as electrical appliances, toys and clothes for the people in need, thereby enhancing the virtue of waste reduction and recycling among the employees. During the year, a total of 165 kilograms of clothes, 15 pieces of appliance and 45 kilograms of toys was donated. Some donated items were sent to those new arrival families in Hong Kong, ethnic minorities, and the orphans and disabled children in Qinghai province, China, while some were sold for charity to finance various charitable services of Christian Action.

- **Carbon footprint reduction** — The Company continued to encourage its employees to participate in a fund-raising activity, "the Community Chest Green Day", organised by the Community Chest of Hong Kong. The activity urged them to reduce their carbon footprints by using environmentally friendly public transportation more frequently. With a view to encouraging and supporting the employees to participate in donation activities, COSCO International adhered to its co-donation mechanism of subsidising the donation of the employees in the ratio of 1 to 1, i.e. HK$1 to HK$1 to encourage the employees to participate. The raised funds were used to foster various service programmes for child welfare, healthcare and community development.

In 2011, the Group had no significant incident record of environmental pollution.

EMPLOYEES

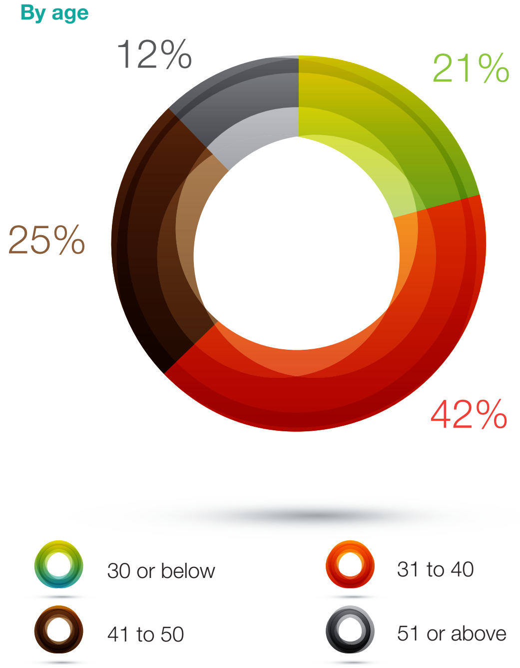
A people-oriented policy nurturing high quality talents

COSCO International always believes that quality talents are important assets of an enterprise and, at the same time, the cornerstone for sustaining corporate development. 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 2011, the Company and its subsidiaries had a total of 747 employees (2010: 702), of which 110 (2010: 111) were based in Hong Kong, 604[Note] (2010: 561) on China Mainland and 33 (2010: 30) in overseas companies.

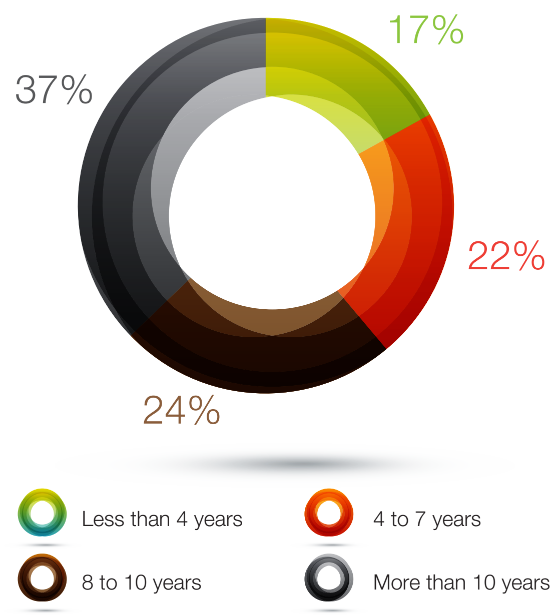
Note: Employees of the Group on China Mainland do not include the employees of jointly controlled entities and associates.

EMPLOYEES PARTICULARS IN 2011

By age



By years of employment



The Company's management believes that if the company plans to expand and consolidate its position, it has to recruit professionals with different expertise. As such, COSCO International provides a comprehensive and competitive remuneration and benefits system, which is complemented with sound training programmes to nurture the talents, highlighting the "employee-oriented" management philosophy of the Group. COSCO International follows the principle of "performance-based remuneration", by encouraging the employees to contribute their efforts to the Company and rewarding them with bonus based on their duties and contribution.

Training and team building

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 on its human resources training system each year, which sets up annual training objectives and plans, designs various types of training programs and encourages and subsidises its employees to participate in individual continuing education programs which are related to their job duties, with

CORPORATE
SOCIAL RESPONSIBILITY

a view to strengthening the professional career training of its staff teams, promoting professional expertise of management teams and stimulating the potential abilities of employees. In 2011, 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. The Company also organised several working seminars and meetings on business development such as cash flow management and risk control in receivables, thus increasing the opportunities for the senior management and professionals from different regions to exchange and explore issues through active discussion of and expressing their views, thereby achieving a better effect for exchange and learning from each other during training. In the future, the Company will continue to step up the quality of the management and provide more advancement opportunities through systematic training management to motivate each employee to grow together with COSCO International.

The management of the Company values mutual communication between the management and employees. Therefore, they regularly convey messages on corporate development strategies and work objectives through various channels, such as regular meetings and diversified types of employee gatherings. In addition, the Company set up an internal information management system, which acts as a platform for the management and all the employees to share information on operation and management as well as corporate culture, etc., and has become an effective tool for information sharing and real-time opinion exchange. The Company's management endeavoured to understand the employees' needs and collect their opinions on the Company through, among other things, non-scheduled views exchange meetings and surveys, as well as corporate activities. By reflecting on these opinions, the Company may improve its operations and accelerate the overall development progress of the Company.

Cultivating a culture of 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 2011, the Group held, in Shanghai, a themed training workshop concerning integrity management of Chinese enterprises to further promote the establishment of the corporate culture of integrity, thus constantly strengthening the corporate capabilities to prevent risks and fostering the robust corporate development. A total of 45 employees who were in charge of sales, procurement and finance of the subsidiaries and associates of the Group on China Mainland, attended the workshop. In addition, the Group also continued to review the implementation status of the Staff Code of Conduct ("the Code") through a comprehensive 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.

Concerning for employees' balanced lives

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 is concerned about the physical and mental health of the employees, as well as whether the employees can strike a balance between work and lives. Therefore, the Group arranged free annual body check for its employees and regularly reviewed its medical insurance policy to ensure certain protection for its staff. Besides, according to labour legislations of different regions, not only does the Group have the leave option in place for which its employees should have had, but also the subsidiaries have gradually added other leave options including paid wedding leave and funeral leave, paternity leave and paid leave, etc., which further enhance the quality of employees' family lives. In addition, the Group puts emphasis on establishing a safe and comfortable working environment, in particular, for the coating manufacturing enterprises. The Group not only gives all its attention to safe production but also strictly undertakes careful examination and rectification work on hidden safety hazards. It also makes improvement in various pieces of equipment, e.g. upgrading the ventilation of the factories, to safeguard the occupational health of the employees. The Group organises diversified activities, including annual dinner, staff sports day, eco-visits and various cultural and recreational activities, as well as exchange and learning tours to China Mainland, or sets up interest groups to enrich the employees' leisure life. These activities not only fortify employees' sense of belongings and corporate cohesion, but also enable the participation of both employees and their family members and help them strike a balance between their work and family lives.

COMMUNITY

As a listed company in Hong Kong, COSCO International believes that when it enthusiastically enhances its profitability and expands in operational scale, it should also pay closer attention to promoting the well-being of the community and the country where it operates. Thus, under the philosophy of "giving back to the community with what they get from the community", the Group not only has endeavoured to fulfil its obligations as a corporate citizen and proactively given back to the society, but also has motivated its employees to participate in various social charitable activities, so that it can contribute to the country and the community, and provide assistance to the people in need.

Supporting children education in mountainous areas

In recent years, COSCO International has continued donation to help the students living in mountainous areas on China Mainland pursue their studies without interruption through joining hands with Sowers Action, a Hong Kong non-profitable charitable organisation that helps the children get access to education. The Company has sponsored the annual fund-raising activity "Sowers Action Challenging 12 Hours Charity Marathon" since 2008, and a total of approximately HK$643,000 was donated to Sowers Action as financial support to its fund-raising activities and to the students who lived in mountainous areas such as Yunnan province, Gansu province and Sichuan province of China Mainland to support their living and learning expenses and help them accomplish their education. More than 300 students had benefited in the past four years. Moreover, the Company had sponsored its employees to join the charitable activity of "Sowers Action Challenging 12 Hours Charity Marathon", and also sent volunteers to assist the activity. About 92 attendances were recorded during the past four years, which highlighted the corporate citizenship of the Group and its employees' enthusiasm in caring for the community.

Promoting a volunteering culture to build a community with care

COSCO International joined Agency for Volunteer Service as a corporate member in 2011 to take part in the volunteer service referred by the agency in order to encourage the employees to participate in volunteer work. During the year, COSCO International arranged its staff to join the "Mid-Autumn Festival Volunteer Visit" and a fund raising activity of "Charity Walk for Volunteering" respectively. Both activities were actively supported by the employees and their family members. During the year, a total of 34 attendances and 136 volunteer hours was recorded, thereby successfully establishing COSCO International's corporate culture of caring about the community.

In 2011, by the concerted efforts of its management and all employees, COSCO International was awarded Caring Company Logo by the Hong Kong Council of Social Service for the fourth consecutive year, in recognition of its efforts and contribution made in terms of "Caring for the Employees", "Caring for the Community" and "Caring for the Environment". Going forward, the Company will continue to actively perform its corporate social responsibilities, act accountable to its shareholders and fulfil its obligations to all stakeholders. It will also keep supporting the low carbon living manner to cope with the challenge of climate change. Meanwhile, by establishing partnership with various social service organisations, the Company will encourage its employees to participate in more charitable activities and contribute their efforts to build a sustainable living society.

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INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

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 106 to 185, which comprise the consolidated and company balance sheets as at 31st December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENT AUDITOR'S REPORT

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 2011, 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, 22nd March 2012

CONSOLIDATED BALANCE SHEET

As at 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Intangible assets	6	**98,542**	91,733
Property, plant and equipment	7	**162,217**	159,082
Prepaid premium for land leases	8	**7,482**	7,478
Investment properties	9	**35,777**	32,543
Jointly controlled entities	11	**376,877**	320,401
Associates	12	**85,053**	57,689
Available-for-sale financial assets	14	**66,187**	138,344
Deferred income tax assets	15(a)	**72,640**	59,710
		904,775	866,980
Current assets			
Completed properties held for sale	16	**186**	177
Inventories	17	**665,656**	454,367
Trade and other receivables	18	**2,191,709**	1,574,998
Available-for-sale financial assets	14	**20,659**	—
Derivative financial assets	19	**78**	—
Financial assets at fair value through profit or loss	20	**377**	554
Current income tax recoverable		**1,471**	803
Restricted bank deposits	21	**36,890**	27,809
Deposits and cash and cash equivalents	21	**5,666,734**	6,439,721
		8,583,760	8,498,429
Total assets		**9,488,535**	9,365,409
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	**151,363**	151,107
Reserves	23	**6,834,478**	6,574,714
Proposed dividends	23	**105,954**	574,206
		7,091,795	7,300,027
Non-controlling interests		**187,119**	230,201
Total equity		**7,278,914**	7,530,228
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	15(b)	**20,358**	13,216
Current liabilities			
Trade and other payables	24	**2,122,464**	1,574,823
Current income tax liabilities		**31,998**	39,843
Short-term borrowings	25	**34,801**	207,299
		2,189,263	1,821,965
Total liabilities		**2,209,621**	1,835,181
Total equity and liabilities		**9,488,535**	9,365,409
Net current assets		**6,394,497**	6,676,464
Total assets less current liabilities		**7,299,272**	7,543,444

Wang Xiaodong
Managing Director

Lin Wenjin
Deputy Managing Director

BALANCE SHEET

As at 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**874**	1,478
Subsidiaries	10(a)	**161,765**	161,765
Jointly controlled entity	11	**143,688**	143,688
Amount due from a subsidiary	10(b)	**—**	40,000
		306,327	346,931
Current assets			
Amounts due from subsidiaries	10(b)	**1,448,333**	600,073
Other receivables	18	**56,482**	1,432
Deposits and cash and cash equivalents	21	**4,469,426**	5,594,171
		5,974,241	6,195,676
Total assets		**6,280,568**	6,542,607
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	**151,363**	151,107
Reserves	23	**5,748,558**	1,164,641
Proposed dividends	23	**105,954**	574,206
Total equity		**6,005,875**	1,889,954
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	10(b)	**258,781**	4,641,810
Other payables	24	**15,692**	10,843
Current income tax liabilities		**220**	—
Total liabilities		**274,693**	4,652,653
Total equity and liabilities		**6,280,568**	6,542,607
Net current assets		**5,699,548**	1,543,023
Total assets less current liabilities		**6,005,875**	1,889,954

WANG Xiaodong
Managing Director

LIN Wenjin
Deputy Managing Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
Revenue	5	**10,656,121**	8,666,901
Cost of sales	27	**(9,764,086)**	(7,951,725)
Gross profit		**892,035**	715,176
Other income and gains	26	**46,264**	35,994
Selling, administrative and general expenses	27	**(539,121)**	(451,910)
Other expenses and losses	27	**(28,199)**	(5,291)
Operating profit		**370,979**	293,969
Finance income	30	**108,736**	10,332
Finance costs	30	**(16,928)**	(9,205)
Finance income — net	30	**91,808**	1,127
Share of results of jointly controlled entities	11	**50,152**	79,725
Share of results of associates	12	**25,755**	438,995
Loss on deemed disposal of partial interest in an associate	12(b)	**—**	(768)
Gain on disposal of an associate	12(c)	**—**	545,704
Profit before income tax		**538,694**	1,358,752
Income tax expense	31	**(90,963)**	(65,793)
Profit for the year		**447,731**	1,292,959
Profit attributable to:			
Equity holders of the Company	32	**390,339**	1,268,600
Non-controlling interests		**57,392**	24,359
		447,731	1,292,959
Earnings per share attributable to the equity holders of the Company during the year			
— basic, HK cents	33(a)	**25.80**	83.97
— diluted, HK cents	33(b)	**25.37**	82.51
		HK$'000	HK$'000
Dividends	34	**136,227**	604,421

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2011

	2011 HK$'000	2010 HK$'000
Profit for the year	**447,731**	1,292,959
Other comprehensive income		
Currency translation differences	**45,585**	177,654
Share of currency translation differences of jointly controlled entities and associates	**13,109**	3,555
Share of fair value losses on available-for-sale financial assets of an associate	**—**	(7,601)
Share of cash flow hedges of an associate, net of tax	**1,453**	—
Reserves realised in consolidated income statement upon disposal of a jointly controlled entity	**(320)**	—
Reserves realised in consolidated income statement upon disposal of an associate	**—**	(425,788)
Fair value (losses)/gains on available-for-sale financial assets	**(37,182)**	34,260
Reserves realised in consolidated income statement upon disposal of available-for-sale financial assets	**(12,921)**	—
Cash flow hedges, net of tax	**78**	—
Other comprehensive income/(loss) for the year	**9,802**	(217,920)
Total comprehensive income for the year	**457,533**	1,075,039
Total comprehensive income attributable to:		
Equity holders of the Company	**389,525**	1,043,743
Non-controlling interests	**68,008**	31,296
	457,533	1,075,039

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2011

	Note	Attributable to equity holders of the Company					
		Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2011		151,107	1,130,980	6,017,940	7,300,027	230,201	7,530,228
Profit for the year		–	–	390,339	390,339	57,392	447,731
Other comprehensive income							
Currency differences on translation of:							
— subsidiaries	23	–	33,493	–	33,493	–	33,493
— jointly controlled entities	23	–	1,028	–	1,028	–	1,028
— associates	23	–	448	–	448	–	448
— non-controlling interests		–	–	–	–	10,616	10,616
Share of currency translation differences of:							
— jointly controlled entities	23	–	12,701	–	12,701	–	12,701
— associates	23	–	408	–	408	–	408
Share of cash flow hedges of an associate, net of tax		–	1,453	–	1,453	–	1,453
Reserves realised in consolidated income statement upon disposal of a jointly controlled entity	23	–	(320)	–	(320)	–	(320)
Fair value losses on available-for-sale financial assets	23	–	(37,182)	–	(37,182)	–	(37,182)
Reserves realised in consolidated income statement upon disposal of available-for-sale financial assets		–	(12,921)	–	(12,921)	–	(12,921)
Cash flow hedges, net of tax		–	78	–	78	–	78
Total comprehensive income for the year ended 31st December 2011		–	(814)	390,339	389,525	68,008	457,533
Transactions with owners							
Transfer of reserves	23	–	39,975	(39,975)	–	–	–
Shares issued upon exercise of share options	22(d), 23	256	6,670	–	6,926	–	6,926
Employee share option benefits	23	–	730	–	730	–	730
Dividends paid and payable	23	–	–	(605,413)	(605,413)	(111,090)	(716,503)
Total transactions with owners		256	47,375	(645,388)	(597,757)	(111,090)	(708,847)
Balance at 31st December 2011		151,363	1,177,541	5,762,891	7,091,795	187,119	7,278,914

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2011

	Note	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company					
Balance at 1st January 2010		151,070	1,442,493	4,821,297	6,414,860	200,712	6,615,572
Profit for the year		—	—	1,268,600	1,268,600	24,359	1,292,959
Other comprehensive income							
Currency differences on translation of:							
— subsidiaries	23	—	20,121	—	20,121	—	20,121
— jointly controlled entities	23	—	675	—	675	—	675
— associates	23	—	149,921	—	149,921	—	149,921
— non-controlling interests		—	—	—	—	6,937	6,937
Share of currency translation differences of:							
— jointly controlled entities	23	—	7,439	—	7,439	—	7,439
— associates	23	—	(3,884)	—	(3,884)	—	(3,884)
Share of fair value losses on available-for-sale financial assets of an associate	23	—	(7,601)	—	(7,601)	—	(7,601)
Reserves realised in consolidated income statement upon disposal of an associate	23	—	(425,788)	—	(425,788)	—	(425,788)
Fair value gains on available-for-sale financial assets	23	—	34,260	—	34,260	—	34,260
Total comprehensive income for the year ended 31st December 2010		—	(224,857)	1,268,600	1,043,743	31,296	1,075,039
Transactions with owners							
Transfer of reserves	23	—	12,232	(12,232)	—	—	—
Reserves realised in retained earnings upon disposal of an associate	23	—	(97,388)	97,388	—	—	—
Shares issued upon exercise of share options	22(d), 23	37	473	—	510	—	510
Share of employee share option benefits of an associate	23	—	22,241	—	22,241	—	22,241
Share of other reserves of an associate	23	—	(29,882)	—	(29,882)	—	(29,882)
Employee share option benefits	23	—	5,668	—	5,668	—	5,668
Dividends paid	23	—	—	(157,113)	(157,113)	(1,807)	(158,920)
Total transactions with owners		37	(86,656)	(71,957)	(158,576)	(1,807)	(160,383)
Balance at 31st December 2010		151,107	1,130,980	6,017,940	7,300,027	230,201	7,530,228

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	35	**25,387**	(127,380)
Income tax paid		**(103,575)**	(69,971)
Net cash used in operating activities		**(78,188)**	(197,351)
Cash flows from investing activities			
Increase in cash investments with maturity over three months		**(3,484,109)**	(66,892)
Increase in restricted bank deposits		**(7,572)**	(20,545)
Interest received		**108,736**	10,332
Advance of loan to a jointly controlled entity		**(35,021)**	—
Dividends received from investments		**2,263**	1,991
Dividends received from jointly controlled entities		**2,517**	1,500
Dividends received from associates		**700**	95,642
Net proceeds from sale of property, plant and equipment		**105**	523
Purchase of intangible assets		**(5,919)**	—
Purchase of property, plant and equipment		**(14,757)**	(39,428)
Net proceeds from disposal of a jointly controlled entity		**8,886**	—
Net proceeds from disposal of an associate		**—**	5,258,294
Net proceeds from disposal of available-for-sale financial assets		**14,037**	—
Net proceeds from disposal of asset held for sale		**—**	12,930
Net cash generated from acquisition of a subsidiary	37	**—**	7,312
Net cash (used in)/generated from investing activities		**(3,410,134)**	5,261,659
Cash flows from financing activities			
Drawdown of bank loans		**7,691**	207,299
Repayment of bank loans		**(180,986)**	(11,752)
Shares issued upon exercise of share options	22(d)	**6,926**	510
Finance costs paid		**(16,928)**	(9,205)
Dividends paid to the Company's equity holders		**(605,413)**	(157,113)
Dividends paid to non-controlling interests		**(4,933)**	(1,807)
Net cash (used in)/generated from financing activities		**(793,643)**	27,932
Net (decrease)/increase in cash and cash equivalents		**(4,281,965)**	5,092,240
Cash and cash equivalents at the beginning of the year		**6,299,798**	1,194,509
Exchange gain on cash and cash equivalents		**27,545**	13,049
Cash and cash equivalents at the end of the year	21(e)	**2,045,378**	6,299,798

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 and general trading.

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 47th Floor, 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 are presented in Hong Kong dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the board of directors on 22nd March 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") 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 (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs 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.

(i) Adoption of amendments to published standards

In 2011, the Group has adopted the following amendments to published standards issued by the HKICPA, which are relevant to its operations:

		Effective for accounting periods beginning on or after
HKFRSs (Amendments)	Improvements to HKFRSs*	1st January 2011

* The Group adopted the amendments set out in Improvements to HKFRSs published by the HKICPA in May 2010, which are relevant to its operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

(i) Adoption of amendments to published standards (Continued)

The adoption of Improvements to HKFRSs as mentioned above did not result in any substantial changes to the Group's accounting policies and had no material financial impact on the consolidated financial statements.

(ii) New standards and amendments to published standards that are not yet effective

The following new standards 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 2011 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements	1st July 2012
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets	1st January 2012
HKAS 19 (Amendment)	Employee Benefits	1st January 2013
HKAS 27 (2011)	Separate Financial Statements	1st January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1st January 2013
HKAS 32 (Amendment)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities	1st January 2013
HKFRS 7 (Amendment)	Disclosure — Transfer of Financial Assets	1st July 2011
HKFRS 7 (Amendment)	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities	1st January 2013
HKFRS 9	Financial Instruments	1st January 2015
HKFRS 10	Consolidated Financial Statements	1st January 2013
HKFRS 11	Joint Arrangements	1st January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1st January 2013
HKFRS 13	Fair Value Measurement	1st January 2013

The Group has already commenced an assessment of the related impact of adopting the above new standards and amendments to published 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.

(b) Consolidation

(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. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (Continued)

(i) Subsidiaries (Continued)

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's net identifiable assets.

The excess of the consideration transferred and the fair value of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired and liabilities assumed is recorded as goodwill. If the total of consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains 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.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary 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.

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (Continued)

(iii) Change in ownership interests

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Jointly controlled entities

Jointly controlled entities are entities which operate under contractual arrangements 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 using the equity method of accounting and are initially recognised at cost. The Group's investments in jointly controlled entities include goodwill identified on acquisition.

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 other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to 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, investments in jointly controlled entities are 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Associates

Associates 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 associates are accounted for using the equity method of accounting. Under the equity method of accounting, the investment is recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

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

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquirees and the fair value of the non-controlling interests in the acquirees at the date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates/jointly controlled entities is included in investments in associates/jointly controlled entities and is tested for impairment annually or more frequently 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 synergies of the business combination in which goodwill arose and identified according to operating segment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Intangible assets (Continued)

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives from three to five years on a straight-line basis.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Computer software costs recognised as assets are amortised over their estimated useful lives.

(f) 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 to 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Properties (Continued)

(i) Investment properties (Continued)

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 is transferred to retained earnings without going through the consolidated income statement.

(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 income 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 leasehold land which is not classified as finance leases. The premiums are stated at cost and are amortised on a straight line basis over the lease period to the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment

Properties comprise factory buildings, freehold land and buildings, and leasehold land classified as finance leases. Property, plant and equipment is stated at historical cost less accumulated depreciation, amortisation and 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. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets are calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

Leasehold land classified as finance lease	Remaining lease terms
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 or amortisation is provided for construction in progress and freehold land.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of investments in subsidiaries, jointly controlled entities, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of investments in subsidiaries, jointly controlled entities or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity 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.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Cost of finished goods and work in progress 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. Cost of inventories includes the transfer from equity of any gains/losses on qualifying cash flow hedges purchases of inventories.

(j) 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

Financial assets at fair value through profit or loss are financial assets held for trading. 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. Derivatives are also categorised as held for trading unless they are designated as hedges. 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, otherwise they are classified as non-current.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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 end of the reporting period, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted bank deposits' and 'deposits and cash and cash equivalents' in the consolidated balance sheet.

(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 the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

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 income and gains/other expenses and losses' 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.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Assets held for sale

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.

(l) 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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 carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of financial assets (Continued)

(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 referred 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.

(m) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

The fair values of the derivative instruments used for hedging purposes are disclosed in note 19. Movement on the hedging reserve in shareholders' equity are shown in note 23. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

For cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Derivative financial instruments and hedging activities (Continued)

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of cash flow swaps hedging variable price purchases is recognised in the consolidated income statement within 'cost of sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of inventory. The deferred amounts are ultimately recognised in cost of inventory sold.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

(n) Operating leases

Leases in which a significant portion of the risks and rewards of ownership of assets is retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are 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 with banks and a fellow subsidiary, money market fund investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, money market fund investments, and deposits 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. Trade and other payables 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 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.

(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 in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Current and deferred income tax (Continued)

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, associates 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, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. 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 only 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, associates and jointly controlled entities, except for deferred income tax liabilities where the timing of the reversal of the temporary differences is controlled by the Group 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.

(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 (HK$), 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 or valuation where items are re-measured. 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, except when deferred in equity as qualified cash flow hedges.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Foreign currency translation (Continued)

(ii) Transactions and balances (Continued)

Foreign exchange gains and losses are presented in the consolidated income statement within 'other income and gains/other expenses and losses'.

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 other comprehensive income.

Translation differences 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 other comprehensive income.

(iii) Group companies

On consolidation, the results and financial position of all of 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;
- 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 in other comprehensive income.

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 other comprehensive income. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 (for example, an entity's share price);
- 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
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Employee benefits (Continued)

(ii) Share-based compensation (Continued)

Non-market performance and service 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. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

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 in the parent entity accounts.

(x) Revenue and income recognition

Revenue is measured at 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 stated 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; when 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, asphalt and other products

Income 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue and income recognition (Continued)

(iii) Sale of completed properties held for sale

Income from sale of completed properties held for sale is recognised where significant risks and rewards of ownership 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.

(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 board of directors that makes strategic decisions.

(z) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors when appropriate.

(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 owners of the Company until the shares are cancelled or reissued. Where such ordinary 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 owners of the Company.

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. During the year, the Group had entered into 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 in Hong Kong, the PRC and overseas 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 2011 and 2010, the Group had not entered into significant forward foreign exchange contracts to mitigate the currency exposure.

Foreign currency risk arising from operations whose functional currency is Hong Kong dollars

At 31st December 2011, 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$37,674,000 (2010: HK$2,539,000) 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 whose functional currency is Renminbi

At 31st December 2011, 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$6,849,000 (2010: HK$5,910,000) lower/higher, 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 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$27,342,000 (2010: HK$30,828,000).

(3) Price risk

The Group's fuel oil trading business is conducted on an indent basis where the purchase and selling prices of majority of the transactions are fixed in advance and thus the Group's exposure to fuel oil price risk is not significant. Management manages its exposure by entering into derivative contracts to hedge against the price fluctuation when the need arises. As at 31st December 2011, the Group had entered into swap contracts to hedge against fuel oil price fluctuation.

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 the 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**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
5% change in market price	**19**	28	**4,254**	6,829

NOTES TO THE FINANCIAL STATEMENTS

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 acceptable credit rating, as rated by external credit agencies, and over 90% of the Group's bank balances as at 31 December 2011 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 2011	
Trade and other payables	**2,077,841**
Short-term borrowings	**35,026**
At 31st December 2010	
Trade and other payables	1,493,515
Short-term borrowings	209,216
Company	
At 31st December 2011	
Amounts due to subsidiaries	**258,781**
Other payables	**15,692**
At 31st December 2010	
Amounts due to subsidiaries	4,641,810
Other payables	10,843

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 the Group's total borrowings divided by total assets. The Group's strategy, which was unchanged from 2010, is to maintain a low gearing ratio. The gearing ratios at 31st December 2011 and 2010 were as follows:

	2011	2010
	HK$'000	HK$'000
Total borrowings	**34,801**	207,299
Total assets	**9,488,535**	9,365,409
Gearing ratio	**0.4%**	2.2%

(c) Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- 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).

The following table presents the Group's financial assets that are measured at fair value at 31st December 2011 and 2010.

	Level 1	**Level 2**	**Level 3**	**Total**
At 31st December 2011	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Available-for-sale financial assets				
— equity securities	**85,087**	**—**	**1,759**	**86,846**
Derivative financial assets	**78**	**—**	**—**	**78**
Financial assets at fair value through profit or loss				
— trading securities	**377**	**—**	**—**	**377**
Total	**85,542**	**—**	**1,759**	**87,301**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value estimation (Continued)

At 31st December 2010	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets				
— equity securities	136,585	—	1,759	138,344
Financial assets at fair value through profit or loss				
— trading securities	554	—	—	554
Total	137,139	—	1,759	138,898

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 financial assets or trading securities.

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.

(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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) 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 2011, the carrying amount of goodwill was HK$92,343,000. Details of the recoverable amount calculation are disclosed in note 6.

(d) Fair value estimates on acquisition of subsidiaries

The initial accounting on the acquisition of subsidiaries involves identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. The fair values of property, plant and equipment, leasehold land and land use rights and intangible assets are determined with reference to market prices. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entity will impact the carrying amount of these assets and liabilities.

(e) 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.

The Group also assesses the fair value of investment properties based on valuations determined by independent professional qualified valuer.

(f) Determination of fair value of share-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)

(g) Income taxes

The Group is subject to income taxes in Hong Kong, the PRC, Singapore and Japan. 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.

(h) Recognition of investment in an associate

The Group held less than 20% of the voting power of Sino-Ocean Land Holdings Limited ("SOLHL") during the period from 1st January 2010 to the date prior to its disposal on 21st December 2010. 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 had been clearly demonstrated by the 20% voting power maintained by the Group on the board of directors during the above period. The Group considered its investment in SOLHL as 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 for the period from 1st January 2010 to the date prior to its disposal on 21st December 2010.

5 REVENUE AND SEGMENT INFORMATION

Turnover, representing revenue, recognised during the year is as follows:

	2011 HK$'000	2010 HK$'000
Sale of coatings	**1,608,654**	1,291,817
Sale of marine equipment and spare parts	**970,159**	597,386
Commission income from ship trading agency	**150,156**	159,034
Commission income from insurance brokerage	**85,486**	78,026
Sale of marine fuel and other products	**6,679,864**	5,758,556
Sale of asphalt and other products	**1,161,802**	780,890
Sale of properties	**—**	130
Rental income	**—**	1,062
	10,656,121	8,666,901

The chief operating decision-maker has been identified as the Board of Directors. The Board of Directors reviews the Group's internal reporting in order to make decisions about resources to be allocated to the segment and assess its performance. The management considers the business from a product perspective and has identified the following reportable segments on the basis of these reports:

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, and holding of investment in a jointly controlled entity
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 associate, Double Rich Limited
General trading	trading of asphalt and other products, and holding of investments in various jointly controlled entities and associates

All other segments mainly comprise the Group's listed available-for-sale financial assets and financial assets at fair value through profit or loss.

As the Group had disposed of all its shareholding interest in a former associate, Sino-Ocean Land Holdings Limited, on 21st December 2010, property investment was no longer identified as a reportable segment in 2011. For the year ended 31st December 2010, the business activities of property investments included the sale of completed properties and the investment in Sino-Ocean Land Holdings Limited.

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

The management assesses the performance of the operating segments based on a measure of profit before income tax.

	Year ended and as at 31st December 2011									
	Shipping services									
	Coatings HK$'000	Marine equipment and spare parts HK$'000	Ship trading agency HK$'000	Insurance brokerage HK$'000	Marine fuel and other products HK$'000	Total HK$'000	General trading HK$'000	All other segments HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Profit and loss items:										
Segment revenue	1,608,654	988,000	150,235	85,734	7,036,944	9,869,567	1,174,481	–	(387,927)	10,656,121
Inter-segment revenue	–	(17,841)	(79)	(248)	(357,080)	(375,248)	(12,679)	–	387,927	–
Revenue from external customers	1,608,654	970,159	150,156	85,486	6,679,864	9,494,319	1,161,802	–	–	10,656,121
Segment operating profit	181,379	63,453	107,062	60,495	(3,225)	409,164	31,731	14,728	–	455,623
Finance income	3,803	1,172	5,507	807	167	11,456	947	–	(3,393)	9,010
Finance costs	(3,061)	(1,099)	(147)	(130)	(3,530)	(7,967)	(18,780)	–	3,393	(23,354)
Share of results of jointly controlled entities	48,677	1,241	108	–	–	50,026	126	–	–	50,152
Share of results of associates	–	–	–	–	25,091	25,091	664	–	–	25,755
Segment profit before income tax	230,798	64,767	112,530	61,172	18,503	487,770	14,688	14,728	–	517,186
Income tax expense	(31,605)	(10,459)	(23,721)	(9,813)	(3,840)	(79,438)	(2,645)	–	–	(82,083)
Segment profit after income tax	199,193	54,308	88,809	51,359	14,663	408,332	12,043	14,728	–	435,103
Balance sheet items:										
Total segment assets	1,762,956	620,314	342,457	188,546	934,757	3,849,030	1,154,242	85,464	(138,615)	4,950,121
Total segment assets include:										
– Jointly controlled entities	359,251	15,450	2,176	–	–	376,877	–	–	–	376,877
– Associates	–	–	–	–	74,313	74,313	10,740	–	–	85,053
Total segment liabilities	916,398	355,451	105,124	87,278	790,936	2,255,187	951,687	–	(138,615)	3,068,259
Other items:										
Depreciation and amortisation, net of amount capitalised	12,759	1,558	759	248	–	15,324	628	–	–	15,952
Gain on disposal of a jointly controlled entity	–	–	–	–	–	–	4,318	–	–	4,318
Gain on disposal of available-for-sale financial assets	–	–	–	–	–	–	–	12,642	–	12,642
Reversal of provision for impairment of inventories, net of provision	3,841	–	–	–	–	3,841	–	–	–	3,841
Provision for impairment of trade and other receivables, net of reversal	(14,434)	4,724	–	–	29,752	20,042	7,765	–	–	27,807
Additions to non-current assets (other than available-for-sale financial assets and deferred tax assets)	13,716	2,240	697	13	–	16,666	3,971	–	–	20,637

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Year ended and as at 31st December 2010										
	Shipping services										
	Coatings HK$'000	Marine equipment and spare parts HK$'000	Ship trading agency HK$'000	Insurance brokerage HK$'000	Marine fuel and other products HK$'000	Total HK$'000	General trading HK$'000	Property invest-ments HK$'000	All other segments HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Profit and loss items:											
Segment revenue	1,291,817	601,922	159,471	78,260	5,946,866	8,078,336	786,826	130	–	(198,391)	8,666,901
Inter-segment revenue	–	(3,899)	(12)	(234)	(188,310)	(192,455)	(5,936)	–	–	198,391	–
Revenue from external customers	1,291,817	598,023	159,459	78,026	5,758,556	7,885,881	780,890	130	–	–	8,666,901
Segment operating profit	69,994	43,895	123,879	57,054	30,919	325,741	28,322	(47)	1,991	–	356,007
Finance income	2,224	641	2,735	510	36	6,146	754	–	–	–	6,900
Finance costs	(2,389)	(457)	(22)	(125)	(489)	(3,482)	(6,032)	–	–	–	(9,514)
Share of results of jointly controlled entities	76,552	3,546	–	–	–	80,098	(373)	–	–	–	79,725
Share of results of associates	–	–	–	–	1,071	1,071	1,404	436,520	–	–	438,995
Loss on deemed disposal of partial interest in an associate	–	–	–	–	–	–	–	(768)	–	–	(768)
Gain on disposal of an associate	–	–	–	–	–	–	–	545,704	–	–	545,704
Segment profit before income tax	146,381	47,625	126,592	57,439	31,537	409,574	24,075	981,409	1,991	–	1,417,049
Income tax expense	(9,141)	(6,558)	(27,283)	(9,202)	(5,120)	(57,304)	(6,280)	–	–	–	(63,584)
Segment profit after income tax	137,240	41,067	99,309	48,237	26,417	352,270	17,795	981,409	1,991	–	1,353,465
Balance sheet items:											
Total segment assets	1,690,849	498,927	316,847	140,586	490,347	3,137,556	494,707	–	137,139	(4,009)	3,765,393
Total segment assets include:											
– Jointly controlled entities	297,873	15,924	–	–	–	313,797	6,604	–	–	–	320,401
– Associates	–	–	–	–	47,429	47,429	10,260	–	–	–	57,689
Total segment liabilities	783,319	274,522	120,044	48,714	363,031	1,589,630	313,259	–	–	(4,009)	1,898,880
Other items:											
Depreciation and amortisation, net of amount capitalised	11,392	971	661	473	–	13,497	285	–	–	–	13,782
Provision for impairment of inventories, net of reversal	3,643	–	–	–	–	3,643	–	–	–	–	3,643
Provision for impairment of trade receivables, net of reversal	5,975	(5,041)	–	–	–	934	–	–	–	–	934
Additions to non-current assets (other than available-for-sale financial assets and deferred tax assets)	8,926	29,232	853	284	–	39,295	7	–	–	–	39,302

NOTES TO THE FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

A reconciliation of the total of the reportable segments' profit before income tax to the Group's profit after income tax is as follows:

	2011	2010
	HK$'000	HK$'000
Profit before income tax for reportable segments	**502,458**	1,415,058
Profit before income tax for all other segments	**14,728**	1,991
Profit before income tax for all segments	**517,186**	1,417,049
Elimination of unrealised profit on inter-segment revenue	**(1,464)**	—
Elimination of segment income from corporate headquarters	**(74)**	(72)
Elimination of segment finance costs to corporate headquarters	**6,445**	335
Corporate finance income	**99,726**	3,432
Corporate finance costs	**(19)**	(26)
Corporate expenses, net of income	**(83,106)**	(61,966)
Profit before income tax for the Group	**538,694**	1,358,752
Income tax expense for all segments	**(82,083)**	(63,584)
Corporate income tax expense	**(8,880)**	(2,209)
Profit after income tax for the Group	**447,731**	1,292,959

A reconciliation of the total of the reportable segments' assets to the Group's total assets is as follows:

	2011	2010
	HK$'000	HK$'000
Total assets for reportable segments	**5,003,272**	3,632,263
Total assets for all other segments	**85,464**	137,139
Elimination of inter-segment receivables	**(138,615)**	(4,009)
	4,950,121	3,765,393
Corporate assets (mainly deposits and cash and cash equivalents)	**5,426,538**	5,687,309
Elimination of unrealised profit on inter-segment revenue	**(1,464)**	—
Elimination of corporate headquarters' receivables from segments	**(886,660)**	(87,293)
Total assets for the Group	**9,488,535**	9,365,409

A reconciliation of the total of the reportable segments' liabilities to the Group's total liabilities is as follows:

	2011	2010
	HK$'000	HK$'000
Total liabilities for reportable segments	**3,206,874**	1,902,889
Elimination of inter-segment payables	**(138,615)**	(4,009)
	3,068,259	1,898,880
Corporate liabilities	**28,022**	23,594
Elimination of segment payables to corporate headquarters	**(886,660)**	(87,293)
Total liabilities for the Group	**2,209,621**	1,835,181

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$793,629,000 (2010: HK$642,834,000) and HK$9,862,492,000 (2010: HK$8,024,067,000) 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$539,503,000 (2010: HK$450,562,000) and HK$226,445,000 (2010: HK$218,364,000) respectively.

Revenue of HK$1,378,532,000 (2010: HK$817,853,000) is derived from a single external customer of the marine fuel and other products segment.

6 INTANGIBLE ASSETS

		Group	
	Goodwill	**Computer software**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Cost:			
At 1st January 2011	**97,717**	**—**	**97,717**
Additions	**—**	**5,919**	**5,919**
Transfer from property, plant and equipment	**—**	**1,984**	**1,984**
Currency translation differences	**610**	**91**	**701**
At 31st December 2011	**98,327**	**7,994**	**106,321**
Accumulated amortisation and impairment:			
At 1st January 2011	**5,984**	**—**	**5,984**
Transfer from property, plant and equipment	**—**	**566**	**566**
Currency translation differences	**—**	**16**	**16**
Amortisation (note 27)	**—**	**1,213**	**1,213**
At 31st December 2011	**5,984**	**1,795**	**7,779**
Net book amount	**92,343**	**6,199**	**98,542**

		Group	
	Goodwill	Computer software	Total
	HK$'000	HK$'000	HK$'000
Cost:			
At 1st January 2010	97,324	—	97,324
Currency translation differences	393	—	393
At 31st December 2010	97,717	—	97,717
Accumulated amortisation and impairment:			
At 1st January 2010 and 31st December 2010	5,984	—	5,984
Net book amount	91,733	—	91,733

NOTES TO THE FINANCIAL STATEMENTS

6 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units under shipping services business segment as follows:

	2011	2010
	HK$'000	HK$'000
Agency service in respect of shipbuilding, ship trading and bareboat charter business ("Ship trade business")	**48,317**	47,707
Provision of insurance brokerage services ("Insurance business")	**35,046**	35,046
Trading of marine equipment and spare parts ("Supply business")	**8,980**	8,980
	92,343	91,733

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 in 2011 are as follows:

	Ship trade business	**Insurance business**	**Supply business**
Weighted average growth rate	**3%**	**3%**	**3%**
Discount rate	**9.36%**	**9.36%**	**9.36%**

The key assumptions used for value-in-use calculations in 2010 are as follows:

	Ship trade business	Insurance business	Supply business
Weighted average growth rate	3%	3%	3%
Discount rate	8.9%	8.9%	8.9%

These assumptions have been used for the analysis of each cash generating unit within the operating segment.

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

	Properties	Machinery, equipment and motor vehicles	Leasehold improve- ment	Furniture and fixtures	Construc- tion in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2010, as restated						
Cost	104,204	70,096	13,158	27,635	22,679	237,772
Accumulated depreciation, amortisation and impairment	(34,651)	(40,760)	(11,619)	(20,288)	—	(107,318)
Net book amount	69,553	29,336	1,539	7,347	22,679	130,454
Year ended 31st December 2010						
Opening net book amount, as previously reported	64,602	29,336	1,539	7,347	22,679	125,503
Adjustment on adoption of amendment to HKAS 17	4,951	—	—	—	—	4,951
Opening net book amount, as restated	69,553	29,336	1,539	7,347	22,679	130,454
Additions	28,186	4,338	—	2,774	4,130	39,428
Acquisition of a subsidiary (note 37)	—	588	—	—	—	588
Transfer between categories	21,540	4,987	—	998	(27,525)	—
Currency translation differences	2,124	976	—	209	758	4,067
Depreciation and amortisation (note 27(a))	(3,214)	(7,003)	(796)	(4,116)	—	(15,129)
Disposals	—	(326)	—	—	—	(326)
Closing net book amount	118,189	32,896	743	7,212	42	159,082
At 31st December 2010						
Cost	157,185	78,736	13,162	30,103	42	279,228
Accumulated depreciation, amortisation and impairment	(38,996)	(45,840)	(12,419)	(22,891)	—	(120,146)
Net book amount	118,189	32,896	743	7,212	42	159,082
Year ended 31st December 2011						
Opening net book amount	**118,189**	**32,896**	**743**	**7,212**	**42**	**159,082**
Additions	**27**	**4,839**	**3,098**	**3,882**	**2,911**	**14,757**
Transfer between categories	**1,134**	**580**	**—**	**134**	**(1,848)**	**—**
Transfer of computer software to intangible assets	**—**	**(1,418)**	**—**	**—**	**—**	**(1,418)**
Currency translation differences	**3,893**	**1,505**	**64**	**311**	**28**	**5,801**
Depreciation and amortisation (note 27(a))	**(4,141)**	**(7,276)**	**(769)**	**(3,796)**	**—**	**(15,982)**
Disposals	**—**	**(16)**	**—**	**(7)**	**—**	**(23)**
Closing net book amount	**119,102**	**31,110**	**3,136**	**7,736**	**1,133**	**162,217**
At 31st December 2011						
Cost	**164,235**	**83,331**	**16,331**	**33,970**	**1,133**	**299,000**
Accumulated depreciation, amortisation and impairment	**(45,133)**	**(52,221)**	**(13,195)**	**(26,234)**	**—**	**(136,783)**
Net book amount	**119,102**	**31,110**	**3,136**	**7,736**	**1,133**	**162,217**

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 2010				
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
Year ended 31st December 2010				
Opening net book amount	1,250	417	283	1,950
Additions	705	—	9	714
Depreciation	(456)	(313)	(149)	(918)
Disposals	(268)	—	—	(268)
Closing net book amount	1,231	104	143	1,478
At 31st December 2010				
Cost	3,858	8,909	801	13,568
Accumulated depreciation and impairment	(2,627)	(8,805)	(658)	(12,090)
Net book amount	1,231	104	143	1,478
Year ended 31st December 2011				
Opening net book amount	**1,231**	**104**	**143**	**1,478**
Additions	**28**	**—**	**10**	**38**
Depreciation	**(460)**	**(104)**	**(78)**	**(642)**
Closing net book amount	**799**	**—**	**75**	**874**
At 31st December 2011				
Cost	**3,875**	**8,909**	**812**	**13,596**
Accumulated depreciation and impairment	**(3,076)**	**(8,909)**	**(737)**	**(12,722)**
Net book amount	**799**	**—**	**75**	**874**

7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's interests in properties at their net book value are analysed as follows:

	Group 2011 HK$'000	2010 HK$'000
Freehold properties held outside Hong Kong	**27,582**	27,992
Leasehold properties held in Hong Kong		
— on leases of over 50 years	**3,756**	3,791
— on leases of between 10 and 50 years	**1,939**	2,076
Leasehold properties held outside Hong Kong		
— on leases of between 10 and 50 years	**55,922**	54,057
— on leases of less than 10 years	**29,903**	30,273
	119,102	118,189

8 PREPAID PREMIUM FOR LAND LEASES

	Group 2011 HK$'000	2010 HK$'000
At 1st January, as previously reported	**7,478**	12,638
Adjustment on adoption of amendment to HKAS 17	**—**	(4,951)
At 1st January, as restated	**7,478**	7,687
Currency translation differences	**369**	257
Amortisation (note 27)	**(365)**	(466)
At 31st December	**7,482**	7,478

The Group's interests in prepaid premium for land leases at their net book value are analysed as follows:

	Group 2011 HK$'000	2010 HK$'000
Held outside Hong Kong		
— on leases of between 10 and 50 years	**5,958**	5,790
— on leases of less than 10 years	**1,524**	1,688
	7,482	7,478

9 INVESTMENT PROPERTIES

	Group 2011 HK$'000	2010 HK$'000
At 1st January	**32,543**	27,164
Currency translation differences	**(15)**	32
Fair value gains (note 26)	**3,249**	5,347
At 31st December	**35,777**	32,543

9 INVESTMENT PROPERTIES (CONTINUED)

The Group's interests in investment properties are analysed as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Held in Hong Kong		
— on leases of over 50 years	**17,100**	16,300
Held outside Hong Kong		
— on leases of between 10 and 50 years	**18,677**	16,243
	35,777	32,543

Investment properties were revalued at 31st December 2011 and 2010 on an open market value basis by DTZ Debenham Tie Leung Limited, independent firm of Chartered Surveyors.

10 SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted investments, at cost	**161,765**	161,765

(b) Amounts due from/to subsidiaries

	Company	
	2011	2010
	HK$'000	HK$'000
Amounts due from subsidiaries	**1,448,333**	640,073
Less: amount due after one year, included under non-current assets	**—**	40,000
Amounts due from subsidiaries, included under current assets	**1,448,333**	600,073

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand, except for a total amount of HK$645,888,000 as at 31st December 2011, which was unsecured, interest bearing from 1.5% p.a. to 2.2% p.a. and repayable in 2012. As at 31st December 2010, an amount of HK$40,000,000 due from a subsidiary was unsecured, interest bearing at around 2% p.a. and repayable in 2012.

Amounts due 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 2011 are set out in note 39 to the financial statements.

11 JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1st January	**320,401**	234,062	**143,688**	42,808
Currency translation differences (note 23)	**1,028**	675	**—**	—
Capital contribution (note (b))	**—**	—	**—**	100,880
Share of reserves of jointly controlled entities (note 23)	**12,701**	7,439	**—**	—
Share of results of jointly controlled entities	**50,152**	79,725	**—**	—
Dividends received	**(2,517)**	(1,500)	**—**	—
Disposal	**(4,888)**	—	**—**	—
At 31st December	**376,877**	320,401	**143,688**	143,688

Notes:

(a) The Group's share of the financial positions and results of jointly controlled entities is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Assets		
Non-current assets	**45,274**	151,900
Current assets	**962,041**	738,790
	1,007,315	890,690
Liabilities		
Non-current liabilities	**(57,755)**	(753)
Current liabilities	**(572,683)**	(569,536)
	(630,438)	(570,289)
Net assets	**376,877**	320,401
Revenue	**1,727,968**	1,687,070
Expenses	**(1,677,816)**	(1,607,345)
Profit for the year	**50,152**	79,725

(b) In 2010, a jointly controlled entity declared distribution of dividend to the Company, which was utilised in making full payment of additional shares issued and allotted to the Company.

(c) Particulars of jointly controlled entities are set out in note 40 to the financial statements.

12 ASSOCIATES

	Group 2011 HK$'000	2010 HK$'000
At 1st January	**57,689**	4,722,687
Currency translation differences (note 23)	**448**	149,921
Share of reserves of associates (note 23)	**1,861**	(19,126)
Share of results of associates	**25,755**	438,995
Loss on deemed disposal of partial interest in an associate (note (b))	**—**	(768)
Dividends received	**(700)**	(95,642)
Disposal (note (c))	**—**	(5,138,378)
At 31st December	**85,053**	57,689

Notes:

(a) The Group's share of the financial positions and results of associates is as follows:

	Group 2011 HK$'000	2010 HK$'000
Assets		
Non-current assets	**60,212**	56,033
Current assets	**1,274,781**	801,424
	1,334,993	857,457
Liabilities		
Non-current liabilities	**(30)**	(281)
Current liabilities	**(1,249,910)**	(799,487)
	(1,249,940)	(799,768)
Net assets	**85,053**	57,689
Revenue	**9,179,886**	8,846,160
Expenses	**(9,154,131)**	(8,407,165)
Profit for the year	**25,755**	438,995

(b) In 2010, the Group's shareholding interest in SOLHL was diluted due to the exercise of SOLHL's employee share options resulting in a deemed disposal loss of HK$768,000.

(c) On 21st December 2010, the Group disposed of all its shareholding interest in SOLHL at a price of HK$5.6 per share resulting in net proceeds of HK$5,258,294,000 and recognised a gain of HK$545,704,000 of which HK$425,788,000 was realisation of reserves (note 23).

(d) Particulars of associates are set out in note 40 to the financial statements.

13 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies 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	Derivatives used for hedging HK$'000	Available-for-sale HK$'000	Total HK$'000
Assets as per consolidated balance sheet					
At 31st December 2011					
Available-for-sale financial assets (note 14)	**—**	**—**	**—**	**86,846**	**86,846**
Trade and other receivables excluding prepayments (note 18)	**2,190,417**	**—**	**—**	**—**	**2,190,417**
Derivative financial assets (note 19)	**—**	**—**	**78**	**—**	**78**
Financial assets at fair value through profit or loss (note 20)	**—**	**377**	**—**	**—**	**377**
Restricted bank deposits, deposits and cash and cash equivalents (note 21)	**5,703,624**	**—**	**—**	**—**	**5,703,624**
Total	**7,894,041**	**377**	**78**	**86,846**	**7,981,342**
At 31st December 2010					
Available-for-sale financial assets (note 14)	—	—	—	138,344	138,344
Trade and other receivables excluding prepayments (note 18)	1,573,522	—	—	—	1,573,522
Financial assets at fair value through profit or loss (note 20)	—	554	—	—	554
Restricted bank deposits, deposits and cash and cash equivalents (note 21)	6,467,530	—	—	—	6,467,530
Total	8,041,052	554	—	138,344	8,179,950

	Other financial liabilities HK$'000
Liabilities as per consolidated balance sheet	
At 31st December 2011	
Trade and other payables excluding commission income received in advance (note 24)	**2,077,841**
Short-term borrowings (note 25)	**34,801**
Total	**2,112,642**
At 31st December 2010	
Trade and other payables excluding commission income received in advance (note 24)	1,493,515
Short-term borrowings (note 25)	207,299
Total	1,700,814

13 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company

	Loans and receivables HK$'000
Assets as per balance sheet	
At 31st December 2011	
Amounts due from subsidiaries (note 10(b))	**1,448,333**
Other receivables excluding prepayments (note 18)	**55,952**
Deposits and cash and cash equivalents (note 21)	**4,469,426**
Total	**5,973,711**
At 31st December 2010	
Amounts due from subsidiaries (note 10(b))	640,073
Other receivables excluding prepayments (note 18)	1,017
Deposits and cash and cash equivalents (note 21)	5,594,171
Total	6,235,261

	Other financial liabilities HK$'000
Liabilities as per balance sheet	
At 31st December 2011	
Amounts due to subsidiaries (note 10(b))	**258,781**
Other payables (note 24)	**15,692**
Total	**274,473**
At 31st December 2010	
Amounts due to subsidiaries (note 10(b))	4,641,810
Other payables (note 24)	10,843
Total	4,652,653

NOTES TO THE FINANCIAL STATEMENTS

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2011	2010
	HK$'000	HK$'000
At 1st January	**138,344**	104,084
Fair value (losses)/gains recognised in other comprehensive income (note 23)	**(37,182)**	34,260
Disposals	**(14,316)**	—
At 31st December	**86,846**	138,344
Less: current portion	**20,659**	—
Non-current portion	**66,187**	138,344

There were no impairment provisions on available-for-sale financial assets as at 31st December 2011 and 2010.

Available-for-sale financial assets include the following:

	Group	
	2011	2010
	HK$'000	HK$'000
Unlisted securities	**1,759**	1,759
Market value of listed equity securities in Hong Kong	**85,087**	136,585
	86,846	138,344

Available-for-sale financial assets are denominated in the following currencies:

	Group	
	2011	2010
	HK$'000	HK$'000
Renminbi	**1,759**	1,759
Hong Kong dollars	**85,087**	136,585
	86,846	138,344

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	
	2011	2010
	HK$'000	HK$'000
At 1st January	**46,494**	28,790
Currency translation differences	**2,805**	1,081
Acquisition of a subsidiary (note 37)	**—**	(123)
Transferred to current income tax liabilities	**123**	170
Credited to the consolidated income statement (note 31)	**2,860**	16,576
At 31st December	**52,282**	46,494

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 2011, the Group has unrecognised tax losses of HK$50,642,000 (2010: HK$60,721,000) to carry forward against future taxable income.

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 balances after offsetting where appropriate are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**63,408**	54,786
— to be recovered within 12 months	**9,232**	4,924
	72,640	59,710
Deferred income tax liabilities:		
— to be settled after more than 12 months	**(20,358)**	(13,216)
— to be settled within 12 months	**—**	—
	(20,358)	(13,216)
	52,282	46,494

15 DEFERRED INCOME TAX (CONTINUED)

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**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2010	22,613	13,830	983	37,426
Currency translation differences	757	462	28	1,247
Credited/(charged) to the consolidated income statement	18,472	2,767	(202)	21,037
At 31st December 2010	41,842	17,059	809	59,710
At 1st January 2011	**41,842**	**17,059**	**809**	**59,710**
Currency translation differences	**2,361**	**823**	**41**	**3,225**
Credited/(charged) to the consolidated income statement	**10,887**	**(1,612)**	**430**	**9,705**
At 31st December 2011	**55,090**	**16,270**	**1,280**	**72,640**

(b) Deferred income tax liabilities

	Group			
	Accelerated tax depreciation	**Fair value gains**	**Withholding tax**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2010	(88)	(3,285)	(5,263)	(8,636)
Currency translation differences	(7)	(28)	(131)	(166)
Acquisition of a subsidiary (note 37)	(123)	—	—	(123)
Transfer to current income tax liabilities	—	—	170	170
(Charged)/credited to the consolidated income statement	(101)	313	(4,673)	(4,461)
At 31st December 2010	(319)	(3,000)	(9,897)	(13,216)
At 1st January 2011	**(319)**	**(3,000)**	**(9,897)**	**(13,216)**
Currency translation differences	**—**	**1**	**(421)**	**(420)**
Transfer to current income tax liabilities	**—**	**—**	**123**	**123**
Charged to the consolidated income statement	**—**	**(245)**	**(6,600)**	**(6,845)**
At 31st December 2011	**(319)**	**(3,244)**	**(16,795)**	**(20,358)**

As at 31st December 2011, deferred income tax liabilities of HK$16,795,000 (2010: HK$9,897,000) have been recorded 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.

NOTES TO THE FINANCIAL STATEMENTS

16 COMPLETED PROPERTIES HELD FOR SALE

	Group	
	2011	2010
	HK$'000	HK$'000
Land cost	**54**	51
Development cost	**132**	126
	186	177

The carrying value of completed properties held for sale is analysed as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Held outside Hong Kong		
— on leases of over 50 years	**186**	177

17 INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**64,973**	70,066
Work in progress	**3,103**	9,686
Finished goods	**597,580**	374,615
	665,656	454,367

The cost of inventories recognised as expense and included in cost of sales amounted to HK$9,764,086,000 (2010: HK$7,951,413,000) (note 27).

During the year, the Group recognised inventories impairment provision of HK$11,376,000 (2010: HK$22,817,000) and reversed inventories impairment provision of HK$15,217,000 (2010: HK$19,174,000).

As at 31st December 2011, inventories of HK$46,718,000 (2010: HK$47,711,000) were carried at net realisable value.

18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables				
— fellow subsidiaries (note (a))	**161,765**	104,200	**—**	—
— associated companies of COSCO (note (a))	**197,472**	205,602	**—**	—
— jointly controlled entities (note (a))	**1,781**	630	**—**	—
— non-controlling interests (note (a))	**727**	610	**—**	—
— third parties	**1,296,688**	1,036,971	**—**	—
	1,658,433	1,348,013	**—**	—
Less: provision for impairment	**96,041**	70,235	**—**	—
Trade receivables — net	**1,562,392**	1,277,778	**—**	—
Bills receivables				
— associated companies of COSCO (note (a))	**46,077**	32,722	**—**	—
— non-controlling interests (note (a))	**7,971**	587	**—**	—
— third parties	**179,918**	17,012	**—**	—
Prepayments	**1,292**	1,476	**530**	415
Deposits and other receivables				
— fellow subsidiaries (note (a))	**13,700**	8,217	**—**	—
— a jointly controlled entity (note (a))	**122**	—	**—**	—
— an associate (note (a))	**716**	—	**—**	—
— third parties	**344,413**	236,954	**20,965**	985
Amounts due from fellow subsidiaries (note (a))	**153**	124	**32**	32
Amounts due from jointly controlled entities (note (a))	**—**	128	**—**	—
Loan to a jointly controlled entity (note (b))	**34,955**	—	**34,955**	—
	2,191,709	1,574,998	**56,482**	1,432

Notes:

(a) Balances with fellow subsidiaries, associated companies of COSCO, jointly controlled entities, an associate and non-controlling interests 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) Loan to a jointly controlled entity is unsecured, interest bearing at 1.5% above London Interbank Offerred Rate and repayable on 31st December 2012.

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	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**1,116,759**	859,249	**—**	6
Hong Kong dollars	**6,116**	39,204	**725**	1,207
United States dollars	**885,793**	523,557	**55,753**	219
Others	**183,041**	152,988	**4**	—
	2,191,709	1,574,998	**56,482**	1,432

(d) As at 31st December, the ageing analysis of trade receivables based on invoice date and after provision is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Current–90 days	**1,160,676**	990,152
91–180 days	**261,949**	223,167
Over 180 days	**139,767**	64,459
	1,562,392	1,277,778

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. Other than those with credit terms, all invoices are payable upon presentation.

(e) As at 31st December 2011, trade receivables of HK$138,893,000 (2010: HK$78,836,000) were subject to impairment. 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 amount of the provision for these receivables was HK$96,041,000 as at 31st December 2011 (2010: HK$70,235,000). The ageing analysis of these receivables is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
91–180 days	**365**	273
Over 180 days	**138,528**	78,563
	138,893	78,836

(f) Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
At 1st January	**70,235**	67,359
Acquisition of a subsidiary	**—**	908
Currency translation differences	**3,123**	2,044
Provision for impairment	**50,252**	41,169
Amount written off	**(318)**	(1,010)
Reversal of unused provision	**(27,251)**	(40,235)
At 31st December	**96,041**	70,235

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(g) Trade receivables that are less than three months past due are not considered impaired. As at 31st December 2011, trade receivables of HK$345,569,000 (2010: HK$277,600,000) 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	
	2011	2010
	HK$'000	HK$'000
Up to 90 days	**44,884**	236,227
91–180 days	**217,920**	22,201
Over 180 days	**82,765**	19,172
	345,569	277,600

(h) As at 31st December 2011, other receivables of HK$18,230,000 were subject to impairment and the amount of impairment provision for these receivables was HK$5,779,000. Except for these receivables and trade receivables mentioned above, the other classes within trade and other receivables do not contain impaired assets.

(i) 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 DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
Assets		
Fuel oil swap contracts — cash flow hedges	**78**	—

The Group is exposed to the risk of fuel oil price fluctuation which arises when sales contracts of fixed prices for sale of fuel oil and purchase contracts of floating prices for purchase of fuel oil are entered. During the year, the Group entered into swap contracts to hedge against the risk of fuel oil price fluctuation. The notional principal amounts of the outstanding swap contracts as at 31st December 2011 were HK$25,440,000 (2010: nil).

During the year, fair value gains of HK$16,318,000 (2010: fair value losses of HK$5,596,000) recognised in the hedging reserve were reclassified to consolidated income statement as part of cost of inventories sold upon maturity of the derivative financial instruments.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative financial assets in the consolidated balance sheet.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	HK$'000
Market value of listed equity securities in Hong Kong	**377**	554

21 RESTRICTED BANK DEPOSITS, DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Restricted bank deposits (note (a))	**36,890**	27,809	**–**	–
Deposits placed with a fellow subsidiary (note (b))	**258,045**	126,865	**–**	–
Short-term bank deposits	**4,611,168**	5,998,038	**4,468,088**	5,591,653
Cash at bank and in hand	**797,521**	314,818	**1,338**	2,518
Deposits and cash and cash equivalents	**5,666,734**	6,439,721	**4,469,426**	5,594,171
	5,703,624	6,467,530	**4,469,426**	5,594,171

Notes:

(a) Restricted bank deposits represent deposits pledged for banking facilities and other purposes.

(b) Deposits placed with a fellow subsidiary, which is a financial institution in the PRC, bear interest at prevailing market rates.

(c) 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		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**825,959**	565,106	**13**	20
Hong Kong dollars	**123,096**	5,321,464	**34,802**	5,263,109
United States dollars	**4,686,777**	529,980	**4,434,611**	331,042
Others	**67,792**	50,980	**–**	–
	5,703,624	6,467,530	**4,469,426**	5,594,171

(d) The maximum exposure to credit risk at the reporting date is the carrying amount of the balances mentioned above.

(e) The Group's cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	Group	
	2011	2010
	HK$'000	HK$'000
Deposits and cash and cash equivalents	**5,666,734**	6,439,721
Less: cash investments with maturity more than three months from date of placement	**3,621,356**	139,923
Cash and cash equivalents	**2,045,378**	6,299,798

22 SHARE CAPITAL

	2011 Number of shares	2011 HK$'000	2010 Number of shares	2010 HK$'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	**1,511,069,429**	**151,107**	1,510,697,429	151,070
Shares issued upon exercise of share options (note (d))	**2,558,000**	**256**	372,000	37
At 31st December	**1,513,627,429**	**151,363**	1,511,069,429	151,107

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 associates (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 2011**	**Granted during the year**	**Changed category during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31st December 2011**	**as at 31st December 2011**	as at 31st December 2010
Directors	(a)	1.37	2,100,000	—	—	—	—	2,100,000	**100**	100
	(c)	3.666	5,900,000	—	—	—	—	5,900,000	**100**	70
Continuous contract employees	(a)	1.37	7,230,000	—	—	(340,000)	—	6,890,000	**100**	100
	(b)	1.21	600,000	—	—	—	—	600,000	**100**	100
	(c)	3.666	14,900,000	—	(180,000)	(1,140,000)	(150,000)	13,430,000	**100**	70
Others	(a)	1.37	21,966,000	—	—	(728,000)	—	21,238,000	**100**	100
	(b)	1.21	550,000	—	—	—	—	550,000	**100**	100
	(c)	3.666	22,420,000	—	180,000	(350,000)	—	22,250,000	**100**	70
			75,666,000	—	—	(2,558,000)	(150,000)	72,958,000		

Notes:

(a) 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, 1,068,000 (2010: 372,000) share options were exercised and no share options (2010: 200,000) were lapsed.

(b) 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 (2010: nil) were exercised during the year.

22 SHARE CAPITAL (CONTINUED)

(c) 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, 1,490,000 share options (2010: nil) were exercised and 150,000 share options (2010: nil) 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
	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$730,000 (2010: HK$5,668,000) as a result of the above equity-settled share based transactions on the basis of the fair value of share options granted.

(d) During the year, an aggregate of 2,558,000 (2010: 372,000) share options were exercised and a summary of which, analysed by exercise month, is set out below:

	Number of share options exercised	
	2011	2010
Exercise month		
January	**50,000**	—
March	**58,000**	—
April	**880,000**	—
May	**1,470,000**	—
July	**100,000**	—
September	**—**	40,000
October	**—**	60,000
November	**—**	272,000
	2,558,000	372,000

Exercise of the above share options during the year yielded proceeds as follows:

	2011	2010
	HK$'000	HK$'000
Ordinary share capital — at par	**256**	37
Share premium	**6,670**	473
Proceeds	**6,926**	510

The weighted average closing price of the Company's shares on the dates when the share options were exercised was HK$4.93 (2010: HK$4.40).

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$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2011	129,355	57,935	61,194	676,218	88,138	6,363	111,777	–	6,017,940	7,148,920
Transfer of reserves (note (b))	–	–	39,975	–	–	–	–	–	(39,975)	–
Currency differences on translation of :										
— subsidiaries	–	–	–	–	33,493	–	–	–	–	33,493
— jointly controlled entities (note 11)	–	–	–	–	1,028	–	–	–	–	1,028
— associates (note 12)	–	–	–	–	448	–	–	–	–	448
Share of reserves of jointly controlled entities (note 11)	–	–	–	–	12,701	–	–	–	–	12,701
Share of reserves of associates (note 12)	–	–	–	–	408	–	–	1,453	–	1,861
Reserves realised in consolidated income statement upon disposal of a jointly controlled entity	–	–	–	–	(320)	–	–	–	–	(320)
Fair value losses on available-for-sale financial assets (note 14)	–	–	–	–	–	–	(37,182)	–	–	(37,182)
Reserve realised in consolidated income statement upon disposal of available-for-sale financial assets	–	–	–	–	–	–	(12,921)	–	–	(12,921)
Shares issued upon exercise of share options	12,631	(5,961)	–	–	–	–	–	–	–	6,670
Cash flow hedges, net of tax	–	–	–	–	–	–	–	78	–	78
Employee share option benefits	–	730	–	–	–	–	–	–	–	730
Profit for the year (note (a))	–	–	–	–	–	–	–	–	390,339	390,339
Dividends paid	–	–	–	–	–	–	–	–	(605,413)	(605,413)
Balance at 31st December 2011	141,986	52,704	101,169	676,218	135,896	6,363	61,674	1,531	5,762,891	6,940,432
Representing:										
Reserves	141,986	52,704	101,169	676,218	135,896	6,363	61,674	1,531	5,656,937	6,834,478
2011 proposed final dividend	–	–	–	–	–	–	–	–	105,954	105,954
	141,986	52,704	101,169	676,218	135,896	6,363	61,674	1,531	5,762,891	6,940,432

23 RESERVES (CONTINUED)

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 2010	128,882	102,596	103,662	676,218	351,299	6,363	73,473	4,821,297	6,263,790
Transfer of reserves (note (b))	–	–	12,232	–	–	–	–	(12,232)	–
Currency differences on translation of:									
– subsidiaries	–	–	–	–	20,121	–	–	–	20,121
– jointly controlled entities (note 11)	–	–	–	–	675	–	–	–	675
– associates (note 12)	–	–	–	–	149,921	–	–	–	149,921
Share of reserves of jointly controlled entities (note 11)	–	–	–	–	7,439	–	–	–	7,439
Share of reserves of associates (note 12)	–	22,241	(29,882)	–	(3,884)	–	(7,601)	–	(19,126)
Reserves realised in consolidated income statement upon disposal of an associate (note 12(c))	–	–	–	–	(437,433)	–	11,645	–	(425,788)
Reserves realised in retained earnings upon disposal of an associate	–	(72,570)	(24,818)	–	–	–	–	97,388	–
Fair value gains on available-for-sale financial assets (note 14)	–	–	–	–	–	–	34,260	–	34,260
Shares issued upon exercise of share options	473	–	–	–	–	–	–	–	473
Employee share option benefits	–	5,668	–	–	–	–	–	–	5,668
Profit for the year (note (a))	–	–	–	–	–	–	–	1,268,600	1,268,600
Dividends paid	–	–	–	–	–	–	–	(157,113)	(157,113)
Balance at 31st December 2010	129,355	57,935	61,194	676,218	88,138	6,363	111,777	6,017,940	7,148,920
Representing:									
Reserves	129,355	57,935	61,194	676,218	88,138	6,363	111,777	5,443,734	6,574,714
2010 proposed final and special dividends	–	–	–	–	–	–	–	574,206	574,206
	129,355	57,935	61,194	676,218	88,138	6,363	111,777	6,017,940	7,148,920

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 2011	**129,355**	**57,935**	**676,218**	**875,339**	**1,738,847**
Shares issued upon exercise of share options	**12,631**	**(5,961)**	**—**	**—**	**6,670**
Employee share options benefits	**—**	**730**	**—**	**—**	**730**
Profit for the year	**—**	**—**	**—**	**4,713,678**	**4,713,678**
Dividends paid	**—**	**—**	**—**	**(605,413)**	**(605,413)**
Balance at 31st December 2011	**141,986**	**52,704**	**676,218**	**4,983,604**	**5,854,512**
Representing:					
Reserves	**141,986**	**52,704**	**676,218**	**4,877,650**	**5,748,558**
2011 proposed final dividend	**—**	**—**	**—**	**105,954**	**105,954**
	141,986	**52,704**	**676,218**	**4,983,604**	**5,854,512**

	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 2010	128,882	52,267	676,218	976,214	1,833,581
Shares issued upon exercise of share options	473	—	—	—	473
Employee share options benefits	—	5,668	—	—	5,668
Profit for the year	—	—	—	56,238	56,238
Dividends paid	—	—	—	(157,113)	(157,113)
Balance at 31st December 2010	129,355	57,935	676,218	875,339	1,738,847
Representing:					
Reserves	129,355	57,935	676,218	301,133	1,164,641
2010 proposed final and special dividends	—	—	—	574,206	574,206
	129,355	57,935	676,218	875,339	1,738,847

Notes:

(a) Profit for the year of HK$390,339,000 (2010: HK$1,268,600,000) includes net profit of HK$50,152,000 (2010: HK$79,725,000) attributable to jointly controlled entities and HK$25,755,000 (2010: HK$438,995,000) attributable to associates.

(b) Transfer of reserves to capital reserve represents the Group's share of the PRC statutory reserves of certain subsidiaries, jointly controlled entities and associates. As at 31st December 2011, the PRC statutory reserves included in capital reserve amount to HK$101,169,000 (2010: HK$61,194,000).

(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	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables				
— fellow subsidiaries (note (a))	**56,044**	3,965	**—**	—
— associated companies of COSCO (note (a))	**9,958**	374	**—**	—
— jointly controlled entities (note (a))	**564**	1,132	**—**	—
— non-controlling interests (note (a))	**78**	78	**—**	—
— third parties	**983,755**	681,940	**—**	—
	1,050,399	687,489	**—**	—
Bills payables				
— non-controlling interests (note (a))	**981**	1,119	**—**	—
— third parties	**157,783**	255,454	**—**	—
Advances from customers and other payables				
— fellow subsidiaries (note (a))	**112,776**	73,054	**—**	—
— associated companies of COSCO (note (a))	**135,121**	93,104	**—**	—
— jointly controlled entities (note (a))	**136**	698	**—**	—
— non-controlling interests (note (a))	**2,512**	3,467	**—**	—
— third parties	**476,054**	323,850	**467**	776
Accrued liabilities	**31,050**	49,899	**15,225**	10,067
Commission income received in advance	**44,623**	81,308	**—**	—
Amounts due to fellow subsidiaries (note (a))	**5,719**	5,381	**—**	—
Dividend payable to non-controlling interests	**105,310**	—	**—**	—
	2,122,464	1,574,823	**15,692**	10,843

Notes:

(a) Balances with fellow subsidiaries, associated companies of COSCO, jointly controlled entities and non-controlling interests 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.

24 TRADE AND OTHER PAYABLES (CONTINUED)

Notes: (Continued)

(b) The carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**1,158,463**	805,211	**418**	398
Hong Kong dollars	**71,886**	55,066	**15,274**	10,445
United States dollars	**780,065**	618,837	**—**	—
Others	**112,050**	95,709	**—**	—
	2,122,464	1,574,823	**15,692**	10,843

(c) As at 31st December, the ageing analysis of trade payables based on invoice date is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Current–90 days	**958,622**	644,839
91–180 days	**80,207**	30,586
Over 180 days	**11,570**	12,064
	1,050,399	687,489

25 SHORT-TERM BORROWINGS

	Group	
	2011	2010
	HK$'000	HK$'000
Unsecured bank loans, repayable within one year	**34,801**	207,299

Notes:

(a) The carrying amounts of short-term borrowings approximate their fair values and are denominated in the following currencies:

	Group	
	2011	2010
	HK$'000	HK$'000
Renminbi	**—**	23,590
United States dollars	**34,801**	183,709
	34,801	207,299

(b) The effective interest rates of short-term borrowings during the year ended 31st December 2011 and 2010 are as follows:

	2011	2010
Renminbi	**5.23%**	3.79%
United States dollars	**4.52%**	3.18%

(c) Short-term borrowings are subject to the exposure of interest rate changes at contractual repricing dates.

26 OTHER INCOME AND GAINS

	2011 HK$'000	2010 HK$'000
Gain on disposal of property, plant and equipment	**82**	197
Rental income	**1,106**	—
Fair value gains on investment properties (note 9)	**3,249**	5,347
Negative goodwill recognised upon acquisition of a subsidiary (note 37)	**—**	684
Gain on disposal of a jointly controlled entity (including exchange reserves realised of HK$320,000)	**4,318**	—
Gain on disposal of available-for-sale financial assets (including revaluation reserves realised of HK$12,921,000)	**12,642**	—
Reversal of provision for impairment of inventories, net of provision	**3,841**	—
Dividend income from listed and unlisted investments	**2,263**	1,991
Gain on disposal of asset held for sale	**—**	5,147
Net exchange gains	**13,825**	19,690
Others	**4,938**	2,938
	46,264	35,994

27 EXPENSES BY NATURE

	2011 HK$'000	2010 HK$'000
Cost of sales		
Cost of inventories sold (note 17)	**9,764,086**	7,951,413
Cost of properties sold	**—**	177
Direct operating expenses for generating rental income	**—**	135
	9,764,086	7,951,725
Selling, administrative and general expenses		
Selling expenses	**218,768**	183,337
Depreciation and amortisation (note 27(a))	**6,740**	6,742
Amortisation of intangible assets	**1,213**	—
Amortisation of prepaid premium for land leases	**365**	466
Operating lease rental expenses (note 27(b))	**23,525**	19,463
Administrative staff costs	**135,073**	126,127
Auditors' remuneration	**4,666**	4,264
Others	**148,771**	111,511
	539,121	451,910
Other expenses and losses		
Direct operating expenses for generating rental income	**181**	—
Provision for impairment of inventories, net of reversal	**—**	3,643
Write-off of inventories	**34**	386
Provision for impairment of trade receivables, net of reversal	**23,001**	934
Provision for impairment of other receivables	**4,806**	—
Write-off of bad debts	**—**	204
Fair value losses on financial assets at fair value through profit or loss	**177**	124
	28,199	5,291

(a) Depreciation and amortisation

	2011 HK$'000	2010 HK$'000
Charge for the year (note 7)	**15,982**	15,129
Charged to cost of sales	**(8,276)**	(7,492)
Capitalised in inventories	**(966)**	(895)
	6,740	6,742

(b) Operating lease rental expenses

	2011 HK$'000	2010 HK$'000
Land and buildings	**23,525**	19,463

NOTES TO THE FINANCIAL STATEMENTS

28 EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses, which were included in cost of sales, selling, administrative and general expenses, are as follows:

	2011 HK$'000	2010 HK$'000
Wages, salaries and benefits, including directors' emoluments (note 29(a))	**212,626**	174,330
Employee share option benefits (note 22(c))	**730**	5,668
Pension costs — defined contribution scheme (note)	**16,080**	12,585
	229,436	192,583
Included in:		
Cost of sales	**37,344**	25,087
Selling, administrative and general expenses	**192,092**	167,496
	229,436	192,583

Note:

There were no forfeited contributions (2010: nil) utilised during the year and no forfeited contributions were available at the year-end to reduce future contributions. There were no contributions (2010: nil) payable to the fund at the year-end.

29 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Directors' emoluments

Details of the emoluments of directors who were also the key management personnel of the Company for the year ended 31st December 2011 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 (resigned on 24th February 2012)	**—**	**5,000**	**13**	**5,013**
Mr. Liang Yanfeng	**—**	**—**	**18**	**18**
Mr. Wang Xiaodong	**—**	**2,400**	**13**	**2,413**
Mr. Lin Wenjin	**—**	**1,080**	**13**	**1,093**
Mr. Jia Lianjun	**—**	**—**	**13**	**13**
Mr. Meng Qinghui	**—**	**—**	**13**	**13**
Mr. Chen Xuewen	**—**	**—**	**13**	**13**
Mr. Tsui Yiu Wa, Alec	**220**	**—**	**—**	**220**
Mr. Jiang, Simon X.	**220**	**—**	**—**	**220**
Mr. Alexander Reid Hamilton (appointed on 9th June 2011)	**124**	**—**	**—**	**124**
Mr. Kwong Che Keung, Gordon (retired on 9th June 2011)	**96**	**—**	**—**	**96**
	660	**8,480**	**96**	**9,236**

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 2010 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	—	5,000	103	5,103
Mr. Liang Yanfeng	—	—	142	142
Mr. Wang Xiaodong	—	2,400	103	2,503
Mr. Lin Wenjin	—	1,080	103	1,183
Mr. Jia Lianjun	—	—	100	100
Mr. Meng Qinghui	—	—	103	103
Mr. Chen Xuewen	—	—	103	103
Mr. Wang Xiaoming (resigned on 11th August 2010)	—	—	103	103
Mr. Kwong Che Keung, Gordon	210	—	—	210
Mr. Tsui Yiu Wa, Alec	210	—	—	210
Mr. Jiang, Simon X.	210	—	—	210
	630	8,480	860	9,970

As at 31st December 2011, directors of the Company had outstanding share options to subscribe for 8,000,000 (2010: 8,000,000) 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 two (2010: two) directors whose emoluments are reflected in the above analysis. The emoluments of the remaining three (2010: three) individuals during the year are as follows:

	2011	2010
	HK$'000	HK$'000
Basic salaries, other allowances and benefit-in-kind	**4,065**	4,016
Pension costs — defined contribution scheme	**36**	36
	4,101	4,052

The emoluments of the individual fell within the following band:

	Number of individual	
Emolument band	**2011**	2010
HK$1,000,001 – HK$1,500,000	**2**	2
HK$1,500,001 – HK$2,000,000	**1**	1

30 FINANCE INCOME — NET

	2011 HK$'000	2010 HK$'000
Interest income from:		
— a fellow subsidiary	**2,308**	1,930
— a jointly controlled entity	**90**	—
— money market fund investments	**—**	8
— bank deposits	**106,338**	8,394
Total finance income	**108,736**	10,332
Interest expenses on bank loans wholly repayable within five years	**(11,727)**	(5,532)
Other finance charges	**(5,201)**	(3,673)
Total finance costs	**(16,928)**	(9,205)
Finance income — net	**91,808**	1,127

31 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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% (2010: 25%) except for certain subsidiaries, which are taxed at reduced rates ranging from 12.5% to 22% (2010: 12.5% to 22%) based on different local preferential policies on income tax and approval by relevant tax authorities.

Overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. These rates range from 17% to 46% (2010:17% to 42.5%) during the year.

	2011 HK$'000	2010 HK$'000
Current income tax		
— Hong Kong profits tax	**23,394**	22,140
— the PRC enterprise income tax	**62,170**	52,815
— Overseas taxation	**8,150**	5,937
— Over-provision for Hong Kong profits tax in prior years	**(32)**	(16)
— Under-provision for the PRC taxation in prior years	**185**	1,493
— Over-provision for overseas taxation in prior years	**(44)**	—
Deferred income tax credit — net (note 15)	**(2,860)**	(16,576)
Income tax expense	**90,963**	65,793

31 INCOME TAX EXPENSE (CONTINUED)

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:

	2011 HK$'000	2010 HK$'000
Profit before income tax (excluding share of profits of jointly controlled entities and associates)	**462,787**	840,032
Calculated at a tax rate of 16.5% (2010: 16.5%)	**76,360**	138,605
Effect of different tax rates in the PRC and overseas countries	**10,845**	7,542
Income not subject to income tax	**(23,004)**	(92,395)
Expenses not deductible for tax purposes	**17,192**	10,668
Utilisation of previously unrecognised tax losses	**(159)**	(1,954)
Tax losses not recognised	**—**	275
Under-provision in prior years	**109**	1,477
Withholding tax on profits of entities in the PRC	**6,600**	4,673
Other temporary differences	**(102)**	143
Withholding tax on interest income	**4,611**	—
Special tax credit	**(1,489)**	(3,241)
Income tax expense	**90,963**	65,793

32 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$4,713,678,000 (2010: HK$56,238,000).

33 EARNINGS PER SHARE

(a) Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Profit attributable to equity holders of the Company	**HK$390,339,000**	HK$1,268,600,000
Weighted average number of ordinary shares in issue	**1,512,730,793**	1,510,752,591
Basic earnings per share	**25.80 HK cents**	83.97 HK cents

(b) Diluted earnings per share is calculated based on the weighted average number of ordinary shares in issue after adjusting for the potential dilutive effect of outstanding share options.

	2011	2010
Profit attributable to equity holders of the Company	**HK$390,339,000**	HK$1,268,600,000
Weighted average number of ordinary shares in issue	**1,512,730,793**	1,510,752,591
Adjustment for assumed issuance of shares on exercise of share options	**26,092,217**	26,680,811
Weighted average number of ordinary shares for diluted earnings per share	**1,538,823,010**	1,537,433,402
Diluted earnings per share	**25.37 HK cents**	82.51 HK cents

NOTES TO THE FINANCIAL STATEMENTS

34 DIVIDENDS

	2011 HK$'000	2010 HK$'000
Interim dividend paid of HK$0.02 (2010: HK$0.02) per ordinary share	**30,273**	30,215
Final dividend proposed of HK$0.07 (2010: HK$0.03) per ordinary share	**105,954**	45,332
Special dividend proposed of HK$0.35 per ordinary share	**—**	528,874
	136,227	604,421

At the board meeting held on 22nd March 2012, the directors of the Company proposed a final dividend of HK$0.07 per ordinary share for the year ended 31st December 2011. This proposed dividend has not been reflected as dividend payable in the financial statements for the year ended 31st December 2011, but will be reflected in the financial statements as an appropriation of retained profits for the year ending 31st December 2012.

35 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of operating profit to cash generated from/(used in) operations

	2011 HK$'000	2010 HK$'000
Operating profit	**370,979**	293,969
Negative goodwill recognised upon acquisition of a subsidiary	**—**	(684)
Amortisation of intangible assets	**1,213**	—
Depreciation and amortisation of property, plant and equipment, net of amount capitalised	**15,016**	14,234
Gain on disposal of property, plant and equipment	**(82)**	(197)
Amortisation of prepaid premium for land leases	**365**	466
Fair value gains on investment properties	**(3,249)**	(5,347)
Gain on disposal of a jointly controlled entity	**(4,318)**	—
Gain on disposal of available-for-sale financial assets	**(12,642)**	—
Fair value losses on financial assets at fair value through profit or loss	**177**	124
(Reversal of)/provision for impairment of inventories, net	**(3,841)**	3,643
Write-off of inventories	**34**	386
Provision for impairment of trade receivables, net	**23,001**	934
Provision for impairment of other receivables	**4,806**	—
Write-off of bad debts	**—**	204
Gain on disposal of asset held for sale	**—**	(5,147)
Employee share option benefits	**730**	5,668
Dividend income	**(2,263)**	(1,991)
Operating profit before working capital changes	**389,926**	306,262
Decrease in completed properties held for sale	**—**	177
Increase in inventories	**(184,471)**	(101,209)
Increase in trade receivables, bills receivables, prepayments, deposits and other receivables	**(576,049)**	(1,013,235)
(Increase)/decrease in amounts due from fellow subsidiaries	**(29)**	2,084
Decrease/(increase) in amounts due from jointly controlled entities	**194**	(128)
Increase in trade payables, bills payables, advances from customers, other payables, accrued liabilities and commission income received in advance	**395,478**	745,442
Increase/(decrease) in amounts due to fellow subsidiaries	**338**	(66,773)
Cash generated from/(used in) operations	**25,387**	(127,380)

36 COMMITMENTS

(a) The Group had capital commitments in respect of purchase of computer software as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Authorised but not contracted for	**1,073**	—
Contracted but not provided for	**222**	—
	1,295	—

(b) The Group and the Company's share of capital commitments of a jointly controlled entity in respect of fixed assets investment is as follows:

	Group and Company	
	2011	2010
	HK$'000	HK$'000
Authorised but not contracted for	**99,083**	161,612
Contracted but not provided for	**62,193**	15,210
	161,276	176,822

(c) The aggregate future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**23,041**	15,219	**8,672**	4,418
In the second to fifth years inclusive	**29,429**	12,591	**8,672**	—
Over five years	**1,832**	—	**—**	—
	54,302	27,810	**17,344**	4,418

The Group's operating leases were for terms ranging from one to five years.

(d) The future minimum rental receivables under non-cancellable operating leases are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**484**	858
In the second to fifth years inclusive	**133**	109
	617	967

The Group's operating leases were for terms ranging from one to two years.

37 BUSINESS COMBINATION

On 31st July 2010, the Group acquired 100% equity interest in Xing Yuan (Singapore) Pte. Ltd. ("Xing Yuan") at an aggregate cash consideration of S$850,000 from COSCO Holdings (Singapore) Pte Ltd, a fellow subsidiary and Hai Feng Marine (Private) Limited, an independent third party. Xing Yuan is engaged in the business of sales and installation of marine equipment and spare parts for vessels and related services. The acquired business contributed revenue of HK$58,307,000 and net profit of HK$4,764,000 to the Group for the year ended 31st December 2010. If the acquisition had occurred on 1st January 2010, the Group's revenue would have been HK$8,720,522,000 and profit attributable to equity holders of the Company would have been HK$1,274,334,000.

Details of net assets acquired and negative goodwill are as follows:

	HK$'000
Purchase consideration	4,853
Fair value of net assets acquired — shown as below	(5,537)
Negative goodwill (included in other income)	(684)

Fair values of the assets and liabilities arising from the acquisition are as follows:

	HK$'000
Plant and equipment (note 7)	588
Inventories	2,855
Trade receivables	23,594
Deposits, prepayment and other receivables	1,491
Cash and cash equivalents	12,165
Trade payables	(15,440)
Advances from customers and other payables	(10,847)
Accrued liabilities	(4,616)
Current income tax liabilities	(1,020)
Dividend payable	(3,110)
Deferred income tax liabilities (note 15(b))	(123)
Net assets	5,537

Net inflow of cash and cash equivalents on acquisition:	
Purchase consideration settled in cash	(4,853)
Cash and cash equivalents in a subsidiary acquired	12,165
Net cash generated from acquisition of a subsidiary	7,312

38 MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"), a company incorporated in Hong Kong, which owns 60.96% of the Company's shares as at 31st December 2011. The remaining 39.04% 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 (other than the Group) 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 years 2011 and 2010, 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.

38 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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 during the year:

(a) Sale of goods and provision of services to fellow subsidiaries, associated companies of COSCO and other related parties

	Note	**2011 HK$'000**	2010 HK$'000
Sale of coatings to:	(i)		
— fellow subsidiaries		**5,543**	7,386
— associated companies of COSCO		**688,522**	483,031
— non-controlling interests		**3,397**	744
— a jointly controlled entity		**9,985**	81
Sale of marine equipment and spare parts to:	(ii)		
— fellow subsidiaries		**719,138**	412,636
— associated companies of COSCO		**61,656**	42,180
— jointly controlled entities		**7,911**	1,292
Commission income in relation to provision of ship trading agency services to:	(iii)		
— fellow subsidiaries		**105,102**	138,182
— associated companies of COSCO		**24,007**	11,122
— a holding company		**868**	211
— a jointly controlled entity		**26,486**	14,851
Commission income in relation to provision of insurance brokerage services to:	(iv)		
— fellow subsidiaries		**56,434**	55,911
— associated companies of COSCO		**1,511**	839
— holding companies		**86**	64
Sale of marine fuel to fellow subsidiaries	(v)	**478,244**	103,719
Sale of ship supplies and other products to:	(vi)		
— fellow subsidiaries		**9,539**	14,101
— associated companies of COSCO		**2,304**	1,623
— a jointly controlled entity		**—**	19
Interest income received from a fellow subsidiary (note 21(b))	(vii)	**2,308**	1,930
Interest income received from a jointly controlled entity (note 18(b))		**90**	—

Notes:

(i) Sale of coatings to fellow subsidiaries, associated companies of COSCO, non-controlling interests and a jointly controlled entity 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 and jointly controlled entities was conducted on terms as set out in the agreements governing these transactions.

38 MATERIAL 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 and holding companies was calculated on terms as set out in the agreements governing these transactions.

(v) Sale of marine fuel to fellow subsidiaries was conducted on terms as set out in the agreements governing these transactions.

(vi) Sale of ship supplies and other products to fellow subsidiaries, associated companies of COSCO and a jointly controlled entity was conducted on terms as set out in the agreements governing these transactions.

(vii) Interest income was received from cash deposits placed with a fellow subsidiary and was calculated at prevailing market rates.

38 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Purchase of goods and services from fellow subsidiaries, associated companies of COSCO and other related parties

	Note	**2011 HK$'000**	2010 HK$'000
Rental expenses paid to fellow subsidiaries	(i)	**19,893**	16,529
Commission expenses in relation to sale of coatings paid to:	(ii)		
— fellow subsidiaries		**4,645**	4,259
— associated companies of COSCO		**36,091**	32,420
Commission expenses in relation to provision of ship trading agency services paid to fellow subsidiaries	(iii)	**4,463**	—
Commission expenses in relation to sale of marine equipment paid to an associated company of COSCO	(iv)	**5,057**	1,416
Purchase of marine equipment from an associated company of COSCO	(iv)	**92,646**	24,866
Purchase of raw materials from non-controlling interests	(v)	**3,682**	3,850
Transportation costs paid to fellow subsidiaries	(vi)	**46,241**	—
Purchase of marine fuel from:	(vii)		
— fellow subsidiaries		**1,227,631**	297,319
— an associate		**41,767**	—
Technology usage fee paid to non-controlling interests	(viii)	**7,327**	5,871
Management service fees paid to a holding company and fellow subsidiaries	(ix)	**17,273**	15,090

Notes:

(i) During the year, the Group leased certain office premises in Hong Kong from the wholly-owned subsidiaries of COSCO Hong Kong at an average monthly rent of HK$1,247,389. The Group also leased other properties in the PRC and Japan 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) Commission expenses paid to fellow subsidiaries were conducted on terms as set out in the agreements governing these transactions.

(iv) An associated company of COSCO was appointed as agent to provide agency services in relation to the sale of marine equipment in the PRC and to purchase marine equipment from suppliers. Commission paid was based on a certain percentage of sales procured by the associated company of COSCO.

(v) Purchase of raw materials from non-controlling interests was conducted on terms as set out in the agreements governing these transactions.

(vi) Transportation costs paid to fellow subsidiaries was conducted on terms as set out in the agreements governing these transactions.

38 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Purchase of goods and services from fellow subsidiaries, associated companies of COSCO and other related parties (Continued)

Notes: (Continued)

(vii) Purchase of marine fuel from fellow subsidiaries and an associate was conducted on terms as set out in the agreements governing these transactions.

(viii) Technology usage fee paid to non-controlling interests 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.

(ix) 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.

(c) On 31st May 2010, a wholly-owned subsidiary of the Group entered into a share transfer agreement with COSCO Holdings (Singapore) Pte Ltd, a fellow subsidiary, and Hai Feng Marine (Private) Limited for the acquisition of 100% equity interest in Xing Yuan (Singapore) Pte. Ltd. ("Xing Yuan") at a total cash consideration of S$850,000 (approximately HK$4,729,000). Xing Yuan is principally engaged in the business of sales and installation of marine equipment and spare parts for vessels. The acquisition was completed on 31st July 2010.

(d) On 29th March 2011, COSCO International Trading Company Limited, a wholly-owned subsidiary of the Company, entered into an agreement to dispose of its 50% equity interests in a jointly controlled entity, Shanghai Ocean International Trading Co., Ltd., to Shanghai Ocean Shipping Co., Ltd., a fellow subsidiary, at an initial consideration of RMB7,264,372.39 (equivalent to approximately HK$8,525,000). The disposal was completed on 6th April 2011 at the final consideration of RMB7,443,000 (equivalent to approximately HK$8,969,000).

(e) During the year, the Group appointed a fellow subsidiary to enter into fuel oil swap contracts with total notional principal amounts of HK$161,197,000 to hedge against the risk of fuel oil price fluctuation.

NOTES TO THE FINANCIAL STATEMENTS

39 PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries of the Group as at 31st December 2011 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held	
				2011	2010
Capital Properties Limited#	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	Provision of nominee services	**100%**	100%
COSCO (Hong Kong) Insurance Brokers Limited	Hong Kong, limited liability company	5,000,000 ordinary shares of HK$1 each	Provision of insurance brokerages and related services	**100%**	100%
COSCO International Land Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	Investment holding	**100%**	100%
COSCO International Ship Trading and Supplying Services Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	Investment holding	**100%**	100%
COSCO International Ship Trading Company Limited	Hong Kong, limited liability company	500,000 ordinary shares of HK$1 each	Provision of agency services in ship trading business	**100%**	100%
COSCO Project Management Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	Investment holding	**100%**	100%
COSMART Company Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	Provision of agency services in ship trading business	**100%**	100%
New Legend Holdings Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	Investment holding	**100%**	100%
Yuantong Marine Service Co. Limited	Hong Kong, limited liability company	208,352,000 ordinary shares of HK$1 each	Trading of marine equipment and spare parts	**100%**	100%
COSCO (B.V.I.) Holdings Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
COSCO International Land (B.V.I.) Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%

39 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2011	2010
Fragrant Sea Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
Graceful Nice Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
Hugo Marine Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
Leadfull Investments Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
New Renown Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
Promise Keep Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
Raycle Match Development Ltd.	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
Sunny Wealth Investments Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**–**	100%
Uppermost Corporation#	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
Winner Pacific Investment Ltd.	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	Investment holding	**100%**	100%
COSCO (Beijing) Marine Electronic Equipment Limited	PRC, wholly foreign-owned enterprise	RMB680,000	Trading of marine equipment and spare parts	**100%**	100%

NOTES TO THE FINANCIAL STATEMENTS

39 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2011	2010
COSCO International Trading Company Limited	PRC, wholly foreign-owned enterprise	RMB130,633,044	Trading of asphalt, ship equipment and accessories	**100%**	100%
COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.#	PRC, Sino-foreign equity joint venture enterprise	US$7,000,000	Production and sale of coatings	**63.07%**	63.07%
COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd.#	PRC, Sino-foreign equity joint venture enterprise	US$5,000,000	Production and sale of coatings	**63.07%**	63.07%
COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd.#	PRC, wholly foreign-owned enterprise	US$10,000,000	Production and sale of coatings	**64.71%**	64.71%
COSCOSHIP Beijing Company Limited	PRC, wholly foreign-owned enterprise	US$1,300,000	Provision of agency services in ship trading business	**100%**	100%
Shenzhen COSCO Insurance Brokers Ltd.	PRC, Sino-foreign equity joint venture enterprise	RMB5,000,000	Provision of professional services of insurance brokerages	**55%**	55%
Yuantong Marine Trade (Shanghai) Co., Ltd. (formerly known as Xiang Li Yuan (Shanghai) Property Management Co., Ltd.)	PRC, wholly foreign-owned enterprise	US$500,000	Trading of marine equipment and spare parts	**100%**	100%
Sinfeng Marine Services Pte. Ltd.	Singapore, limited liability company	7,000,000 ordinary shares of US$1 each	Trading of marine fuel and other related products	**100%**	100%
Xing Yuan (Singapore) Pte. Ltd.	Singapore, limited liability company	100,000 ordinary shares of S$1 each	Trading of marine equipment and spare parts	**100%**	100%
Shin Chung Lin Corporation	Japan, limited liability company	600 ordinary shares of JPY50,000 each	Trading of marine equipment and spare parts	**100%**	100%

shares held directly by the Company

40 JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Particulars of jointly controlled entities and associates of the Group as at 31st December 2011 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2011	2010
a) Jointly controlled entities					
Jotun COSCO Marine Coatings (HK) Limited	Hong Kong/PRC, limited liability company	2,400 ordinary shares of HK$1 each	Investment holding and sale of coatings	**50%**	50%
Cosbulk International Trading Co., Ltd. (Tianjin)	PRC, limited liability company	RMB1,500,000	Vessel and equipment trade consultant	**49%**	49%
COSCO Dalian Ocean Electronic Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	RMB600,000	Provision of marine electronic engineering services	**40%**	40%
Shanghai Ocean International Trading Co. Ltd.	PRC, limited liability company	RMB10,000,000	International and domestic trade	**–**	50%
Shanghai Ocean Radio Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US$250,000	Trading of marine equipment and provision of repair and maintenance	**25%**	25%
Tianjin Marine Electronic Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US$200,000	Provision of marine electronic engineering services	**25%**	25%
b) Associates					
COSCO Guangzhou Shipstores Supply Co., Ltd.	PRC, limited liability company	RMB30,442,100	Supply and storage of related materials of cargo transportation	**20%**	20%
Coscoship (Qingdao) Co., Ltd.	PRC, limited liability company	RMB3,000,000	Vessel engineering and technical support	**20%**	20%
German Lashing (Nanjing) Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US$663,000	Manufacture, sale and provision of after-sale service of container software and related products	**20%**	20%
Shanghai Ocean Diamond Co. Ltd.	PRC, limited liability company	RMB1,000,000	International and domestic trade	**50%**	50%
Double Rich Limited	Hong Kong, limited liability company	88,000,000 ordinary shares of HK$1 each	Trading of oil products and investment holding	**18%**	18%

LIST OF MAJOR PROPERTIES

As at 31st December 2011

	Description	Existing use	Approximate area	Lease term	% of interest attributable to the Group
Properties held for own use					
(1)	No. 42, Diwu Main Street, Economic Technology Development Zone, Tianjin, the PRC	Industrial	Site area 28,572.32 sq.m.	From 1st January 2012 to 31st December 2017	63.07
(2)	No.5589-5689 Hutai Road, Shanghai, the PRC	Industrial	Site area 44,159 sq.m.	From 22nd December 1995 to 21st December 2015	63.07
(3)	Economic Zone, Gaolan Port, Zhuhai, the PRC	Industrial	Site area 67,881.68 sq.m.	From 18th April 2006 to 17th April 2056	64.71
(4)	207 Henderson Road, #01-03/#03-03 Henderson Industrial Park, Singapore 159550	Commercial	Saleable area 782 sq.m.	Freehold	100
Property held for investment					
(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

	Description	Existing use	Approximate area	% of interest attributable to the Group
Properties held for sale				
(1)	No. 9 Basement 1, No. 188 Tongzhou Road, Shanghai, the PRC	Carparking	1 car parking space	100
(2)	Room 201, No. 8 Building, No. 188 Tongzhou Road, Shanghai, the PRC	Residential	Gross floor area 228.29 sq.m.	100

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED INCOME STATEMENT

	Year ended 31st December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**10,656,121**	8,666,901	1,630,055	2,100,937	2,309,123
Operating profit	**370,979**	293,969	186,831	203,763	209,659
Finance income — net	**91,808**	1,127	2,646	12,858	23,939
Share of results of jointly controlled entities	**50,152**	79,725	104,025	46,728	453,082
Share of results of associates	**25,755**	438,995	366,194	319,184	46,719
Gain on deemed disposal of partial interest in a jointly controlled entity	**—**	—	—	—	1,925,468
(Loss)/gain on deemed disposal of partial interest in an associate	**—**	(768)	245,287	—	—
Gain on disposal of an associate	**—**	545,704	—	—	—
Profit before income tax	**538,694**	1,358,752	904,983	582,533	2,658,867
Income tax expense	**(90,963)**	(65,793)	(58,756)	(34,268)	(23,772)
Profit from continuing operations	**447,731**	1,292,959	846,227	548,265	2,635,095
Loss from discontinued operations	**—**	—	—	—	(2,827)
Profit for the year	**447,731**	1,292,959	846,227	548,265	2,632,268
Profit attributable to:					
Equity holders of the Company	**390,339**	1,268,600	843,675	491,015	2,572,623
Non-controlling interests	**57,392**	24,359	2,552	57,250	59,645
	447,731	1,292,959	846,227	548,265	2,632,268

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED BALANCE SHEET

	As at 31st December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Non-current assets					
Intangible assets	**98,542**	91,733	91,340	91,323	79,616
Property, plant and equipment	**162,217**	159,082	130,454	123,824	105,436
Prepaid premium for land leases	**7,482**	7,478	7,687	13,194	16,421
Investment properties	**35,777**	32,543	27,164	26,815	10,717
Jointly controlled entities	**376,877**	320,401	234,062	130,935	93,624
Associates	**85,053**	57,689	4,722,687	4,052,810	3,628,052
Available-for-sale financial assets	**66,187**	138,344	104,084	38,503	88,952
Deferred income tax assets	**72,640**	59,710	37,426	40,844	26,235
	904,775	866,980	5,354,904	4,518,248	4,049,053
Current assets	**8,583,760**	8,498,429	2,154,968	2,740,817	2,176,254
Total assets	**9,488,535**	9,365,409	7,509,872	7,259,065	6,225,307
CAPITAL AND RESERVES					
Share capital	**151,363**	151,107	151,070	148,967	147,803
Reserves	**6,940,432**	7,148,920	6,263,790	5,396,728	4,753,943
Total shareholders' equity	**7,091,795**	7,300,027	6,414,860	5,545,695	4,901,746
Non-controlling interests	**187,119**	230,201	200,712	241,373	217,517
Total equity	**7,278,914**	7,530,228	6,615,572	5,787,068	5,119,263
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	**20,358**	13,216	8,636	8,363	798
Current liabilities					
Short-term borrowings	**34,801**	207,299	11,725	316,960	216,816
Other current liabilities	**2,154,462**	1,614,666	873,939	1,146,674	888,430
	2,189,263	1,821,965	885,664	1,463,634	1,105,246
Total liabilities	**2,209,621**	1,835,181	894,300	1,471,997	1,106,044
Total equity and liabilities	**9,488,535**	9,365,409	7,509,872	7,259,065	6,225,307
Net current assets	**6,394,497**	6,676,464	1,269,304	1,277,183	1,071,008
Total assets less current liabilities	**7,299,272**	7,543,444	6,624,208	5,795,431	5,120,061

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