International

ANNUAL REPORT 2012

SEIZE
OPPORTUNITIES
FOR
FURTHER
DEVELOPMENT

COSCO International Holdings Limited

Stock Code : 00517

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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 Europe"	COSCO Europe GmbH, a subsidiary of COSCO;
"COSCO Group"	COSCO and its subsidiaries and associates (other than the Group);
"COSCO (Beijing) Marine Electronic"	中遠(北京)海上電子設備有限公司 (COSCO (Beijing) Marine Electronic Equipment Limited*), a wholly-owned subsidiary of the Company;
"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 Paint (Shanghai)"	中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*), a non-wholly owned subsidiary of the Company;
"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;
"Hanyuan"	Hanyuan Technical Service Center GmbH, a subsidiary of COSCO;
"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;
"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;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"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;
"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. He Jiale
Mr. Xu Zhengjun *(Managing Director)*

Non-executive Directors

Mr. Wang Wei
Mr. Wu Shuxiong

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.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

STRATEGIC DEVELOPMENT COMMITTEE

Mr. Zhang Liang *(committee chairman)*
Mr. He Jiale
Mr. Xu Zhengjun

RISK MANAGEMENT COMMITTEE

Mr. Zhang Liang *(committee chairman)*
Mr. Wu Shuxiong
Mr. He Jiale
Mr. Xu Zhengjun

INDEPENDENT AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

Linklaters
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
Shanghai Pudong Development Bank Company 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

HEAD OFFICE AND 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

2012 Annual General Meeting	: 31st May 2012
Announcement of 2012 Interim Results	: 22nd August 2012
Announcement of 2012 Annual Results	: 21st March 2013
2013 Annual General Meeting	: 31st May 2013

DIVIDEND

2012 Interim Dividend	: 2 HK cents per share
Proposed 2012 Final Dividend	: 6 HK cents per share
Total Dividends for 2012	: 8 HK cents per share

CORPORATE PROFILE

COSCO International is a company listed on Main Board of the Stock Exchange (stock code 00517) and was selected as a constituent of Hang Seng Corporate Sustainability Benchmark Index in September 2012.

The Company is a subsidiary of COSCO Hong Kong, which 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. The Group is principally engaged in the provision of shipping services. Other business operation is general trading.

COSCO International has positioned shipping services as its core business. The Group 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 and products to customers such as shipping companies, shipyards, container manufacturers, etc. Its businesses and services network cover China Mainland, Hong Kong, Singapore, Japan and other major fueling ports worldwide.

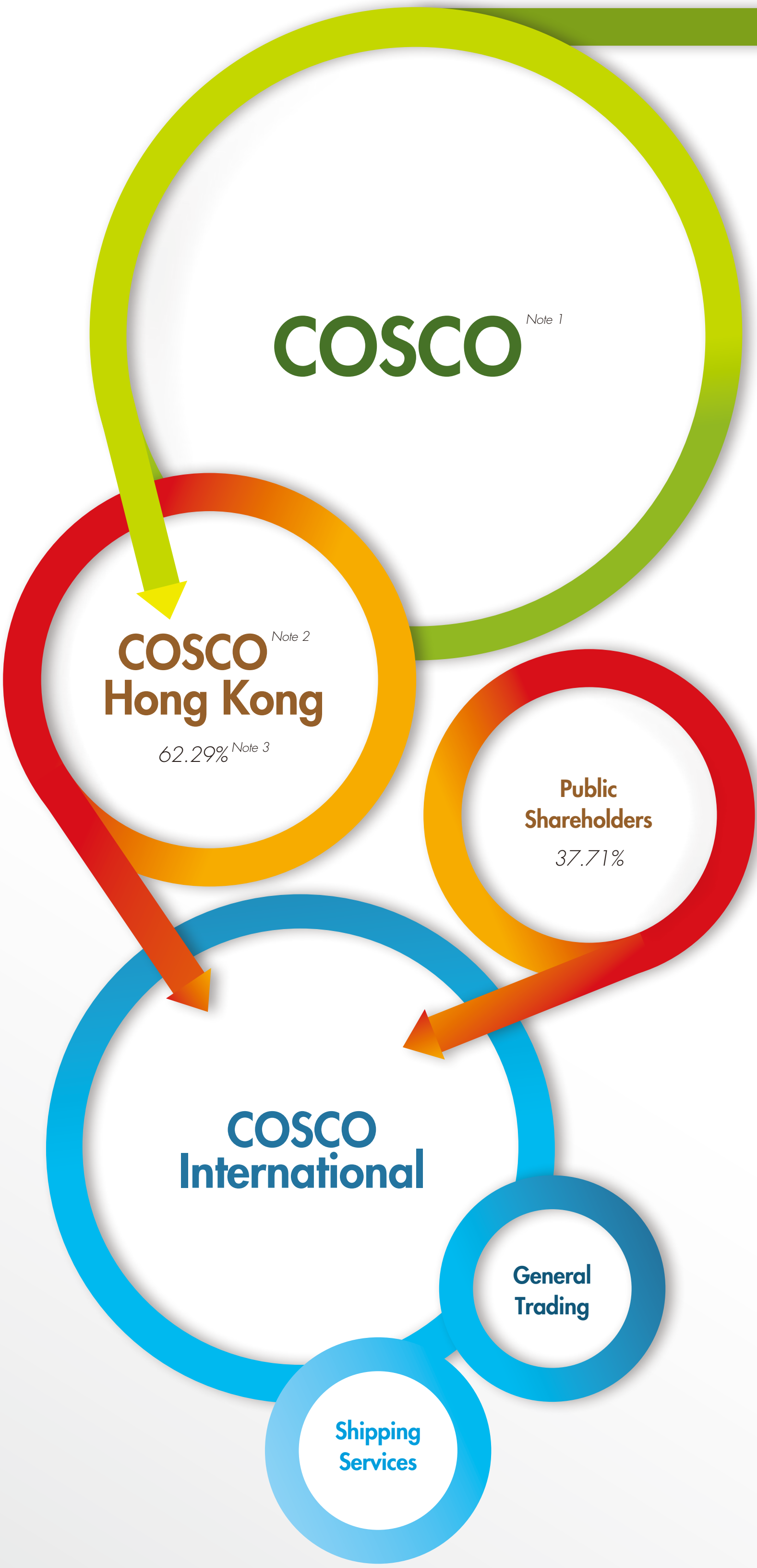
VISION

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 shipping services provider.

MISSION

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

CORPORATE STRUCTURE



SHIPPING SERVICES:

Ship Trading Agency Services
- COSCO International Ship Trading Company Limited 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%
- 中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (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:

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 740 modern commercial vessels with a total carrying capacity of about 53,000,000 dead weight tonnages.*

Note 2 *COSCO International is a subsidiary of COSCO Hong Kong. COSCO Hong Kong is an important overseas regional headquarters and conglomerate of COSCO Group which operates and manages a few hundred subsidiaries in Hong Kong, 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.*

Note 3 *To the best of the knowledge and belief of the Directors, COSCO Hong Kong through its wholly-owned subsidiary held 62.29% issued share capital of the Company as at 31st December 2012.*

* *for identification purpose only*

INHERITANCE

The Group has been focusing on its strategic development positioning in "shipping services", with "establishing itself as a global leading one-stop shipping service provider" as its development vision. Such vision enables the Group to provide customers with excellent services and quality products through its increasing presence all over the world, to enhance its profitability continuously, to maintain ability to achieve sustainable development and to contribute to our shareholders and the society.

Maximise our

STRENGTH FOR SUSTAINABLE GROWTH

FINANCIAL HIGHLIGHTS

	2012 HK$'000	2011 HK$'000	Change
ANNUAL RESULTS HIGHLIGHTS			
For the year ended 31st December			
Revenue	**10,005,705**	10,656,121	-6%
Gross profit	**685,985**	892,035	-23%
Operating profit	**298,763**	370,979	-19%
Profit before income tax	**473,833**	538,694	-12%
Profit attributable to equity holders	**363,006**	390,339	-7%
Basic earnings per share (HK cents)	**23.98**	25.80	-7%
Dividends per share (HK cents)	**8.00**	9.00	-11%
Dividend payout ratio (%)	**33**	35	-2pts

	2012 HK$'000	2011 HK$'000	Change
BALANCE SHEET HIGHLIGHTS			
As at 31st December			
Total assets	**9,617,388**	9,488,535	1%
Total liabilities	**2,037,244**	2,209,621	-8%
Net assets attributable to shareholders	**7,334,121**	7,091,795	3%
Net cash	**5,820,907**	5,668,823	3%
Net assets per share (HK$)	**4.85**	4.69	3%
Net cash per share (HK$)	**3.85**	3.75	3%
Return on total assets (%)	**3.80**	4.14	-0.3pt
Return on shareholders' equity (%)	**5.03**	5.42	-0.4pt

	2012	2011
KEY FINANCIAL RATIOS		
For the year ended 31st December		
Gross profit margin	**6.9%**	8.4%
Interest coverage	**123.4 times**	33.3 times
Current ratio	**4.3 times**	3.9 times
Liquidity ratio	**4.1 times**	3.6 times
Total liabilities/total assets	**21.2%**	23.3%
Total borrowings/total assets	**0.5%**	0.4%

	2012 HK$'000	2011 HK$'000	Change
SEGMENT REVENUE*			
For the year ended 31st December			
Shipping Services			
Coatings	1,274,861	1,608,654	-21%
Marine equipment and spare parts	923,102	970,159	-5%
Ship trading agency	109,340	150,156	-27%
Insurance brokerage	85,142	85,486	0%
Marine fuel and other products	6,228,123	6,679,864	-7%
	8,620,568	9,494,319	-9%
General Trading	1,385,137	1,161,802	19%
Total	10,005,705	10,656,121	-6%

* *external customers only*

	2012 HK$'000	2011 HK$'000	Change
SEGMENT PROFIT BEFORE INCOME TAX			
For the year ended 31st December			
Shipping services			
Coatings	158,744	230,798	-31%
Marine equipment and spare parts	50,950	64,767	-21%
Ship trading agency	76,526	112,530	-32%
Insurance brokerage	61,861	61,172	1%
Marine fuel and other products	54,624	18,503	195%
	402,705	487,770	-17%
General trading	15,724	14,688	7%
Corporate and others	55,404	36,236	53%
Total	473,833	538,694	-12%

HIGHLIGHTS OF THE YEAR 2012

24TH FEBRUARY

Mr. Ye Weilong was appointed as Executive Director and Chairman, and Mr. Zhang Liang was appointed as Executive Director and Vice Chairman. Mr. Zhang Fusheng resigned as Executive Director and Chairman due to other job arrangement, and Mr. Wang Futian resigned as Executive Director and Vice Chairman due to his retirement.

7TH MARCH

COSCO International entered into a strategic cooperation agreement with China Transport Telecommunications & Information Center in Hong Kong to strengthen cooperation in various areas, including logistics services, warehousing services, business development and technical cooperation.

22ND MARCH

A press conference and an analyst meeting for 2011 annual results were held in Hong Kong.

10TH APRIL

Mr. He Jiale was appointed as Executive Director, and Mr. Wang Wei and Mr. Wu Shuxiong were appointed as Non-executive Directors. Due to other job arrangement, Mr. Liang Yanfeng and Mr. Lin Wenjin resigned as Executive Directors, and Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen resigned as Non-executive Directors.

25TH APRIL

COSCO Kansai (Tianjin) held its 20th anniversary celebration in Tianjin.

2ND MAY

COSCO International and 關西塗料（中國）投資有限公司 (Kansai Paint (China) Investment Co., Ltd), a wholly-owned subsidiary of Kansai Paint Co., Ltd, entered into joint venture articles in relation to the establishment of COSCO Kansai Paint (Shanghai). The term of COSCO Kansai Paint (Shanghai) is 20 years and the total investment amount is US$64,000,000.

31ST MAY

2012 Annual General Meeting of the Company was held in Hong Kong.

12TH JULY

Mr. Xu Zhengjun was appointed as Executive Director and Managing Director, and Mr. Wang Xiaodong resigned as Executive Director and Managing Director due to other job arrangement.

22ND AUGUST

A press conference and an analyst meeting for 2012 interim results were held in Hong Kong.

10TH SEPTEMBER

COSCO International was selected as a constituent member of the Hang Seng Corporate Sustainability Benchmark Index.


Hang Seng Corporate Sustainability Indexes

Certificate of Membership

This is to certify that

COSCO International Holdings Ltd.

is a constituent company of the
Hang Seng Corporate Sustainability Index Series

September 2012

HANG SENG INDEXES

30TH OCTOBER

COSCO purchased, through its wholly-owned subsidiary, an aggregate of 464,000 ordinary shares of COSCO International at an average price of HK$3.085 per share. After the increase in its shareholding, COSCO holds 938,732,286 ordinary shares of the Company, representing approximately 62.01% of the Company's issued share capital.

AWARDS AND RECOGNITIONS

1. Awarded the "Caring Company" logo by The Hong Kong Council of Social Service for the fourth consecutive year, in recognition of its contribution and commitment in caring for its employees, the environment and the community.

2. Honoured with "Best CSR (China Company)" in the Asian Excellence Recognition Awards 2012 by Corporate Governance Asia journal.

3. Awarded "The Best of Asia" in the Corporate Governance Asia Recognition Awards for the second consecutive year by Corporate Governance Asia journal.

4. COSCO Kansai Companies were awarded with the title of "China Top Ten Anti-Corrosion Coating Brand" by the HC Coating Network for the third consecutive year.

5. 2011 Annual Report won two awards in the 26th International ARC Awards, i.e. Silver Awards in "Chairman's Letter" and "Interior Design" respectively in the category of shipping services.

6. 2011 Annual Report won the Bronze Award in the 23rd Annual International GALAXY Awards Competition in the category of "Annual Report: Shipping Services".

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2011 Annual Report was awarded "Honourable Mention" in the Hong Kong Management Association Best Annual Report Awards 2012.

8

2011 Annual Report won the Platinum Award in the category of "Non-Hang Seng Index (Mid-to-small Market Capitalisation)" in the Best Corporate Governance Disclosure Awards 2012 held by the Hong Kong Institute of Certified Public Accountants.

9

The Company's website (www.coscointl.com) won the Silver Award in the category of "Investor/Shareholder Relations" in the 12th Annual International iNOVA Awards.

10

Honoured with the "Certificate of Appreciation" of Hong Kong Community Volunteers (Corporate Member) by Agency for Volunteer Service in recognition of the Company's active participation in volunteer services and its contribution to society.

11

Awarded "Honourable Mention" in the category of "Main Board Companies – Hang Seng Composite Index Constituent Companies" of Hong Kong Corporate Governance Excellence Awards 2012, co-organised by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University.

CHAIRMAN'S STATEMENT

In 2012, the pace of global economic recovery was still slow. The demand in Europe and the United States continued to be weak and the growth of emerging economies was declining. The excess shipping capacity in the international shipping market was huge and the shipping freight rates remained depressed. The operating costs was also ever-rising. As a result, the operating environment of the international shipping industry has further deteriorated. The Group's shipping services business was negatively affected to varying degrees as shipping companies were the Group's major customers. All the employees under the leadership of the management team of COSCO International proactively tackled the unfavourable environment by adhering to the three goals of "profitability, development and safety". A "Management Enhancement" programme was comprehensively introduced to manage risks and costs under strict control. While endeavouring to enhance profitability, the Group actively conducted studies on expansion into new business in the shipping services sector and explored potential acquisition targets, thus making preparations well for the Group to achieve a leap in the development of shipping services.

YE Weilong
Chairman

OVERALL RESULTS AND BUSINESS EXPLORATION

Profit attributable to equity holders of the Company amounted to HK$363,006,000, representing a decrease of 7% from 2011. Basic earnings per share was 23.98 HK cents. During the year, the Group's total revenue was HK$10,005,705,000. The Board proposed a final dividend of 6 HK cents per share for 2012. Together with the interim dividend of 2 HK cents per share, total dividends for 2012 were 8 HK cents per share, representing a dividend payout ratio of 33%.

For business expansion, the Group has kept focusing on its strategic development positioning in "shipping services", with "establishing itself as a global leading one-stop shipping services provider" as its development vision. It provides customers with excellent services and quality products through its increasing presence all over the world. The Group continues to enhance its profitability and maintains its capability for sustainable development, thus contributing to our shareholders and society. In order to implement the above development strategy, the Group will proactively explore acquisition targets in the shipping services sector.

CORPORATE GOVERNANCE AND RISK CONTROL

In order to achieve sustainable, steady and healthy development, a good corporate governance system is especially crucial. Not only can it increase the overall value of the Company and the transparency of operation, but also enhance attractiveness to investors and protect the interests of shareholders and stakeholders. In order to improve the corporate governance standard, the Group has continuously reviewed and optimised its corporate governance policy and strictly adhered to the related laws and regulations. The Group has adopted various effective measures regarding information disclosure enhancement, protection of shareholders' right to information, balancing of the interests of various stakeholders and optimisation of the management structure of the Board. For example, the Group has adopted the "Shareholder Communication Policy", thereby establishing a more effective and closer relationship with shareholders and enabling shareholders to exercise their rights as a shareholder in an informed manner. It made a complete review of and proper adjustments to the structure and terms of reference of the Board Committees during the year. The adjustments included renaming the merged Executive Committee and Investment Committee as Strategic Development Committee to increase the operating efficiency; establishing Corporate Governance Committee for the purpose of handling corporate governance matters; and strengthening functions of Risk Management Committee to further enhance the corporate governance of the Group.

The Group recognises that effective corporate risk management is crucial for corporate governance. It adopted specific measures during the year. For example, it continuously reviewed its systems and processes to identify any weaknesses. It strived to analyse the existing problems of its governance and implemented measures to reduce potential risks. It promoted integrity in the working environment to facilitate the building of corporate integrity, and heightened the management's awareness of risk control through themed training to forestall a crisis from becoming an issue, thus ensuring the healthy and steady development of the Company's operations.

SOCIAL RESPONSIBILITIES AND SUSTAINABLE DEVELOPMENT

COSCO International believes that an enterprise should not only focus on enhancing operating profitability and shareholders' value, but also pursue long-term and sustainable development so as to create value for the enterprise continuously. Hence, the Group has always strived to integrate the ideas of sustainable development and social responsibility into its management strategies and actual operations. COSCO International has successfully established a corporate culture which advocates social responsibility through its efforts made in the past few years. In particular, the work in relation to corporate safety management and caring for the staff, environment and community has achieved outstanding results to a certain extent. On 10th September 2012, COSCO International was selected as a constituent of the Hang Seng Corporate Sustainability Benchmark Index by Hang Seng Indexes Company Limited, which reflected the recognition and support of investors, professional institutions and the public of COSCO International's efforts and continuous improvement in environmental protection, social responsibility and corporate governance, and its strong sustainability. I believe that the selection of COSCO International as a constituent of the Hang Seng Corporate Sustainability Benchmark Index will further increase its reputation and status in the global capital market. In future, COSCO International will not only proactively strive to return operating profitability to shareholders, but also continue

CHAIRMAN'S STATEMENT

to pursue concurrent long-term development of the enterprise, society and environment, thereby sparing no effort to protect and balance the interests of stakeholders such as shareholders, business partners, employees, clients and suppliers.

HONOURS AND RECOGNITIONS

COSCO International has successfully gained high recognition and affirmation from investors, professional institutions and the public of its efforts in, among other things, enhancing corporate governance, improving investor relations and fulfilling social responsibility for many years and was awarded several international and regional awards and recognitions in 2012. Several honours, which were awarded to COSCO International for the first time, were highly recognised in the industry. They included "Honourable Mention" in the "Main Board Companies – Hang Seng Composite Index Constituent Companies" category of the Hong Kong Corporate Governance Excellence Awards 2012 co-organised by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University; Platinum Award for 2011 Annual Report in the "Non-Hang Seng Index Category (Mid-to-small Market Capitalisation)" in the Best Corporate Governance Disclosure Awards 2012 held by Hong Kong Institute of Certified Public Accountants and "Honourable Mention" in the Best Annual Reports Awards 2012 organised by the Hong Kong Management Association. In addition, the Company was, for the first time, honoured with the "Best CSR (China Company)" in the Asian Excellence Recognition Awards 2012 organised by Corporate Governance Asia, and the "Certificate of Appreciation" of Hong Kong Community Volunteers (Corporate Member) by the Agency for Volunteer Service in recognition of the Group's active participation in volunteer activities, fulfillment of its obligations as a corporate citizen and contribution to society.

OUTLOOK AND PROSPECTS

The outlook for the global economy in 2013 is far from optimistic and it is expected that it is difficult for the economic conditions to significantly improve. Under the continuous imbalance between supply and demand of shipping capacity in the shipping market and the ever-rising operating costs of shipping enterprises, shipowners will adopt various measures to significantly reduce their costs. As a result of the foregoing, the operation of the shipping services industry becomes more challenging. To cope with the fierce market competition, the Group will seek development opportunities arising from the challenges and strive to make great strides in its development. On one hand, the Group will continuously expand and enhance the existing businesses through the launch of a programme called "Year of Marketing Services". On the other hand, the Group will make use of the advantage of the existing core businesses to actively explore investment opportunities in the related businesses of shipping services and upstream and downstream businesses, 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 study and consolidate business opportunities and resources within and outside COSCO Group to strive to increase its profitability, and make every effort to develop itself as a global leading one-stop shipping service provider, thus bringing higher returns to 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 my heartfelt gratitude to all members of the Board and the employees for their diligent services.

YE Weilong
Chairman

Hong Kong, 21st March 2013

VICE CHAIRMAN'S STATEMENT

In 2012, the Group, followed the guiding principles of "Innovation through Inheritance and Development through Innovation" and strictly adhered to the three business goals of "profitability, development and safety", was strongly committed to implement measures " to earn what should be earned, to save what should be saved and to collect what should be collected". It made every effort to extend and expand its business segments while striving to ensure smooth production and operation, thus achieving stable operating results and satisfactory working accomplishments as usual under severe market conditions.

ZHANG Liang
Vice Chairman

VICE CHAIRMAN'S STATEMENT

STRICTLY CONTROLLING RISKS AND STEADILY DRIVING PROFITS

During the year, revenue from each of the Group's core shipping services business units decreased to varying degrees due to the slowdown of global economic growth and the prolonged weak shipping market. Facing the severe business environment, the Group was strongly committed to achieving success in three areas: firstly, "to earn what should be earned so as to ensure profit maximisation". During the year, the Company secured higher deposit rate on its strong liquid cash through strengthening its cash management and proactively negotiation with various bankers, thus increasing its finance income by 18% during the year; secondly, "to save what should be saved so as to ensure the tightest cost control". During the year, all the operating units proactively controlled their operating costs and reduced unnecessary expenditure. As a result, the Group cut down the selling, administrative and general expenses by 17% as compared to 2011. Meanwhile, the Group took advantage of the corporate headquarters' cash in hand to reduce subsidiaries' external borrowings, thereby substantially reducing finance costs by 77% as compared to 2011; and thirdly, "to collect what should be collected so as to ensure the quickest collection of receivables". During the year, the Group reinforced its receivables management while exercising strict risk control. At the end of 2012, the balance of outstanding receivables decreased by 9% as compared to the end of 2011 under the efforts of various parties which made a contribution to safeguard the Group's interests.

OPERATIONAL INNOVATION AND MANAGEMENT ENHANCEMENT

In 2012, the pace of global economic recovery was still slow. COSCO International, confronted with unfavourable business environment, proactively implemented the work of "striving for profitability" and "management enhancement". It succeeded in optimising synergy among various shipping service business units by improving its product and service quality, exploring market resources, strengthening marketing to major customers and heightening service awareness. In particular, it made arrangements for the centralised procurement to be implemented by COSCO Group's fleets as to the supply of marine spare parts and marine insurance, thus making remarkable achievement in building the brand image of COSCO International as a shipping service provider. In the meantime, the Group further strengthened its corporate management. It set up a task force composed of the senior management of the Company and the management of its subsidiaries to formulate specific, goal-driven and well-planned targets and measures under the guiding principles of "continued improvement and cyclical advancement", and comprehensively reviewed and sorted out all management systems through identifying their bottlenecks and drawbacks, thus taking a momentous step forward in the pursuit of operational innovation, management enhancement and corporate competitiveness reinforcement.

INVESTOR RELATIONS

As the global stock market fluctuated in 2012, many securities firms reduced the size of investors' meetings and the number of roadshows to keep their costs under control. In spite of this, the Group had a strong belief in good investor relations. It is determined to maintain adequate communications with shareholders and prospective investors no matter how the external environment changes. It also enhances the transparency and corporate governance level of the Company, increases and reinforces shareholders and investors' confidence through timely, complete, accurate and truthful disclosure of the Company's information, thus enhancing the value of the Company. During the year, the Company not only resolved to maintain good communications with shareholders through diversified investor relations activities but also learnt about their expectations for the Company and gathered their valuable advices and recommendations on its future development, especially those advices and recommendations from the existing shareholders who had been long-time holders of the Company's shares, which provided references for the management's decisions. In addition, COSCO International also continued to strengthen the development of the corporate website and improve the presentation materials for investors. The good information disclosure was highly praised by numerous investors.

OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION

During the year, the Group continued to strengthen the management of "Health, Safety and Environment" ("HSE"). Besides pushing forward the standardised establishments in relation to safety and continuously enhancing the safety management level to ensure safe and stable production, the Group also reduced its carbon emission during operation and production through various measures to minimise the impact on the environment. The Group continuously promoted green shipping, and, among others, made a breakthrough on promoting marine antifouling coatings as well as researching and developing water-based and environment friendly container coating products; and cooperated with various environmental organisations and social institutions to heighten employees' awareness on environmental protection. In addition, the Group dedicated to establishing itself as a learning-oriented enterprise, advocating trainings for all staff and strengthening the establishment of talent banks during the year by diversified training programmes. It properly implemented job rotation and training in rotation to improve the staff's comprehensive quality, thus laying a solid foundation for the Company to achieve even higher and more innovative development milestones.

FUTURE DEVELOPMENT

In 2013, facing the uncertain market environment, COSCO International will, with the guiding principles of "Rolling Inheritance, Insightful Innovation and Scientific Development", comprehensively enhance its service marketing level, develop new business segments and service scope, explore new markets and identify new customers, thus strengthening and broadening its shipping service business. Meanwhile, it will also actively conduct studies on asset acquisitions within and outside the COSCO Group, constantly improve its shipping service network around the world and expand related operations along the business chain of shipping services. It will provide customers with one-stop services and ultimately develop itself as a worldwide shipping service provider. Benefiting from the support of the COSCO Group, the Group will proactively implement the consolidation and development of its global shipping services platform. Under the full support of COSCO and COSCO Hong Kong, the Group will seize the opportunities to explore development in shipping services and expand in operating scale and enhance its core competitiveness, thus enhancing the momentum of the Company for sustainable development and continuously creating returns for shareholders.

ZHANG Liang
Vice Chairman

Hong Kong, 21st March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Under severe market conditions, the Group still recorded revenue of HK$10,005,705,000 with profit attributable to equity holders of the Company of HK$363,006,000.

OVERALL ANALYSIS OF RESULTS

Profit attributable to equity holders of the Company for the year was HK$363,006,000 (2011: HK$390,339,000), representing a decrease of 7% as compared to 2011. Basic earnings per share was 23.98 HK cents (2011: 25.80 HK cents), representing a decrease of 7% as compared to 2011.

Impacted by external factors such as slowdown of the container coatings market, operating difficulties faced by shipping enterprises and soaring operating costs, revenue and gross profit of various core shipping services business segments and the Group's share of results of jointly controlled entities and associates declined as compared to 2011. All the above-mentioned factors exerted greater pressure on the year's operating results as compared to 2011. However, to alleviate the impact of these factors on the profit attributable to equity holders, the Group timely adopted a series of coping measures, including: (i) strengthening of credit management and successful collection of long outstanding trade receivables resulting in the reversal of provision for impairment of trade and other receivables; (ii) strengthening control of selling, administrative and general expenses leading to the reduction in overall level of operating expenses; (iii) enhancing yields on liquid cash leading to the substantial increase in finance income, and (iv) taking advantage of the corporate headquarters' cash in hand to reduce subsidiaries' external borrowings and thereby substantially reduced finance costs as compared to 2011. Through these efforts, the profit attributable to equity holders of the Company for the year only declined by 7% as compared to 2011.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of HK$10,005,705,000 in 2012 (2011: HK$10,656,121,000), representing a decrease of 6% when compared to 2011. During the year, revenue of various core shipping services businesses such as marine fuel and other products, coatings, marine equipment and spare parts and ship trading agency declined by 7%, 21%, 5% and 27% respectively as compared to 2011. Accordingly, revenue from the core shipping services businesses fell by 9% to HK$8,620,568,000 (2011: HK$9,494,319,000) and accounted for 86% (2011: 89%) of the Group's revenue. However, revenue of general trading segment increased by 19% to HK$1,385,137,000 (2011: HK$1,161,802,000) and accounted for 14% (2011: 11%) of the Group's revenue.

Gross Profit and Gross Profit Margin

Owing to the decline in sales volumes, the Group's gross profit for the year decreased by 23% to HK$685,985,000 (2011: HK$892,035,000) while overall average gross profit margin reduced from 8% to 7%. The decrease in gross profit margin was attributable to the drop in both prices and gross profit margins of container coating products, which was the result of downward adjustments of international container prices and intensified competition among container coating manufacturers during the year.

Other Income and Gains

The Group recorded other income and gains of HK$63,199,000 (2011: HK$46,264,000). Other income and gains primarily included reversal of provision for impairment of trade and other receivables (net of provision) of HK$38,928,000, net exchange gains of HK$4,810,000 and fair value gains on investment properties of HK$2,712,000. Other income and gains of 2011 primarily included: (i) 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; (ii) 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"); and (iii) net exchange gains of HK$13,825,000.

Other Expenses and Losses

The Group recorded other expenses and losses of HK$2,368,000 (2011: HK$28,199,000). Other expenses and losses primarily included provision for impairment of inventories (net of reversal) of HK$2,215,000. Other expenses and losses of 2011 mainly included provision for impairment of trade and other receivables (net of reversal) of HK$27,807,000.

Selling, Administrative and General Expenses

The Group's selling, administrative and general expenses was HK$448,053,000 (2011: HK$539,121,000), decreased by 17% when compared to 2011. During the year, all operating units took active efforts to control operating costs to mitigate the impact of declines in revenue and gross profits. Selling expenses decreased substantially by 51% to HK$107,536,000 (2011: HK$218,768,000). The main component of selling expenses comprised selling expenses payable to customers, sales staff remuneration, technology usage fees and transportation costs. Decrease in selling expenses was attributable to both the decline in revenues and reduction in selling expenses payable to major customers during the year. Administrative and general expenses rose slightly by 6% to HK$340,517,000 (2011: HK$320,353,000).

Operating profit

Due to the factors stated above, the Group's operating profit decreased by 19% to HK$298,763,000 (2011: HK$370,979,000).

Finance Income – Net

The Group's finance income of HK$127,896,000 (2011: HK$108,736,000) represented primarily interest income on bank deposits. The substantial increase in finance income was attributable to more favourable rates on deposits placed with reputable banks in Hong Kong and the PRC. The Group's finance costs mainly represented interest expenses on bank loans of HK$693,000 (2011: HK$11,727,000) and other finance charges of HK$3,255,000 (2011: HK$5,201,000). The substantial fall was primarily due to the reduction in average balance of bank borrowings and banking services used in the coatings and general trading businesses.

Share of Results of Jointly Controlled Entities

The Group's share of results of jointly controlled entities decreased by 24% to HK$37,996,000 (2011: HK$50,152,000). This item primarily represented the share of profit of Jotun COSCO of HK$38,303,000 (2011: HK$48,677,000) which was included in the coatings segment. The profit contribution from Jotun COSCO declined by 21% when compared to 2011. The decline was attributable to, on one hand, decline in sales volume of Jotun COSCO and on the other hand, Jotun COSCO's plan to close its Guangzhou plant and relocate its production line to the new plant in Qingdao in 2013, resulting in various one-off expenses such as severance payments to staff, provision for impairment of fixed assets and project management fees in respect of construction works of the new plant.

Share of Results of Associates

The Group's share of results of associates decreased by 49% to HK$13,126,000 (2011: HK$25,755,000). This item primarily comprised the share of profit of Double Rich of HK$13,796,000 (2011: HK$25,091,000) which was included in the marine fuel and other products segment. Such decrease was attributable to the substantial decrease in Double Rich's investment income as compared to 2011.

Income Tax Expenses

The Group's income tax expenses for the year decreased to HK$70,926,000 (2011: HK$90,963,000). The ratio of income tax expenses to profit before income tax decreased (excluding the share of results of jointly controlled entities and associates), from 20% in 2011 to 17%. This was mainly attributable to the decrease in proportion of the Group's profit derived from PRC and overseas as well as increase in non-taxable income during the year.

Profit Attributable to the Equity Holders

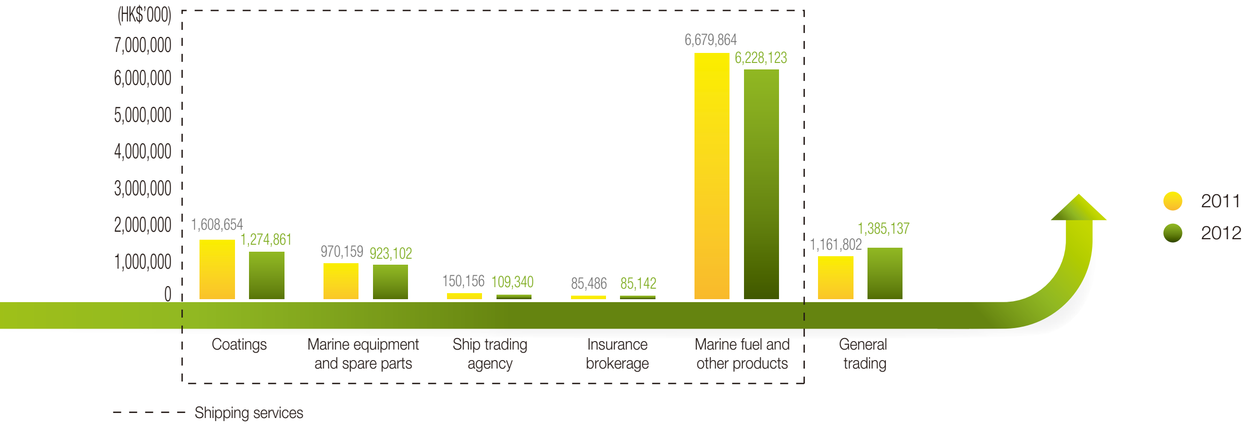
Profit attributable to equity holders of the Company for the year decreased by 7% to HK$363,006,000 (2011: HK$390,339,000).

* *for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

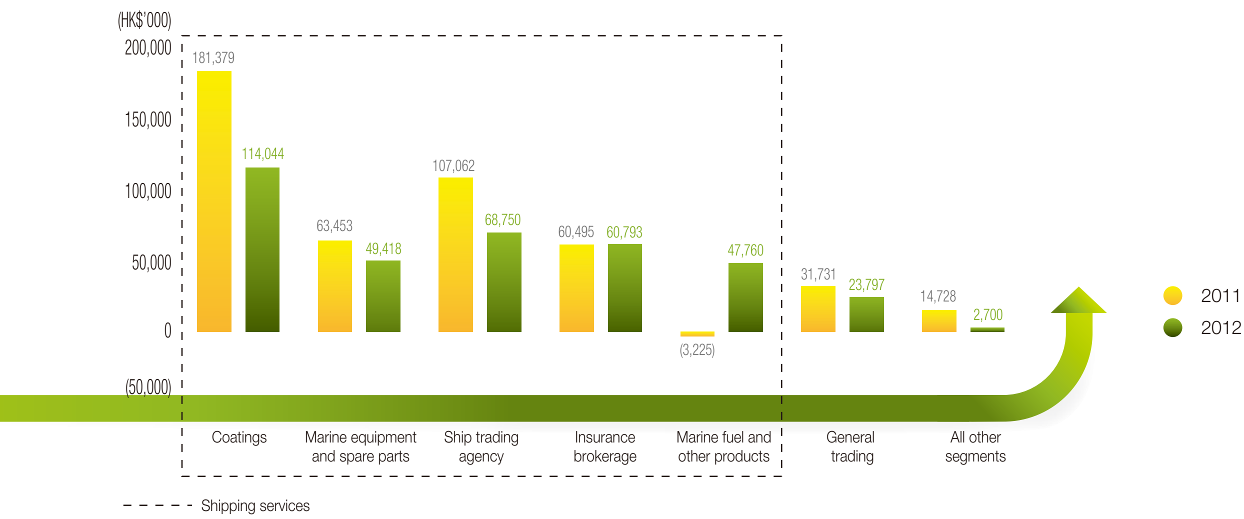
SEGMENT REVENUE*



* *external customers only*

During the year, revenue of coatings, marine equipment and spare parts, ship trading agency and marine fuel and other products businesses decreased 21%, 5%, 27% and 7% respectively as compared with 2011. As a result, revenue of the core shipping services dropped by 9% to HK$8,620,568,000 (2011: HK$9,494,319,000) and accounted for 86% (2011: 89%) of the Group's revenue.

SEGMENT OPERATING PROFIT



Profits from various core shipping services businesses dropped due to decrease in revenue and gross profit margin. Segment operating profit from shipping services businesses decreased by 17% to HK$340,765,000 (2011: HK$409,164,000).

FINANCIAL RESULTS (Continued)

For the year ended 31st December	2012 HK$'000	2011 HK$'000	Change HK$'000	%	Remark
Shipping services	**340,765**	409,164	(68,399)	(17)	Impacted by external factors such as slowdown of the container coatings market, operating difficulties faced by shipping enterprises and soaring operating costs, revenue and gross profit of various core shipping services business segments declined as compared to 2011.
General trading	**23,797**	31,731	(7,934)	(25)	Operating profit further decreased. This was due to the higher price of imported asphalt and additional costs incurred to develop markets and to cater for logistic requirement of the asphalt trade.
All other segments	**2,700**	14,728	(12,028)	(82)	2011's earnings included the one-off item of gain on disposal of available-for-sale financial assets.
Corporate expenses, net of income	**(68,418)**	(83,106)	14,688	(18)	Active efforts were taken to control operating costs.
Elimination of segment income from corporate headquarters	**(81)**	(74)	(7)	9	
Elimination of unrealised profit on inter-segment revenue	**–**	(1,464)	1,464	N/A	
Operating profit	**298,763**	370,979	(72,216)	(19)	
Finance income-net	**123,948**	91,808	32,140	35	More favourable rates obtained on deposits placed with reputable banks in Hong Kong and the PRC.
Share of results of jointly controlled entities	**37,996**	50,152	(12,156)	(24)	Profit contribution of Jotun COSCO declined as a result of (i) decline of sales volume; and (ii) Jotun COSCO's plan to close Guangzhou plant and relocate production line to the new plant in Qingdao in 2013, resulting in various one-off expenses such as severance payments to staff, provision for impairment of fixed assets and project management fees in respect of construction works of the new plant.
Share of results of associates	**13,126**	25,755	(12,629)	(49)	Decline was mainly attributable to substantial decrease in Double Rich's investment income as compared to the previous year.
Profit before income tax	**473,833**	538,694	(64,861)	(12)	
Income tax expenses	**(70,926)**	(90,963)	20,037	(22)	Decrease in income tax expenses was mainly attributable to the decrease in proportion of the Group's profit derived from PRC and overseas as well as increase in non-taxable income during the year.
Profit for the year	**402,907**	447,731	(44,824)	(10)	

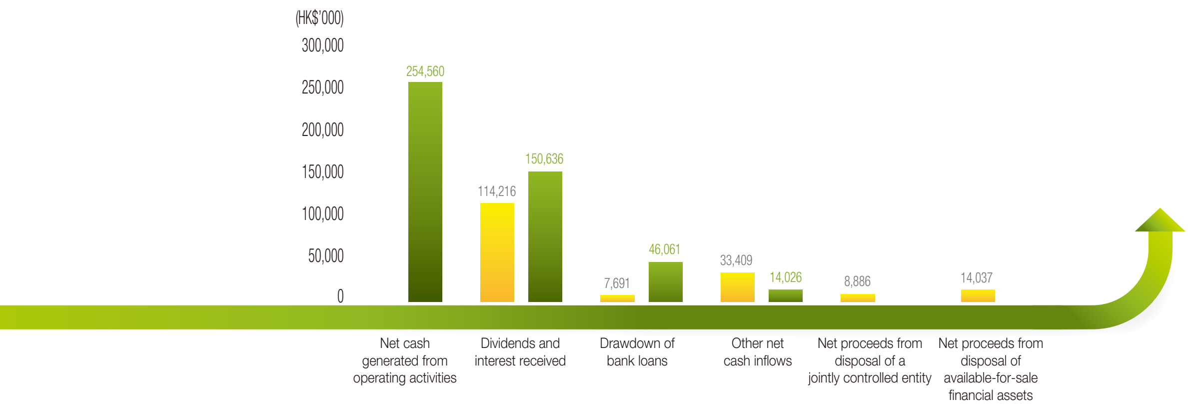
MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS (Continued)

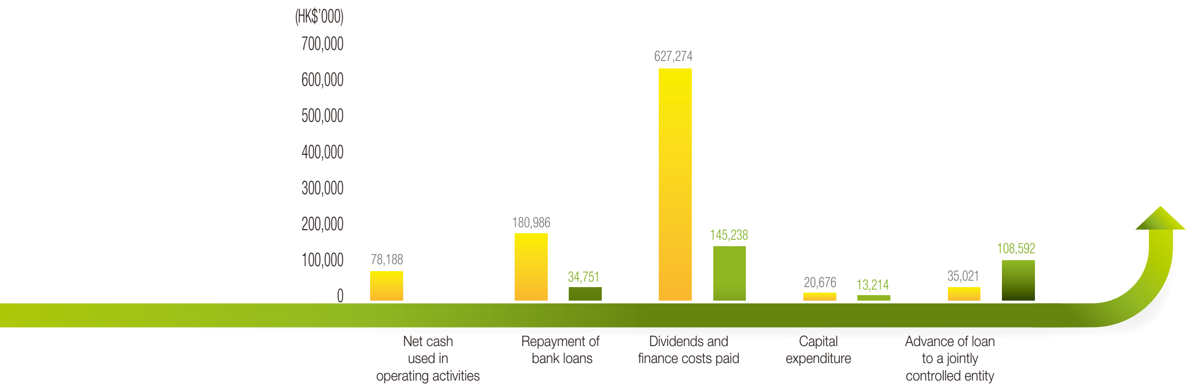
As at 31st December	2012 HK$'000	2011 HK$'000	Change HK$'000	%	Remark
Intangible assets	**97,071**	98,542	(1,471)	(1)	
Property, plant and equipment, prepaid premium for land leases and investment properties	**202,229**	205,476	(3,247)	(2)	
Jointly controlled entities	**416,886**	376,877	40,009	11	
Associates	**79,015**	85,053	(6,038)	(7)	
Other non-current assets	**121,417**	138,827	(17,410)	(13)	
Completed properties held for sale and inventories	**487,450**	665,842	(178,392)	(27)	
Trade and other receivables	**2,288,638**	2,191,709	96,929	4	
Cash (including Non-current deposits, Restricted bank deposits and Current deposits and cash and cash equivalents)	**5,867,112**	5,703,624	163,488	3	1
Other current assets	**57,570**	22,585	34,985	155	
Total assets	**9,617,388**	9,488,535	128,853	1	
Deferred income tax liabilities	**26,689**	20,358	6,331	31	
Trade and other payables	**1,946,155**	2,122,464	(176,309)	(8)	
Current income tax liabilities	**18,195**	31,998	(13,803)	(43)	
Short-term borrowings	**46,205**	34,801	11,404	33	2
Non-controlling interests	**246,023**	187,119	58,904	31	
Total liabilities and non-controlling interests	**2,283,267**	2,396,740	(113,473)	(5)	
Net assets value attributable to shareholders	**7,334,121**	7,091,795	242,326	3	

1 MAJOR SOURCES AND USE OF CASH

CASH INFLOWS



CASH OUTFLOWS

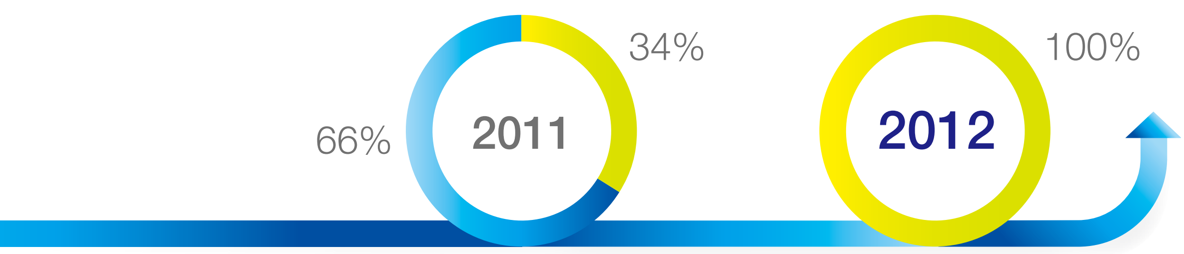


Cash (including non-current deposits, restricted bank deposits and current deposits and cash and cash equivalents) increased by HK$163,488,000 in aggregate during the year. Sources of cash principally included net cash generated from operating activities of HK$254,560,000, dividends and interest received of HK$150,636,000, drawdown of bank loans of HK$46,061,000 and other net cash inflows of HK$14,026,000. Use of cash principally included repayment of bank loans of HK$34,751,000, payment of dividends and finance costs totalling HK$145,238,000, purchase of intangible assets, property, plant and equipment of HK$13,214,000 and advance of loan to a jointly controlled entity of HK$108,592,000.

- 2011
- 2012

2 ANALYSIS OF SHORT-TERM BORROWINGS

DEBT ANALYSIS



Short-term borrowings as at the end of the year increased to HK$46,205,000 mainly due to the working capital requirement of general trading business.

- Bank loans utilised by coatings business
- Bank loans utilised by general trading business

CLASSIFIED BY CURRENCY

- Renminbi
- United Stated dollars

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 Group's 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 2012, deposits and cash and cash equivalents held by the Group accounted for 67% (2011: 66%) of the Group's total current assets.

At 31st December 2012, the Group's total assets increased by 1% to HK$9,617,388,000 (2011: HK$9,488,535,000). Total liabilities decreased by 8% to HK$2,037,244,000 (2011: HK$2,209,621,000). During the year, as the Group implemented series of successful measures on credit management, the Group's trade receivables balance dropped as compared with 2011. As a result of the above successful working capital management measures, the Group's net cash generated from operating activities amounted to HK$254,560,000 (2011: net cash used in operating activities of HK$78,188,000) during the year.

Net assets value attributable to shareholders was HK$7,334,121,000 (2011: HK$7,091,795,000). Net assets value per share was HK$4.85 (2011: HK$4.69), increased by 3% from the end of 2011.

At 31st December 2012, the Group's total bank borrowings increased to HK$46,205,000 (2011: HK$34,801,000), mainly due to the working capital requirement of general trading business. For the maturity profile, please refer to below table. The Group's total cash in hand and committed yet unutilised standby facilities increased by 3% to HK$5,867,112,000 (2011: HK$5,703,624,000) and increased by 3% to HK$1,613,628,000 (2011: HK$1,565,592,000) respectively. Gearing ratio, which represents total borrowings over total assets, was 0.5% (2011: 0.4%).

Both the bank borrowings and the gearing ratio remained at low level since the end of 2011. Due to the provision of funds from the corporate headquarters to the operating units, the use of more costly bank borrowings to support working capital requirement was reduced. Furthermore, the Group was successful in exploring channel of investing liquid funds and secured higher yields through placement of deposits with major financial institutions in the PRC and Hong Kong.

At 31st December 2012, the Group's did not pledge any assets, other than restricted bank deposits, to banks as security for bank credit facilities (2011: nil). In addition, the Group had restricted bank deposits of HK$41,570,000 (2011: HK$36,890,000).

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 2012 HK$'000	**%**	31st December 2011 HK$'000	%
Classified by maturity:				
– repayable within one year	**46,205**	**100**	34,801	100
Classified by type of loan:				
– unsecured	**46,205**	**100**	34,801	100
Classified by currency:				
– Renminbi	**46,205**	**100**	–	–
– United States dollars	**–**	**–**	34,801	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's asphalt trading business experienced fast expansion which required high level of working capital. In view of the gap between borrowing and deposits rates and to utilise our financial resources, the Group provided financial support to major business units to reduce the level of external borrowings.

At 31st December 2012, borrowings of the Group carried interest at rates calculated with reference to the benchmark interest rates announced by the People's Bank of China. The Group will consider using forward foreign exchange contracts to hedge its foreign currency exposure should the need arise.

As to usage of surplus funds, the Group selects suitable financial instruments based on 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 2012, sales to the largest customer and aggregate sales to the five largest customers accounted for 12% and 40% respectively (2011: 13% and 37% respectively) of total revenue of the Group, while purchases from the largest supplier and aggregate purchases from the five largest suppliers accounted for 13% and 43% respectively (2011: 14% and 40% respectively) of the total cost of sales of the Group.

None of the Directors nor their associates has interests in any of the five largest customers and suppliers.

During the year ended 31st December 2012, the largest customer of the Group is a fellow subsidiary of the Company.

During the year ended 31st December 2012, two of the five largest suppliers of the Group are fellow subsidiaries of the Company.

Save as disclosed above, to the knowledge of the Directors, none of the Shareholders owning more than 5% of the Company's shares had interest in the five largest customers and suppliers.

EMPLOYEES

At 31st December 2012, excluding jointly controlled entities and associates, the Group had 782 (2011: 747) employees, of which 112 (2011: 110) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$248,695,000 (2011: HK$229,436,000). 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, the 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, the 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

Facing the complex, volatile and severe market environment, COSCO International advocated "Inheritance, Innovation and Development" as its guiding principle since the beginning of 2012. While ensuring smooth production and operation of its existing businesses, it made every effort to extend and expand its business segments.

BUSINESS REVIEW

In 2012, the pace of global economic recovery remained slow while the economic growth was still in the doldrums. The economic recovery of the United States was slow. Europe was under economic contraction due to the aggravating European debt crisis. The economic growth of emerging economies, including China, slowed down due to the fall in foreign demand and structural adjustments of domestic economy. The operating environment of shipping enterprises and shipyards further deteriorated due to the ongoing depressed shipping freight rates and the ever-rising operating costs resulting from the vain effort to redress the imbalance between supply and demand in the shipping market. Shipping enterprises therefore postponed the delivery schedule of new build vessels and tightened their cost control, thus having negative effect on the Group, which is principally engaged in the provision of shipping services.

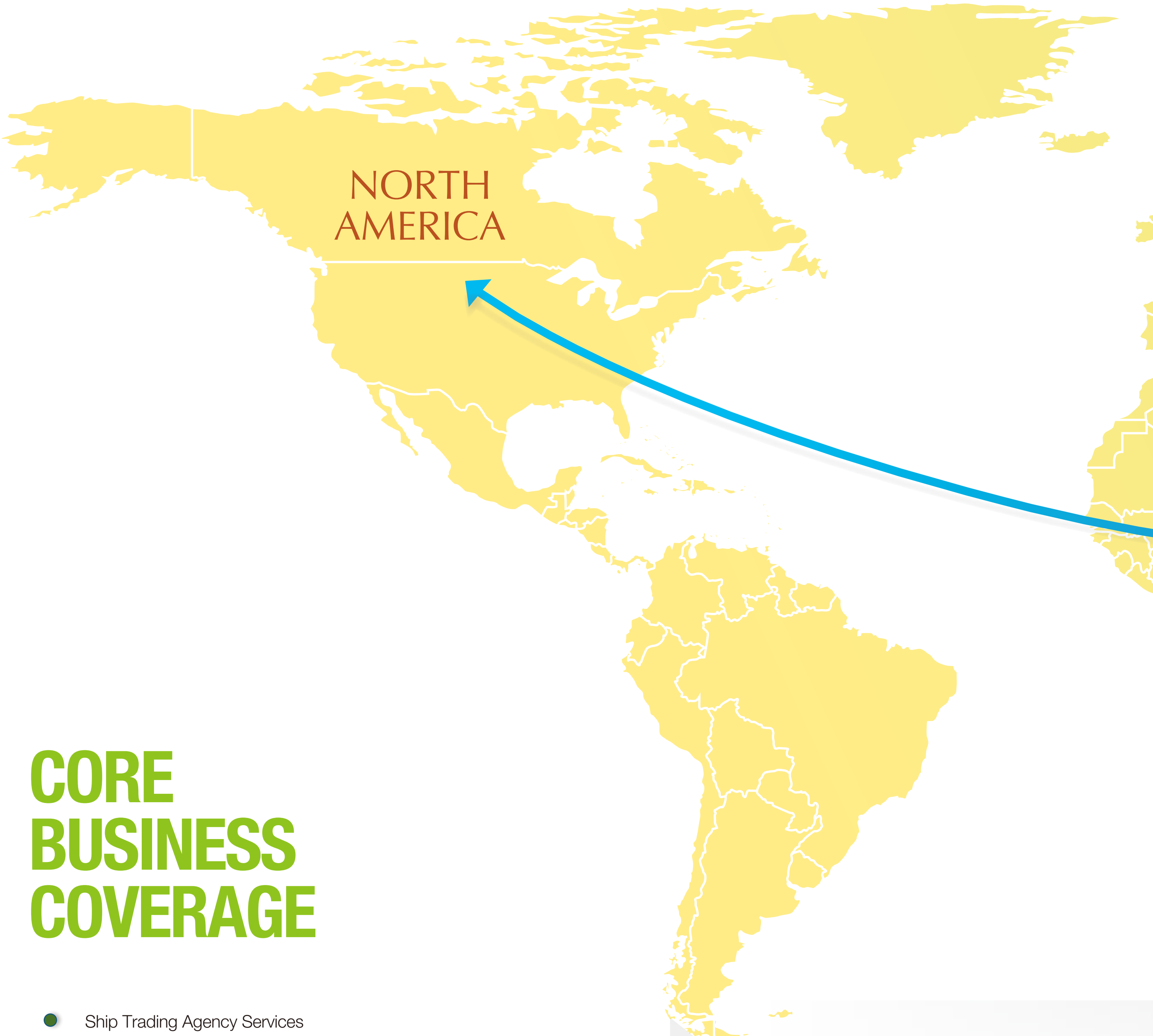
Facing the complex, volatile and severe market environment, COSCO International advocated "Inheritance, Innovation and Development" as its guiding principle since the beginning of 2012. While ensuring smooth production and operation of its existing businesses, it made every effort to extend and expand its business segments. During the year, in addition to stringent cost control and management enhancement, the Group also strengthened its service awareness and spared no effort to maintain its existing customer base. Based on customers' needs, the Group made the corresponding arrangements for the centralised procurement to be implemented by COSCO Group's fleets as to the supply of marine spare parts and marine insurance brokerage. Meanwhile, the Group actively explored the businesses outside the COSCO Group and achieved result to a certain extent. In addition, the Group proactively studied and launched the relevant projects in order to enhance the shipping services business in accordance with its established development strategy.

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. Its major customers include shipowners, ship operators, shipyards and container manufacturers.

During the year, revenue from the Group's shipping services was HK$8,620,568,000 (2011: HK$9,494,319,000), representing a decrease of 9% as compared to 2011. Due to the prolonged weak shipping market, reduced demand for container coatings and stringent cost control by shipping enterprises, there were varying degrees of decline in revenue from all the Group's core shipping services business units. The three largest business segments, namely marine fuel and other products, coatings and marine equipment and spare parts recorded 7%, 21% and 5% decreases in revenue respectively over 2011. Profit before income tax from shipping services was HK$402,705,000 (2011: HK$487,770,000), representing a decrease of 17% as compared to 2011. The decrease was mainly due to the decrease of profit before income tax of the coatings segment and the ship trading agency segment by 31% and 32% respectively as compared to 2011 resulting from their significant fall in revenue.

MANAGEMENT DISCUSSION AND ANALYSIS



CORE BUSINESS COVERAGE

- 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

China:

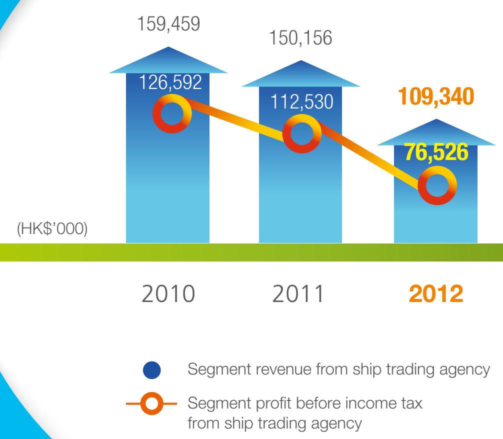
1. Beijing
2. Tianjin
3. Dalian
4. Qingdao
5. Shanghai
6. Guangzhou
7. Shenzhen
8. Hong Kong
9. Zhuhai

Overseas:

10. Singapore
11. Japan

SHIP TRADING AGENCY SERVICES

MANAGEMENT DISCUSSION AND ANALYSIS



1.1 Ship Trading Agency Services

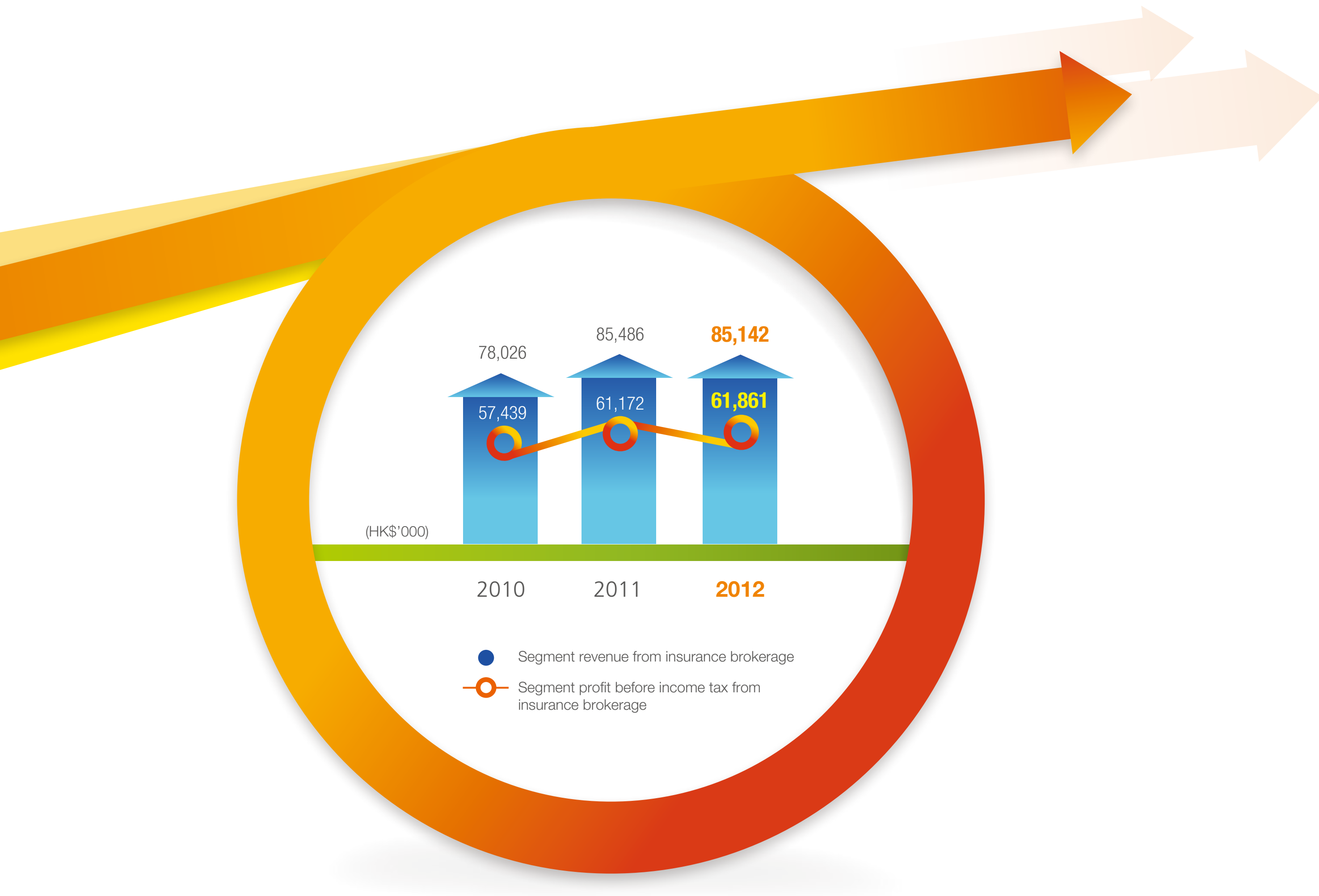
COSCO Ship Trading is principally engaged in the provision of agency services relating to shipbuilding, ship trading and chartering for the fleet of COSCO Group, and is the sole platform for sale and purchase of vessels of COSCO Group. COSCO Ship Trading also provides similar services for shipowners or shipping companies outside COSCO Group. 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.

The commission income of COSCO Ship Trading mainly derives from the commissions recognised on the delivery of new build vessels ordered through it. During the year, the shipping market remained stagnant. Shipowners and shipping companies were pessimistic towards the future. As a result, there were delays in delivery of new build vessels ordered through COSCO Ship Trading. New build vessels aggregating 1,850,000 dead weight tonnages (2011: 2,710,000 dead weight tonnages) ordered through COSCO Ship Trading were delivered during the year. The commissions which may be recognised as income on the delivery of new build vessels dropped as fewer new build vessels were delivered. For the second-hand vessels, completed transactions for the sale and purchase of 28 (2011: 32) second-hand vessels through COSCO Ship Trading were recorded during the year, aggregating 1,068,000 dead weight tonnages (2011: 1,064,000 dead weight tonnages). Facing the declining shipping market, COSCO Ship Trading carried out in-depth market research, enhanced communication with shipping companies and maintained close connections with shipbuilders. While endeavouring to run its existing business well by fully raising service quality, it continued to step up efforts to develop the business and explore business outside COSCO Group actively.

In addition, 4 (2011: 8) new build vessels amounting to 1,232,000 dead weight tonnages (2011: 460,000 dead weight tonnages) were ordered through COSCO Ship Trading during the year. As at 31st December 2012, new build vessels ordered through COSCO Ship Trading amounting to 5,140,000 dead weight tonnages were scheduled for delivery in coming two years.

During the year, revenue from ship trading agency segment decreased by 27% to HK$109,340,000 (2011: HK$150,156,000) as compared to 2011. Segment profit before income tax was HK$76,526,000 (2011: HK$112,530,000), representing a decrease of 32% as compared to 2011.

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 programmes, placing insurance cover, loss prevention and claims handling to various vessels insured worldwide for commissions.

During the year, COSCO Insurance Brokers had paid great effort on negotiating between the shipping companies within COSCO Group and insurance companies. Based on the centralised procurement, they achieved great success in the annual hull and machinery insurance policy renewal work for COSCO Group's fleet. For the consolidation and development of the businesses outside COSCO Group, COSCO Insurance Brokers shifted their focus to new shipping companies of other sizeable state-owned enterprises in response to market trends and changes. As for new businesses, they stepped up efforts to develop offshore units builders' risk insurance and made a breakthrough. Meanwhile, in order to raise customer satisfaction, COSCO Insurance Brokers regularly issued insurance publications containing the latest trends and information about the insurance market, and promoted new business with their quality claim settlement services. Through the implementation of the above arrays of business strategies, COSCO Insurance Brokers maintained a stable commission income from their marine insurance brokerage services.

During the year, revenue from insurance brokerage segment was HK$85,142,000 (2011: HK$85,486,000), flat as compared to 2011. Segment profit before income tax was HK$61,861,000 (2011: HK$61,172,000), represented an increase of 1% as compared to 2011.

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, Shanghai Yuantong and COSCO (Beijing) Marine Electronic) (collectively "COSCO Yuantong Operation Headquarters") 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, Beijing, Japan, Singapore, etc.

During the year, orders from shipowners shrank to varying extents, and the demand for spare parts and materials also declined. In addition, shipping enterprises exercised stricter cost control, which depressed the overall gross profit margin of COSCO Yuantong Operation Headquarters. However, COSCO Yuantong Operation Headquarters expanded the business scale after the implementation of centralised operation model and bargained for more favourable terms from suppliers through its advantage of economies of scale, and successfully reaped greater economic benefits. As for exploring new customers, COSCO Yuantong Operation Headquarters proactively sought new businesses of non-COSCO Group and tapped new profit drivers by establishing market development working teams in Hong Kong and Shanghai offices respectively to promote business of marine equipment, spare parts and new vessel equipment to local customers, which achieved remarkable results. In addition, COSCO Yuantong Operation Headquarters pursued the strategic development of retaining major customers; provided customised professional services on a one-on-one basis and visited them regularly to understand their needs, thus improving the service quality with higher service level and awareness, and earned positive feedback from customers. Meanwhile, in response to the market changes and customers' demand, they innovated their services by adding marine spare part repair service and providing general repair and maintenance plans, raised customer satisfaction and further enhanced the value of its brands.

During the year, revenue from marine equipment and spare parts segment was HK$923,102,000 (2011: HK$970,159,000), down by 5% as compared to 2011. Segment profit before income tax was HK$50,950,000 (2011: HK$64,767,000), representing a decrease of 21% as compared to 2011. This included reversal of provision for impairment of trade receivables of HK$2,628,000 (2011: provision for impairment of trade receivables of HK$4,724,000).

PRODUCTION AND SALE OF COATINGS

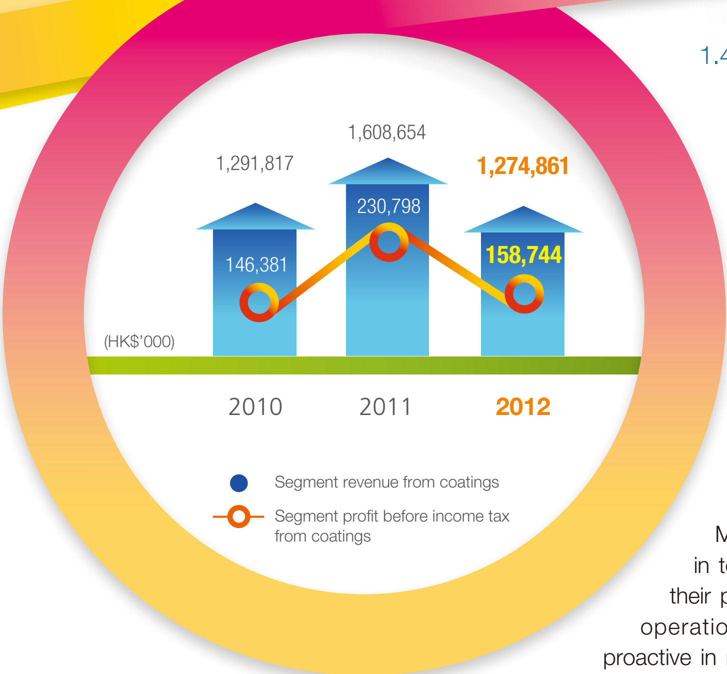
MANAGEMENT DISCUSSION AND ANALYSIS

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

During the year, the demand in the container manufacturing market fell due to the international economic downturn. The cut-throat competition in the container coating market also kept prices low. Under these circumstances, COSCO Kansai Companies maintained their leading position in market share of China's container coating market by strategically selling their products and successfully exploring new customers. In addition, Jotun COSCO, a jointly controlled entity of the Company, benefited from the sustained high volume of new build vessels construction in China, thereby maintaining its leading position in the marine coating market in China. Furthermore, in order to meet the future development needs of the coating business unit and maintain a sound market position in China, the Group pushed forward the construction of new plants of the two joint ventures. At present, the construction of a new plant in Qingdao by Jotun COSCO (Qingdao) was substantially completed and was subject to planning inspection upon receipt, while the relocation of COSCO Kansai (Shanghai)'s plant in Shanghai was underway. A new joint venture company, namely COSCO Kansai Paint (Shanghai) was incorporated during the year and the site for its new plant was confirmed. The studying of and discussion on the design of the new plant were in progress.

During the year, revenue from the coatings segment was HK$1,274,861,000 (2011: HK$1,608,654,000), down by 21% as compared to 2011. The decrease was mainly due to the decrease in sales volume of container coatings and depressing the selling prices. Segment profit before income tax was HK$158,744,000 (2011: HK$230,798,000), representing a decrease of 31% as compared to 2011. The decrease was mainly attributed to the revenue decline.



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 total annual production capacity of 100,000 tonnes.

During the year, COSCO Kansai Companies maintained their leading position in China's container coating market by gaining the trust and support of customers through effective communication and exchange of ideas with container manufacturing enterprises, container owners and container leasing companies and increasing promotion of enterprise brands. Meanwhile, COSCO Kansai Companies increased their investment in technology research and development and continuously enhanced their product quality, thereby gaining favourable support for their future operations and development. COSCO Kansai Companies were also proactive in reacting to and fulfilling their social responsibilities by researching and developing water-based container coatings and promoting the production of environmental friendly products. Success had been achieved in laying a foundation for the future development of water-based container coatings. However, due to the international economic downturn, orders for COSCO Kansai Companies' container coatings substantially declined as reduced demand for containers resulted in decreased demand for container coatings. During the year, the sales volume of container coatings of COSCO Kansai Companies amounted to 46,656 tonnes, representing a decrease of 18% as compared with 56,979 tonnes in 2011.

COSCO Kansai Companies continued to vigorously develop the business of industrial heavy-duty anti-corrosion coatings and proactively formulated their market and sales strategies for various business segments after conducting various project researches on different industries. During the year, COSCO Kansai Companies made achievements in the sectors such as marine works, electrical equipment, petrochemical facilities and bridges, etc., and succeeded in bidding for major bridge projects, thus promoting their business brand image and enhancing their core competitiveness significantly and laying a solid foundation for subsequent major bridge projects. During the year, COSCO Kansai Companies recorded sales volume of industrial heavy-duty anti-corrosion coatings together with workshop primer of 11,670 tonnes (2011: 10,701 tonnes), representing an increase of 9% as compared to 2011.

During the year, the technology centre of COSCO Kansai (Tianjin) was recognised as a "Branch Centre of COSCO Group's National Research and Development Centre" and received its award as Postdoctoral Mobile Workstation from Ministry of Human Resources and Social Security of the PRC. In addition, COSCO Kansai Companies were successively awarded "The Top 10 Anti-Corrosion Coating Brands Awards of China 2011" 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 Mainland China, Hong Kong and Macau Special Administrative Regions. Jotun COSCO, with its sole production plant in Guangzhou, is accelerating the completion of a new coating plant in Qingdao to line up with the production capacity expansion for future development.

During the year, benefiting from the favourable shipbuilding market in China with delivery of numerous new build vessels and the lower raw material prices, Jotun COSCO on one hand seized market opportunities and spared no effort in sales and marketing and customer care so as to raise the number of orders. It, on the other hand, stepped up efforts in promoting products with features of energy saving and reduction of emissions in order to adapt to market needs, and therefore maintained its leading position in China's marine coating market. However, there was decline in new build vessel delivery since the second half of the year. During the year, the sales volume of marine coatings amounted to 84,981,000 litres (equivalent to approximately 114,724 tonnes) (2011: 97,918,000 litres (equivalent to approximately 132,189 tonnes)), representing a decrease of 13% as compared

TRADING AND SUPPLY OF MARINE FUEL AND RELATED PRODUCTS

to 2011. Sales volume of new build vessel coatings amounted to 70,635,000 litres, down by 13% as compared to 2011. Sales volume of coatings for repair and maintenance was 14,346,000 litres, down by 12% as compared to 2011. During the year, the Group's share of profit from Jotun COSCO was HK$38,303,000 (2011: HK$48,677,000), down by 21% as compared to 2011. The decline was attributable to, on one hand, decline in sales volume of Jotun COSCO as compared to 2011 and on the other hand, Jotun COSCO's plan to close its Guangzhou plant and relocate its production line to the new plant in Qingdao in 2013, resulting in various one-off expenses such as severance payments to staff, provision for impairment of fixed assets and project management fees in respect of construction works of the new plant.

In addition, as at 31st December 2012, Jotun COSCO had coating contracts in hand for new build vessels amounting to 24,750,000 dead weight tonnages pending delivery. The coatings were scheduled to be delivered in the coming two years, which guaranteed Jotun COSCO's future business to a certain extent.

1.5 Trading and Supply of Marine Fuel and Related Products

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

During the year, Sinfeng objectively analysed the market situation, adopted sound business strategies, and strictly controlled operational risks by cutting back business dealings with customers with potential risks in response to the deteriorating global economy and the shrinking shipping market. The total sales volume of marine fuel products for the year was 1,200,070 tonnes, down by 12% as compared with 1,370,644 tonnes in 2011. During the year, revenue from the marine fuel and other products segment was HK$6,228,123,000, down by 7% as compared with HK$6,679,864,000 in 2011. In addition, Sinfeng successfully collected all outstanding trade receivables from a customer defaulting

MANAGEMENT DISCUSSION AND ANALYSIS

on trade receivables (including interest arising from overdue payments and legal costs). Therefore, Sinfeng reversed the relevant impairment provision of US$3,823,000 (equivalent to approximately HK$29,654,000).

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$13,796,000 (2011: HK$25,091,000), down by 45% as compared to 2011. Such decrease was attributable to the substantial decrease in Double Rich's investment income as compared to 2011.

Profit before income tax of marine fuel and other products segment was HK$54,624,000 (2011: HK$18,503,000), representing an increase of 195% as compared to 2011. This included reversal of provision for impairment of trade receivables as mentioned above.

2. General Trading

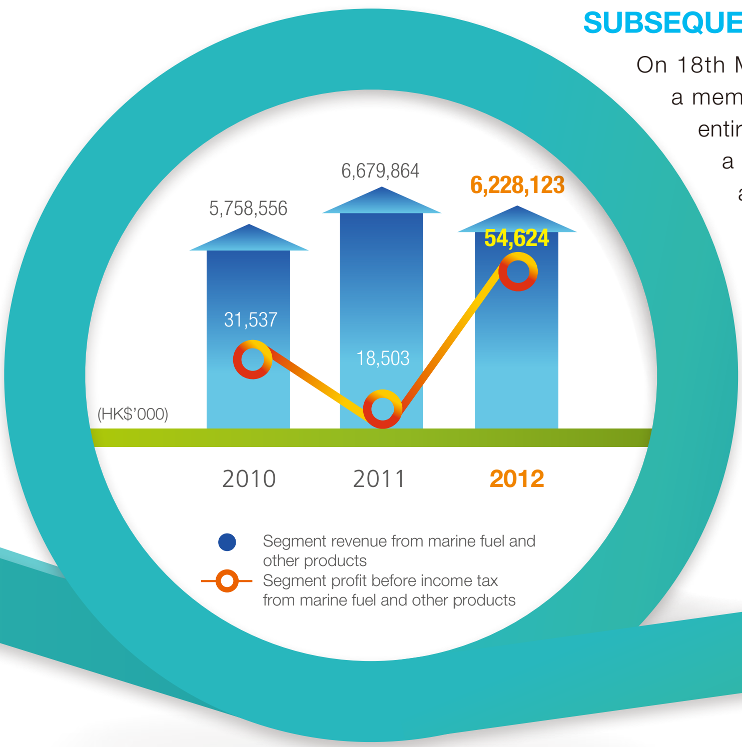
CITC is principally engaged in trading of asphalt, general marine equipment and marine supplies, as well as other comprehensive trading. CITC is familiar with the China market and the market operations and has abundant experience in international trade. It has steady suppliers and stable market share,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

During the year, in the face of fierce market competition, CITC continued to strengthen its position in existing markets and endeavoured to explore the emerging markets. It achieved a market breakthrough in Guangxi by strengthening its cooperation with the strategic partner in Guangxi. Meanwhile, CITC actively enhanced its marketing activities and established a sales network in, among others, Guizhou and Guangxi to enhance its marketing capability. Leveraging its existing business scale and good market reputation, CITC focused on innovating its business models and prepared well for the transformation of its asphalt business by adding the leased warehouses and asphalt processing equipment to its facilities. During the year, the sales volume of asphalt of CITC amounted to 121,454 tonnes, representing a decrease of 3% as compared with 125,102 tonnes in 2011. The decrease was primarily due to delays in the commencement and the settlement of asphalt projects undertaken during the year, some of which were further deferred to 2013. However, CITC made use of the advantage of COSCO International's cash in hand to reduce its external borrowings and thereby substantially reduced finance costs as compared to 2011.

Revenue from general trading segment was HK$1,385,137,000 (2011: HK$1,161,802,000), up by 19% as compared to 2011. Segment profit before income tax increased by 7% as compared to 2011 to HK$15,724,000 (2011: HK$14,688,000, which included gain of HK$4,318,000 on disposal of 50% equity interest in Shanghai Ocean).

SUBSEQUENT EVENT

On 18th March 2013, COSCO Europe and Yuantong entered into a memorandum in relation to the acquisition by Yuantong of the entire issued share capital of Hanyuan from COSCO Europe for a consideration of not more than EUR1,200,000 (equivalent to approximately HK$12,012,000) (the "Proposed Acquisition"). The memorandum is not legally binding and the Proposed Acquisition is subject to a share purchase agreement to be discussed and entered into between relevant parties, details of which were disclosed in the announcement of the Company dated 18th March 2013.



INNOVATION

The Board 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 Company aims to continually review and enhance its corporate governance practices in light of local and international best practices.

Focus on our

CORE VALUE AND ENHANCE OUR CORPORATE GOVERNANCE PRACTICES

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTOR

Mr. Ye Weilong

(Chairman)

aged 50, has been Executive Director and Chairman of the Board of the Company since February 2012. He is also chairman of the board of COSCO Shipping Co., Ltd. (listed in the PRC), non-executive director of China COSCO Holdings Company Limited (listed in Hong Kong and the PRC), and deputy general manager of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), chairman of Chinese-Tanzanian Joint Shipping Company and COSCO West Asia FZE and director of Golden View Investment Limited. 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 shipping industry, corporate operation management, international cargo transportation as well as the strategic operation and management of modern logistics. He obtained a Master's degree in Business Administration from the MBA program jointly held by 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 59, has been Executive Director and Vice Chairman of the Board of the Company since February 2012 and is chairman of Strategic Development Committee and Risk Management Committee of the Company. Mr. Zhang is director of two subsidiaries of the Company, 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.

WE ARE COMMITTED TO MOVING THE COMPANY FORWARD

Mr. Wang Wei

aged 41, has been Non-executive Director of the Company since April 2012. He is also non-executive director of COSCO Pacific Limited (listed in Hong Kong), director of COSCO Shipping Co., Ltd. (listed in the PRC), director of COSCO (Hong Kong) Group Limited, general manager of Organisation Division/Human Resources Division of China COSCO Holdings Company Limited, Supervisor of the State-owned Enterprise Supervisory Committee appointed by the State-owned Assets Supervision and Administration Commission of the State Council to 中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company). Mr. Wang joined COSCO Group since 1995 and 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.

Mr. Wu Shuxiong

aged 58, has been Non-executive Director of the Company since April 2012 and is member of Risk Management Committee of the Company. He is also director and 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 58, has been Executive Director of the Company since April 2012 and is member of Strategic Development Committee and Risk Management Committee of the Company. Mr. He is non-executive director of Chong Hing Bank Limited (listed in Hong Kong) and director and financial controller of COSCO (Hong Kong) Group Limited. Mr. He was the executive director of the Company during 2003 to 2006, the executive director of COSCO Pacific Limited (listed in Hong Kong) until his resignation in March 2013, 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.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Zhengjun

(Managing Director)

aged 57, has been Executive Director and Managing Director of the Company since July 2012, and is chairman of Corporate Governance Committee, member of Remuneration Committee, Nomination Committee, Strategic Development Committee and Risk Management Committee of the Company. Mr. Xu leads overall management and operation, strategic development, corporate governance, legal and financial management of the Company. Mr. Xu is director of subsidiaries of the Company, director, vice president and chief legal consultant of COSCO (Hong Kong) Group Limited and director of True Smart International Limited. He had been the section chief and the head of department of Shanghai Ocean Shipping Company, the general manager of crew company and land property company, which were the subsidiaries of COSCO Container Lines Co., Ltd., the assistant to general manager of COSCO Container Lines Co., Ltd., the general manager of Shanghai Ocean Shipping Company, a member of the leading team of COSCO Container Lines Co., Ltd. in charge of audit and supervision affairs, the managing director of COSCO (H.K.) Industry & Trade Holdings Limited and the director and vice chairman of Shenzhen Guangju Energy Co., Ltd. (listed in the PRC) until his resignation in March 2013. Mr. Xu has extensive experience in corporate management and onshore industries. Mr. Xu obtained postgraduate degree in Maritime Transportation Management from Shanghai Maritime University and is a senior political officer.

Mr. Tsui Yiu Wa, Alec

aged 63, has been Independent Non-executive Director of the Company since February 2004 and is chairman of Nomination Committee, member of Audit Committee, Remuneration Committee and Corporate Governance Committee of the Company. Mr. Tsui is also chairman of WAG Worldsec Corporate Finance Limited, director of Industrial and Commercial Bank of China (Asia) Limited (previously listed in Hong Kong and delisted in December 2010). He is also independent non-executive director of a number of listed companies in Hong Kong, namely, China Power International Development Limited, China Chengtong Development Group Limited, Pacific Online Limited, China Oilfield Services Limited (also listed in the PRC), Summit Ascent Holdings Limited, Melco Crown Entertainment Limited (also listed on NASDAQ) as well as independent director of certain companies listed overseas including ATA Inc. (listed on NASDAQ) and Melco Crown (Philippines) Resorts Corporation (formerly known as Manchester International Holdings Unlimited Corporation) (listed in the Republic of Philippines). 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, Greentown China Holdings Limited until his retirement in June 2010, China Huiyuan Juice Group Limited until his resignation in July 2010 and China BlueChemical Ltd. until his retirement in June 2012.

Mr. Jiang, Simon X.

aged 59, has been Independent Non-executive Director of the Company since April 2007 and is chairman of Remuneration Committee, member of Audit Committee, Nomination Committee and Corporate Governance Committee of the Company. He is also chairman of Cyber City International Limited, independent non-executive director of SPG Land (Holdings) Limited (listed in Hong Kong) and China Petroleum & Chemical Corporation (listed in Hong Kong and the PRC). 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 71, has been Independent Non-executive Director of the Company since June 2011 and is chairman of Audit Committee, member of Remuneration Committee, Nomination Committee and Corporate Governance Committee of the Company. Mr. Hamilton is also 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 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.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

The Directors' interests in shares and underlying shares of the Company and its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as at 31st December 2012 are disclosed in the section headed "DIRECTORS' INTERESTS IN SECURITIES" of the Directors' Report.

Mr. Xu Zhengjun is director of True Smart International Limited ("True Smart") and director, vice president and chief legal consultant of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"). Mr. Zhang Liang is director, executive vice chairman and president of COSCO Hong Kong, Mr. Wu Shuxiong is director and executive vice president of COSCO Hong Kong, Mr. Wang Wei is director of COSCO Hong Kong and Mr. He Jiale is director and financial controller of COSCO Hong Kong. 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" 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 1st April 2013.

Each of the Directors referred to under "PROFILE OF DIRECTORS AND SENIOR MANAGEMENT" has entered into a letter of appointment with the Company, details of which are disclosed under section headed "DIRECTORS' SERVICE CONTRACTS" of the Directors' Report.

The Directors referred to under "PROFILE OF DIRECTORS AND SENIOR MANAGEMENT" (except (i) Non-executive Directors and (ii) Mr. Ye Weilong and Mr. He Jiale being Executive Directors) received 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. The details of the emoluments of the Directors for the year ended 31st December 2012 on a named basis are disclosed in note 29(a) to the financial statements.

SENIOR MANAGEMENT

Mr. Lin Wenjin

aged 54, has been Deputy General Manager of the Company since March 2006. He is also 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, the deputy general manager of Development Division and Strategic Planning Division, the managing director of Executive Division of COSCO (Hong Kong) Group Limited and the executive director of the Company. 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. Tong Changbing

aged 48, has been Deputy General Manager of the Company since July 2011. He is also director of a subsidiary of the Company. 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 Limited. 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. Wang Jianping

aged 58, has been Deputy General Manager of the Company since August 2012. He is also director of subsidiaries of the Company. Mr. Wang is in charge of corporate management and coating business of the Company. Mr. Wang graduated in International Shipping from Shanghai Maritime University (formerly known as Shanghai Maritime College) and was awarded the senior economist qualification by the Ministry of Communications of the PRC. He had been the general manager of China Ocean Shipping Agency Ltd., Zhanjiang, the deputy general manager of China Ocean Shipping Agency Ltd. head office, the deputy general manager of COSCO Guangzhou International Freight Co. Ltd., logistics director and deputy general manager of COSCO Logistics (Guangzhou) Co., Ltd. (China Ocean Shipping Agency Ltd., Guangzhou), the general manager of COSCO Logistics (Xiamen) Co., Ltd. (China Ocean Shipping Agency Ltd., Fujian) and COSCO Logistics (Qingdao) Co., Ltd. (China Ocean Shipping Agency Ltd., Qingdao) and also served as the chairman of several joint ventures and associate companies. Mr. Wang is familiar to the basic-level operation and shipping services, and has extensive experience in modern logistics, shipping agency, freight forwarding and corporate management.

Mr. Lo Siu Leung, Tony

aged 49, has been 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 46, has been 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. Xu Baoqi

aged 53, joined the Company in May 2012. He is Assistant to Managing Director of the Company and director of subsidiaries of the Company. Mr. Xu graduated from Dalian Maritime University and obtained his Master's degree of Business Administration from the Chinese University of Hong Kong. Mr. Xu joined COSCO Group in 1980 and served as a ship radio operator of COSCO Group, deputy manager of Communications and Navigation Department, deputy director of General Office, deputy manager of Research & Development Department of Technology Centre and manager of Labour and Onshore Safety Management Office of Safety and Technology Supervision Department of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company). Mr. Xu was a member of Communications and Navigation Committee of the China Institute of Navigation. He has senior engineer qualification in marine technology/safety management. Mr. Xu has worked in ship technology management and corporate safety management, and he has extensive experience in corporate management.

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 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 a Director 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 2012, 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.

The Company also maintains an employee handbook providing guidance to employees on matters such as 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 management, appropriate appraisal mechanisms, and the granting of share options, the Company has been able to align the interests of the 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.

The Company had applied the principles and complied with all the applicable code provisions and, where appropriate, the applicable recommended best practices of the Code on Corporate Governance Practices (the "CG Code") and the Corporate Governance Code (the "New CG Code") as set out in Appendix 14 to the Listing Rules during the period from 1st January 2012 to 31st March 2012 and the period from 1st April 2012 to 31st December 2012 respectively except Mr. Alexander Reid Hamilton, the Independent Non-executive Director, was unable to attend the annual general meeting of the Company held on 31st May 2012 due to urgent personal matter.

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

Board Composition

In accordance with Rule 3.10A of the Listing Rules, issuer should appoint independent non-executive directors representing at least one-third of the board. In view of this, the Nomination Committee had reviewed the board composition at the beginning of 2012. After careful consideration, the Board made a corresponding adjustment on its structure in April 2012. Upon the completion of the restructuring, the number of Independent Non-executive Directors represented one-third of the Board.

The Board currently comprises nine Directors, namely, Mr. Ye Weilong (Chairman), Mr. Zhang Liang (Vice Chairman), Mr. He Jiale and Mr. Xu Zhengjun (Managing Director) as Executive Directors; Mr. Wang Wei and Mr. Wu Shuxiong as Non-executive Directors; and Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton as Independent Non-executive Directors, whose biographical details are set out in "PROFILE OF DIRECTORS AND SENIOR MANAGEMENT" and also available on the Company's website. There is no financial, business, family or other material/relevant relationships between Board members. The names of Executive Directors (including the Chairman, the Vice Chairman and the Managing Director), Non-executive Directors and Independent Non-executive Directors are disclosed by category in all corporate communications. In addition, an updated list of the Directors by category identifying their role and function is published on the websites of the Stock Exchange and the Company respectively.

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.

Annual written confirmation from each of Independent Non-executive Directors confirming his independence in accordance with Rule 3.13 of the Listing Rules was received by the Company. The Board has assessed their independence and considers that all the Independent Non-executive Directors are independent based on the independence criteria in accordance with the requirement of the Listing Rules contained in the confirmation letter and the non-involvement of Independent Non-executive Directors in the daily operation and management of the Group and the absence of any relationship which will interfere with the exercise of their independent judgment.

Chairman and Managing Director

The position of the Chairman, the Vice Chairman and the Managing Director are currently held by Mr. Ye Weilong, Mr. Zhang Liang and Mr. Xu Zhengjun 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 implementing strategic plans and formulating the organisational structure, control systems and internal procedures of the Company 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.

In addition, the Chairman is responsible for leading the Board and ensuring that the Board functions properly and acts in the best interests of the Company with good corporate governance practices and procedures, and discusses all key and appropriate issues in a timely manner. He also ensures Board members are given timely adequate, accurate, complete and reliable information.

Meeting between the Chairman and Non-executive Directors (including Independent Non-executive Directors) without Executive Directors presence, held at least once a year. Such meeting was held in March 2012. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters were openly discussed.

Responsibilities of Directors

Non-executive Directors are well aware of their functions and have been actively performing their functions including but not limited to bringing an independent judgment at the Board meeting, taking the lead where potential conflicts of interests arise and scrutinising the Company's performance. Independent Non-executive Directors serve as member of Board Committee(s), details of which are set out in the sub-section of "Board Committees" under the section "DELEGATION BY THE BOARD" of this report. Non-executive Directors (including Independent Non-executive Directors) have from time to time 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. There were satisfactory attendance and active participation at the Board meetings, the Board Committee meetings and the general meetings by the Directors. Details of the Directors' attendance at the annual general meeting, Board meetings and Board committee meetings during the year are set out in the table under the sub-section of "Attendance" below. In addition, each of the Directors had regularly confirmed or updated their other directorships held in public companies or organisations during the year.

All Directors are entitled to seek independent professional advice, if necessary, at the Company's expense and Directors' and Officers' Liabilities Insurance cover in respect of legal actions against the Directors and officers arising out of corporate activities has been arranged and reviewed annually.

Appointment and Re-election

The Company has established Nomination Committee in March 2005. Director Appointment Policy was adopted 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. Any nomination of directors will be reviewed and assessed by Nomination Committee for his suitability on the basis of the background, experience, professional skill, nature of existing positions held and ability to commit time and effort to carry out his duties and responsibilities effectively. Suitable candidates will be recommended by Nomination Committee to the Board for consideration of appointment. 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. Any further re-appointment of an Independent Non-executive Director, who has served the Board for more than nine years, will be subject to a separate resolution to be approved by the Shareholders. All the current Directors (including Non-executive Directors) were appointed for a specific term and letters of appointment setting

CORPORATE GOVERNANCE REPORT

out the key terms and conditions of appointment were entered into between the Company and the Directors. Details of the terms of appointment of the current Non-executive Directors are as follows:

a) Each of Mr. Wang Wei and Mr. Wu Shuxiong, being the Non-executive Directors, has entered into a letter of appointment with the Company on 10th April 2012 for a term commencing from 10th April 2012 to the conclusion of the 2014 annual general meeting of the Company; and

b) Each of Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton, being the Independent Non-executive Directors, has entered into a letter of appointment with the Company on 19th June 2012 for a term commencing from 31st May 2012 to the conclusion of the 2014 annual general meeting of the Company.

In order to enable the Shareholders making 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 2011.

Induction and Continuous Professional Development

The newly appointed Director will receive a comprehensive information package containing an introduction to the operations and businesses of the Group, the Director's responsibilities and duties and other statutory requirements upon the appointment. The Company Secretary is responsible to update Directors on the latest developments and changes to the Listing Rules and the applicable regulatory requirements regarding subjects necessary for discharge of their duties.

In accordance with the code provision regarding continuous professional development of the directors which came into effect on 1st April 2012, all the current Directors and the then Directors namely, Mr. Jia Lianjun, Mr. Liang Yanfeng, Mr. Wang Xiaodong, Mr. Meng Qinghui, Mr. Chen Xuewen and Mr. Lin Wenjin, have actively participated in the continuous professional development by way of attending workshops and/or internal seminars and/or reading materials. In addition, the Company devotes much attention to the Director's training. A workshop was organised for the Directors on the Listing Rules and Securities and Futures Ordinance (the "SFO"), including the amendments to the SFO in relation to the disclosure of inside information, Corporate Governance Code amendment in 2012 and securities transactions by directors and related disclosure requirements in November 2012.

Board Proceedings

The Board met regularly and held four regular meetings in 2012. Notice of meeting was sent to the Directors at least 14 days prior to each regular Board meeting. The Company Secretary assisted the Chairman to prepare the agenda of the regular Board meetings and the Directors were invited to include any matters which they thought appropriate in the agenda for regular Board meetings. Agenda and board papers with adequate information were sent to all Directors at least 3 days (generally at least 7 days) before the meeting in order to ensure that they had sufficient time to review the board papers and be adequately prepared for the meeting. At each regular Board meeting, the Directors were properly briefed on the Company's current situation and issues arising at the Board meetings. Executive Director(s) and/or Board Committee chairman and/or the senior management made report to the Board on various aspects, including the business performance, financial performance, corporate governance, risk management and internal control, etc. Queries raised by the Directors were responded promptly by the senior management. Directors were encouraged to make an active contribution to the Board's affairs and express their views and concerns. Sufficient time was allowed for the Directors to discuss matters about which they were concerned. For Director who was unable to attend the regular Board meeting, he was properly briefed the matters to be discussed in advance and his view expressed prior to the meeting was reported to the Board.

The Board is always provided with adequate, accurate, complete and reliable information on the Company's operation in a timely manner through monthly reports, financial reports, business operation reports, business plan and financial budgets on a regular basis so as to enable the Board to make informed decisions for the benefit of the Company.

Minutes of the Board meetings (including minutes of all Board Committee meetings) kept by the Company Secretary are available for Directors' inspection at the Company's principal office. Minutes of the Board meetings and the Board Committee meetings were recorded in detail and were sent to the Directors and Board Committee members respectively 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 or relevant Board Committee members for records.

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 with the presence of Independent Non-executive Directors instead of by way of circulation.

Attendance

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

Directors \ Meeting	Annual General Meeting	Board	Audit Committee ("AC")	Remuneration Committee ("RC")	Nomination Committee ("NC")	Executive Committee* ("EC")	Investment Committee* ("IC")	Risk Management Committee ("RMC")	Corporate Governance Committee# ("CGC")	Strategic Development Committee* ("SDC")
Executive Directors										
Mr. Ye Weilong Note (1)	1/1	4/4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Zhang Liang Note (2)	1/1	4/4	N/A	N/A	N/A	1/1	2/2	1/1	N/A	0/0
Mr. He Jiale Note (3)	1/1	3/3	N/A	N/A	N/A	1/1	2/2	1/1	N/A	0/0
Mr. Xu Zhengjun Note (4)	0/0	2/2	N/A	1/1	1/1	1/1	0/0	1/1	0/0	0/0
Non-executive Directors										
Mr. Wang Wei Note (5)	1/1	3/3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Wu Shuxiong Note (6)	1/1	3/3	N/A	N/A	N/A	N/A	N/A	0/0	N/A	N/A
Independent Non-executive Directors										
Mr. Tsui Yiu Wa, Alec Note (7)	1/1	4/4	3/3	4/4	4/4	N/A	N/A	N/A	0/0	N/A
Mr. Jiang, Simon X. Note (7)	1/1	4/4	3/3	4/4	4/4	N/A	N/A	N/A	0/0	N/A
Mr. Alexander Reid Hamilton Note (7)	0/1	3/4	3/3	4/4	4/4	N/A	N/A	N/A	0/0	N/A
Ex-Directors										
Mr. Zhang Fusheng Note (1)	0/0	0/0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Wang Futian Note (8)	0/0	0/0	N/A	N/A	N/A	0/0	0/0	0/0	N/A	N/A
Mr. Liang Yanfeng Note (9)	0/0	1/1	N/A	N/A	N/A	0/0	0/0	0/0	N/A	N/A
Mr. Wang Xiaodong Note (10)	1/1	2/2	N/A	2/3	2/3	0/0	2/2	0/0	N/A	N/A
Mr. Lin Wenjin Note (11)	0/0	1/1	N/A	1/1	N/A	0/0	0/0	N/A	N/A	N/A
Mr. Jia Lianjun Note (12)	0/0	1/1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Meng Qinghui Note (12)	0/0	1/1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Chen Xuewen Note (12)	0/0	0/1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* EC and IC were merged and thereafter renamed as SDC on 30th November 2012. SDC meeting was held in March 2013 to discuss the strategic development plan for 2013 submitted by the Strategic Investment Department after the merger of EC and IC.

\# CGC was established on 30th November 2012 to take up the original corporate governance functions of the Board. The Board had in August 2012 reviewed the Company's compliance with the CG Code and the New CG Code for the period from 1st January 2012 to 31st March 2012 and the period from 1st April 2012 to 30th June 2012 respectively. Subsequent to the establishment of CGC on 30th November 2012, a meeting was held in March 2013 to review the training and continuous professional development of Directors, the Company's compliance with the New CG Code for the period from 1st July 2012 to 31st December 2012 and the disclosure in the Corporate Governance Report of this annual report.

Notes

(1) On 24th February 2012, Mr. Ye Weilong was appointed as Executive Director and Chairman and Mr. Zhang Fusheng resigned as Executive Director and Chairman.

(2) Mr. Zhang Liang was appointed as Executive Director and Vice Chairman on 24th February 2012. On the same day, he was appointed as committee member of each of EC, IC and RMC. Subsequently, he was appointed as committee chairman of each of EC and RMC on 10th April 2012 and as committee chairman of SDC on 30th November 2012. He ceased to be committee chairman of EC and committee member of IC upon renaming the merged EC and IC as SDC on 30th November 2012.

(3) Mr. He Jiale was appointed as Executive Director on 10th April 2012. On the same day, he was appointed as committee chairman of IC and committee member of each of EC and RMC. Subsequently, he was appointed as committee member of SDC on 30th November 2012. He ceased to be committee chairman of IC and committee member of EC upon renaming the merged EC and IC as SDC on 30th November 2012.

(4) Mr. Xu Zhengjun was appointed as Executive Director and Managing Director on 12th July 2012. On the same day, he was appointed as committee member of each of RC, NC, EC, IC and RMC. Subsequently, he was appointed as committee chairman of CGC and committee member of SDC on 30th November 2012. He ceased to be the committee member of each of EC and IC upon renaming the merged EC and IC as SDC on 30th November 2012.

(5) Mr. Wang Wei was appointed as Non-executive Director on 10th April 2012.

(6) Mr. Wu Shuxiong was appointed as Non-executive Director on 10th April 2012. Subsequently, he was appointed as committee member of RMC on 30th November 2012.

(7) Each of Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton was appointed as committee member of CGC on 30th November 2012.

(8) Mr. Wang Futian resigned as Executive Director and Vice Chairman on 24th February 2012 and accordingly ceased to be committee member of each of EC, IC and RMC.

(9) Mr. Liang Yanfeng resigned as Executive Director on 10th April 2012 and accordingly ceased to be committee chairman of IC and committee member of each of EC and RMC.

(10) Mr. Wang Xiaodong resigned as committee chairman of each of EC and RMC but remained as committee member of each of EC and RMC on 10th April 2012. Subsequently, he resigned as Executive Director and Managing Director on 12th July 2012 and accordingly ceased to be committee member of each of RC, NC, EC, IC and RMC.

(11) Mr. Lin Wenjin resigned as Executive Director on 10th April 2012 and accordingly ceased to be committee member of each of RC, EC and IC.

(12) Each of Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen resigned as Non-executive Director on 10th April 2012.

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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 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 the Company's operational strategies, management policies, internal control and risk management systems to ensure the Company's businesses are properly operated and managed, to review the Company's policies and practices on corporate governance, to set the objectives and targets with a view to enhance the Shareholders' value to the management and to monitor performance of the management and provide guidance to the management. 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, including evaluating businesses and operation performance, ensuring effective implementation of the Board's decisions, ensuring adequate fundings and monitoring performance of the management of the subsidiaries of the Company. The Managing Director and the senior management meet together basically on a weekly basis to review, discuss and make decisions on financial and operational matters in order to enhance and strengthen departmental communications and cooperation within the Group. The delegated functions and work tasks are periodically reviewed.

Board Committees

The Board delegates its power and authorities from time to time to the Board Committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. To safeguard the interests of the Shareholders, the Board established Audit Committee in 1998. In addition, Remuneration Committee and Nomination Committee had been established in March 2005 in order to oversee the remuneration policy and board structure. Meanwhile, in order to cope with the business management needs, Executive Committee, Investment Committee and Risk Management Committee had also been established by the Board in March 2005 to monitor the risks associated with the business strategies, assess and minimise the investment and strategic risk. Each of the Board Committees has its specific duties and authorities setting out in its own terms of reference. However, the Board attaches importance to the Board Committee structure which is subject to regular review. In order to optimise the Board Committee structure and enhance their efficiency, the Board resolved on 30th November 2012 to enhance the structure and function of the Board Committees, including merging Executive Committee and Investment Committee, and thereafter renaming as Strategic Development Committee; establishing Corporate Governance Committee to take up the corporate governance function originally vested in the Board; and enhancing the risk management function. Currently, the Board has six Committees, including Audit Committee, Remuneration Committee, Nomination Committee, Corporate Governance Committee, Risk Management Committee and Strategic Development Committee.

Written terms of reference of the above Committees, which are in line with the New CG Code, of which the terms of reference of Audit Committee, Remuneration Committee and Nomination Committee are available on the website of each of the Stock Exchange and the Company. Besides, the written terms of reference of other existing Committees, including Corporate Governance Committee, Risk Management Committee and Strategic Development Committee, are available on the website of the Company. The chairmen of the Board Committees report regularly to the Board their work, findings and recommendations in accordance with the terms of reference. All Board Committees are provided with accurate and sufficient information in timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties and may have access to external professional advice if considered necessary at the Company's expense.

Audit Committee

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;
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board; and
- acting 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 Company has adopted a Whistleblowing Policy (available on the Company's website) in September 2008 under which employees of the Company have been provided a channel and guidelines 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 would review the complaint and decide how the investigation should proceed. Up till now, no complaint from the employees of the Company was received.

The Audit Committee currently comprises all Independent Non-executive Directors, namely, Mr. Alexander Reid Hamilton (chairman) who is a certified public accountant, Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X.. Except Mr. Alexander Reid Hamilton 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.

During the year, Audit Committee held three meetings with the external auditor and the senior management of the Company, in March, August and November 2012 respectively. The major works performed by Audit Committee in 2012 included:

- reviewing and making recommendations for the Board's approval on the draft annual report 2011, the audited consolidated financial statements for the year ended 31st December 2011, the draft interim report 2012 and the unaudited consolidated financial statements for the period ended 30th June 2012;
- 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 2011 and the period ended 30th June 2012;
- reviewing the cash flow forecast and financial budget for the year of 2012;
- making recommendations to the Board, subject to the Shareholders' approval at the annual general meeting, the re-appointment of PricewaterhouseCoopers as the external auditor of the Company;
- reviewing the internal audit plan for 2013 and external audit plan for the year ending 2012; 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.

Subsequent to the review by Audit Committee in March 2012 in relation to the resources of staff of the Company's accounting and financial reporting function, the chairman of Audit Committee reported to the Board the findings of the review. The Board endorsed the recommendations made by Audit Committee and believed that the Company has sufficient resources of staff and training on the accounting and financial reporting function.

Remuneration Committee

The main duties of Remuneration Committee include:

- making recommendations to the Board on the policy for the remuneration of the Company;
- ensuring the remuneration offered is appropriate for the duties and in line with market practice;
- determining the remuneration packages of individual Executive Directors and senior management with delegated responsibility by the Board; and
- making recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee will consult the Chairman or the Vice Chairman the proposals relating to the remuneration of other Executive Directors, if any.

The Remuneration Committee currently comprises three Independent Non-executive Directors, namely, Mr. Jiang, Simon X. (chairman), Mr. Tsui Yiu Wa, Alec and Mr. Alexander Reid Hamilton; and an Executive Director, namely, Mr. Xu Zhengjun.

During the year, Remuneration Committee held four meetings in February, May, July and August 2012 to review the Directors' fees of Independent Non-executive Directors with reference to the market survey, to approve the annual salary of the Executive Director and Vice Chairman; the Executive Director and Managing Director; and to approve the remuneration report of the Group respectively.

Emoluments paid to each Director and the senior management by band for the year are disclosed in note 29 to the financial statements of this annual report.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The main duties of Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- monitoring the appointment and succession planning of the Directors;
- assessing the independence of Independent Non-executive Directors; and
- monitoring the annual checks and assessment on the members of the Board, including the suitability and the sufficiency of time commitment of Non-executive Directors.

The Nomination Committee currently comprises three Independent Non-executive Directors, namely, Mr. Tsui Yiu Wa, Alec (chairman), Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton; and an Executive Director, namely, Mr. Xu Zhengjun.

During the year, Nomination Committee held four meetings in January, April, July and October 2012 respectively. The major works performed by Nomination Committee in 2012 included:

- recommending the appointment of Mr. Ye Weilong as Executive Director and Chairman and the appointment of Mr. Zhang Liang as Executive Director and Vice Chairman;
- recommending the appointment of Mr. Wang Wei and Mr. Wu Shuxiong as Non-executive Directors and the appointment of Mr. He Jiale as Executive Director;
- recommending the appointment of Mr. Xu Zhengjun as Executive Director and Managing Director;
- reviewing a report on review of the composition of the Board, assessment on the independence of Independent Non-executive Directors and assessment on the contribution of Board members; and
- recommending the directors' re-election arrangement at 2013 annual general meeting of the Company.

Executive Committee

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

Before Executive Committee was merged with Investment Committee and renamed as Strategic Development Committee on 30th November 2012, Executive Committee comprised three Executive Directors, namely, Mr. Zhang Liang (chairman), Mr. He Jiale and Mr. Xu Zhengjun.

During the year, Executive Committee held a meeting in November 2012 to review the business operations, strategic development and performance of safety production for the period from January to October 2012.

Investment Committee

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

Before Investment Committee was merged with Executive Committee and renamed as Strategic Development Committee on 30th November 2012, Investment Committee comprised three Executive Directors, namely, Mr. He Jiale (chairman), Mr. Zhang Liang and Mr. Xu Zhengjun.

During the year, Investment Committee held two meetings in April and May 2012 respectively in relation to the establishment of COSCO Kansai Paint (Shanghai) and purchase of industrial land for the factory rebuilt and relocated in Shanghai; and the increase of registered capital of SZ COSCO Insurance Brokers.

Risk Management Committee

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.

The Risk Management Committee currently comprises three Executive Directors, namely, Mr. Zhang Liang (chairman), Mr. He Jiale and Mr. Xu Zhengjun; and a Non-executive Director, namely, Mr. Wu Shuxiong.

During the year, Risk Management Committee held a meeting in November 2012 to discuss the risk management report for 2012 submitted by Internal Audit Department. The report was about the analysis on credit risk management, procurement risk management and hedging risk management and the risk management plan for 2013.

Corporate Governance Committee

The Corporate Governance Committee was established on 30th November 2012 to take up the original corporate governance functions of the Board. The Corporate Governance Committee is mainly responsible for developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of Directors and/or senior management; reviewing and monitoring the compliance of Staff Code of Conduct with assistance from Internal Audit Department; reviewing the Company's compliance with the New CG Code and disclosure in the corporate governance report of the annual report.

The Corporate Governance Committee currently comprises an Executive Director, namely, Mr. Xu Zhengjun (chairman) and three Independent Non-executive Directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton.

Before the establishment of Corporate Governance Committee, the Board has taken up the responsibility of performing the corporate governance functions set out in the code provisions which came into effect from 1st April 2012, including the review of the Company's compliance with the CG Code and the New CG Code for the period from 1st January 2012 to 31st March 2012 and the period from 1st April 2012 to 30th June 2012 and the disclosure of deviation from the code provision in the 2012 interim results announcement and 2012 interim report of the Company. Subsequent to the establishment of Corporate Governance Committee, a meeting was held in March 2013 to review the training and continuous professional development of Directors, the Company's compliance with the New CG Code for the period from 1st July 2012 to 31st December 2012 and the disclosure in the Corporate Governance Report of this annual report.

Strategic Development Committee

The Executive Committee and Investment Committee were merged and renamed as Strategic Development Committee in order to streamline the function of Executive Committee and Investment Committee. The Strategic Development Committee is mainly responsible for reviewing the annual strategic development plan of the Company and monitoring the implementation of strategies; reviewing the major investment projects and financing proposals; reviewing the major capital deployment and project on operation of assets; reviewing the strategic direction of the Company's business and operational management; and reviewing and evaluating the project evaluation systems.

The Strategic Development Committee currently comprises three Executive Directors, namely, Mr. Zhang Liang (chairman), Mr. He Jiale and Mr. Xu Zhengjun.

Strategic Development Committee held a meeting in March 2013 to discuss the strategic development plan for 2013 submitted by Strategic Investment Department.

Company Secretary

Ms. Chiu Shui Suet, the Company Secretary, is responsible to the Board and reports to the Chairman or the Vice Chairman and/or the Managing Director. Board members can access to the services of the Company Secretary to ensure the Board procedures, and all applicable rules and regulations are followed.

In accordance with the Company's bye-laws and the Corporate Governance Statement of Policy, the appointment and removal of the Company Secretary is subject to the Board's approval. During the year, the Company Secretary has attended no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

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.

Management provided all members of the Board with monthly report giving updated, balanced and understandable information of the Company's business operating performance, status and progress of project, works done in investor relations and details of share price to enable each Director to discharge his duties.

CORPORATE GOVERNANCE REPORT

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 other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

Connected Transactions

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, 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 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 of the Company during the year are set out in the Directors' Report.

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$3,190,000 and HK$1,010,000 respectively.

The amount for audit services excluded remuneration paid or payable to other external auditors of subsidiaries which were included in Auditors' remuneration disclosed in note 27 to the financial statements.

The above non-audit services included professional advisory on taxation, professional services in relation to the Company's announcements, interim results and continuing connected transactions.

RISK MANAGEMENT AND INTERNAL CONTROLS

Responsibility

The Board has overall responsibility for ensuring an effective system of risk management and internal control be maintained and for reviewing its effectiveness to safeguard the Company's assets and the Shareholders' interests.

The Board always regards 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 monitoring and reviewing the risk management procedures and internal control system of the Group.

Framework and Approach

The Group had 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. The purpose of the company's risk management process is to identify and manage risks in such a way that the company is able to meet its strategic and financial targets. The Group formulated risk management procedures by taking into account adequately the five elements of this risk management framework: internal environmental control, risk management, control activities, information and communication and monitoring and improvement.

Risk Management Framework of the Group

Internal Environment

The Group believes that risk management is the responsibility of everyone within the Group. It aims to develop risk awareness and control responsibility as our culture and the foundation of our internal controls system. The internal controls system applies to the Group's critical business processes including strategy development, business planning, investment decisions, capital allocation and day-to-day operations.

The Group also believes that corporate governance is often associated with business ethics. In order to ensure the Company's reputation be enhanced by the honest, loyal and ethical behaviours of staff, the Group has in place a formal Staff Code of Conduct and Whistleblowing Policy. Furthermore, the Group has from time to time arranged different levels of staff, ranging from top management to front-line staff to participate in a series of business ethics seminars conducted by the Independent Commission Against Corruption, reputed lecturers or internal audit functions of the Company and COSCO Group in order to enhance the staff's recognition and commitment to the Staff Code of Conduct.

Management has also conducted annual self-check to see whether the rules and guidelines specified in the Staff Code of Conduct have been properly adhered to, and the respective written declarations have been documented and reported to the Audit Committee.

Control Activities

In the Group's core shipping services business units, control activities have been built on regular top-level reviews, segregation of duties and physical controls. Currently, the key features of the internal controls system include:

- the design of an organisational structure with defined lines of responsibility and delegation of authority;
- the setup and adherence of authorisation and approval limits of the Company and each business units;
- the systems and procedures to identify and mitigate risks on an ongoing basis;

CORPORATE GOVERNANCE REPORT

During 2012, the major business units had further strengthened its internal controls and promoted internal efficiency by the use of enterprise resource planning (ERP) systems or other relevant information technology, which integrated internal and external management information across an entire business units – embracing finance or accounting, manufacturing, sales and purchase, etc.

Risk Management Process

The Group seeks to have risk management features embedded in the day-to-day operations. At beginning of each year, the Group conducts a risk assessment on the existing or potential risks that may impact the achievement of business objectives over the course of business operation. The assessment includes potential likelihood and impact of the identified risks. For the risks identified, the Group determines the action plans and management targets. The management of each business unit of the Group is responsible for managing their respective day-to-day operating risks, and implementing measures to mitigate such risks.

Internal Audit Department monitors the implementation of risk management, and continuously reviews and assesses the efficiency and adequacy of action plans in regular basis. Such assessment results would be regularly communicated and reported to Risk Management Committee and the Board.

Internal Audit and Control Effectiveness

Internal Audit Department performs regular reviews of the Company's internal controls based on the annual audit plan approved by Audit Committee.

The annual audit plan is prepared by using a risk-based approach to determine the priorities of the internal audit activities. The Audit Committee has the final authority to approve the annual audit plan. Special reviews may also be performed on areas of concern identified by Audit Committee or the management from time to time. The Audit Committee assesses the effectiveness of the internal control system by reviewing the work of Internal Audit Department and its findings. A follow-up review will be performed by 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 is responsible for ensuring the agreed-upon action plans be implemented within an appropriate timeframe. Management must also confirm annually to Internal Audit Department that business units under their control have taken or are in the process of taking the appropriate actions to deal with all significant recommendations made by external auditors of the Company in management letters or by regulators following regulatory inspections, if any.

During the year, Internal Audit Department had performed reviews on all major aspects of the Company's operations in Hong Kong, the PRC and overseas according to the approved internal audit plan. The work of Internal Audit Department covered all major financial, operational and compliance controls. 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 Audit Committee.

The chairman of Audit Committee reports to the Board on key findings regarding internal audit work at least two times a year. In respect of the year ended 31 December 2012, 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 considered the internal control systems effective and adequate. No significant areas of concern which might affect the Shareholders were identified.

SHAREHOLDERS RELATION

Effective Communication

An annual general meeting of the Company was held on 31st May 2012 (the "2012 AGM") and a separate resolution for each substantially separate issue was proposed, including election of individual Directors. Notice of 2012 AGM had been sent to the Shareholders at least 20 clear days before the Meeting. Except Mr. Alexander Reid Hamilton, the chairman of Audit Committee was unable to attend the 2012 AGM, the Chairman of the Board, the chairmen of Remuneration Committee and Nomination Committee and the members of Audit Committee attended the 2012 AGM and were available to answer questions. The representative from PricewaterhouseCoopers, the external auditor of the Company had attended the 2012 AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence, if any. The Company would propose separate resolutions at any other general meetings on each substantially separate issue, if any.

Based on the requirement of the New CG Code and the Company's existing situation, a Shareholders Communication Policy (available on the Company's website) was formulated in March 2012 in order to ensure the Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board, under the leadership of the Chairman, has taken appropriate steps to provide effective communication with Shareholders, such as a Q&A session has been provided to the Shareholders to raise their concern in the 2012 AGM and the Shareholders' concerns about the Company's performance being communicated to the Directors who attended at the annual general meeting. The Directors presented have responded immediately to the queries from the Shareholders. The effectiveness of shareholders communication under the Shareholders Communication Policy had been reviewed by the Board at the fourth regular Board meeting during the year.

Voting by Poll

All resolutions at the 2012 AGM were 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 explained the detailed procedures for conducting a poll and answered any questions, if any, from the Shareholders regarding voting by way of poll. The poll voting results of the 2012 AGM was published on the websites of the Stock Exchange and the Company respectively on the same day after the 2012 AGM.

Shareholders' Rights

Procedures for Shareholders to convene a special general meeting ("SGM")

In accordance with the Company's bye-laws and the Companies Act 1981 of Bermuda ("Companies Act"), the Shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company can deposit a written request at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda (the "Registered Office") and 47th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong (the "Principal Office") to require a SGM to be convened by the Board for the transaction of any business specified in such requisition and the Board shall proceed to convene such meeting within 21 days after the deposit of such requisition. Such written requisition must state the purposes of the general meeting, signed by the Shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those Shareholders.

If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid, the Shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Shareholders may also direct questions or requests for information through the Company's website or by contacting the representatives of Investor Relations Department.

Procedures for Shareholders to make proposals at general meeting

In accordance with the Companies Act, Shareholders holding (i) not less than one-twentieth of the total voting rights of all Shareholders having the right to vote at the general meeting; or (ii) not less than 100 Shareholders, can submit a written request stating the resolution intended to be moved at the annual general meeting or a statement or not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting. Such written request/statement must be signed by the Shareholder(s) concern and deposited at the Registered Office and the Principal Office not less than six weeks before the annual general meeting in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

CORPORATE GOVERNANCE REPORT

If the written request is in order, the Company Secretary will ask the Board (i) to include the resolution in the agenda for the annual general meeting; or (ii) to circulate the statement for the general meeting, provided that the Shareholder(s) concerned have deposited a sum of money reasonably determined by the Board sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement submitted by the Shareholder(s) concerned in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid or the Shareholder(s) concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Shareholder(s) concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the annual general meeting; or the statement will not be circulated for the general meeting.

Procedures for a Shareholder to propose a person for election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the Corporate Governance section of the Company's website.

Information Disclosure

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.

During the year, the Shareholders had approved to amend the Company's bye-laws and adopt new set of bye-laws at the 2012 AGM. The principal amendments of bye-laws mainly include the following:

(i) the exception that a Director may vote (or be counted in the quorum) on any proposal concerning any other company in which he or his associate(s) is/are interested provided that he and any of his associates are not in aggregate beneficially interested in 5% or more of such company has been removed;

(ii) reference to the interest of a Director together with any of his associates of 5% or more in another company in which the Company is interested has been removed as a factor in determining a Director's entitlement to vote (and be counted in the quorum) in respect of the appointment (including the arrangement or variation of the terms thereof, or the termination thereof) of two or more Directors to offices or places of profit with such other company;

(iii) a requirement has been included such that if a Shareholder's entitlement requires the approval of the Company in general meeting or is contingent on a transaction that is subject to the approval of the Company in general meeting, the last day for trading in Shares with such entitlement on the Stock Exchange must fall at least one business day after the general meeting;

(iv) subject to compliance with the rules and regulations of the Stock Exchange and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company;

(v) if the transferor or transferee is a clearing house or its nominee(s), the instrument of transfer of shares may be executed by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time;

(vi) no dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities; and

(vii) the manner in relation to the service of notices and documents to the Shareholders has been clarified.

By order of the Board

CHIU Shui Suet
Company Secretary
Hong Kong, 21st March 2013

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 2012.

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 2012 are set out in the consolidated income statement on page 109 of this annual report. The Board has recommended the payment of a final dividend of 6 HK cents (2011: 7 HK cents) per share for the year ended 31st December 2012. Subject to the approval of shareholders of the Company (the "Shareholders") in the annual general meeting of the Company to be held on Friday, 31st May 2013, approximately HK$90,818,000 will be payable on or before Friday, 28th June 2013 to the Shareholders whose names appear on the register of members of the Company on Tuesday, 11th June 2013. The proposed final dividend together with the interim dividend of 2 HK cents per share gives a total dividend of 8 HK cents per share for the year.

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 2012 calculated under Companies Act of Bermuda amounted to HK$5,586,057,000.

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$189,000 (2011: HK$214,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on pages 191 and 192.

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. He Jiale
(appointed on 10th April 2012)
Mr. Xu Zhengjun *(Managing Director)*
(appointed on 12th July 2012)
Mr. Zhang Fusheng
(resigned on 24th February 2012)
Mr. Wang Futian
(resigned on 24th February 2012)
Mr. Liang Yanfeng
(resigned on 10th April 2012)
Mr. Wang Xiaodong
(resigned on 12th July 2012)
Mr. Lin Wenjin
(resigned on 10th April 2012)

DIRECTORS' REPORT

Non-executive Directors

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

Independent Non-executive Directors

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

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 following general meeting or annual general meeting of the Company and shall then be eligible for re-election at that meeting. Pursuant to bye-laws 99 and 102(B) of the Company's bye-laws, Messrs. Xu Zhengjun, Tsui Yiu Wa, Alec and Alexander Reid Hamilton shall retire from office at the forthcoming annual general meeting of the Company and be eligible for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ye Weilong and Mr. Zhang Liang, being the Executive Director, has entered into a 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. Mr. He Jiale, being the Executive Director, has entered into a letter of appointment with the Company on 10th April 2012 for a term commencing from 10th April 2012, the date of his appointment to the conclusion of the 2014 annual general meeting of the Company. Each of Mr. Wang Wei and Mr. Wu Shuxiong, being the Non-executive Director, has entered into a letter of appointment with the Company on 10th April 2012 for a term commencing from 10th April 2012, the date of his appointment to the conclusion of the 2014 annual general meeting of the Company. Mr. Xu Zhengjun, being the Executive Director, has entered into a letter of appointment with the Company on 12th July 2012 for a term commencing from 12th July 2012, the date of his appointment to the conclusion of the 2014 annual general meeting of the Company.

Each of Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton, being the Independent Non-executive Director, has entered into a letter of appointment with the Company on 19th June 2012 for a term commencing from 31st May 2012, the date of 2012 annual general meeting to the conclusion of the 2014 annual general meeting of the Company.

Each of Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen, being the ex-Non-executive Director, has entered into a 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.

Each of Mr. Liang Yanfeng and Mr. Lin Wenjin, being the ex-Executive Director, has entered into a 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.

Mr. Wang Xiaodong, being the ex-Executive Director, has entered into a letter of appointment with the Company on 16th January 2012 and 19th June 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 and from 31st May 2012, the date of 2012 annual general meeting to the conclusion of the 2014 annual general meeting of the Company respectively.

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' 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 Directors	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. Wang Wei	Companies controlled by COSCO	Shipping services	director
Mr. Wu Shuxiong	Companies controlled by COSCO	Shipping services	director
Mr. He Jiale	Companies controlled by COSCO	Shipping services	director
Mr. Xu Zhengjun	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. 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

† Mr. Zhang Fusheng resigned as Executive Director and Chairman on 24th February 2012.
# Mr. Wang Futian resigned as Executive Director and Vice Chairman on 24th February 2012.
^ Each of Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen resigned as Non-executive Director on 10th April 2012.
∞ Mr. Liang Yanfeng resigned as Executive Director on 10th April 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.

* *for identification purpose only*

DIRECTORS' REPORT

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), being connected persons of the Company (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").

* *for identification purpose only*

(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, being the connected person of the Company ("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").

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(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 2012 were as follows:

Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement	HK$909,403,009
Aggregate amount payable by the Group for transactions contemplated under the Master Purchase Agreement	HK$101,522,201
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 RMB400,000,000
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	US$463,727,263
Aggregate amount payable by the Group to COSCO Group for transactions contemplated under the Management Services Master Agreement	HK$15,672,792
Aggregate amount payable by the Group to COSCO Group for transactions contemplated under the Master Tenancy Agreement	HK$27,436,622

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(h) to the financial statements, certain related party transactions of the Group also constituted continuing connected transactions of the Group 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. (關西塗料株式會社), a substantial shareholder of COSCO Kansai Companies, being a connected person 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 and a connected person of the Company ("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");

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(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 and a connected person of the Company ("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

* *for identification purpose only*

The COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2012 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	792,056
Aggregate amount payable by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for transactions contemplated under the NKM Referral Services Agreement	Nil
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	2,332,265
Aggregate amount payable by COSCO Kansai Companies for transactions contemplated under the Technology Transfer Agreements	4,532,563

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 of the Group also constituted continuing connected transactions of the Group 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 2012 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 2012 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 2012, 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. Provision of Financial Assistance

References are made to the announcement of the Company dated 3rd March 2009 and the circular of the Company dated 24th March 2009 ("the 2009 Circular") in relation to, inter alia, the acquisition of 18% interests in Double Rich Limited ("Double Rich") by New Renown Limited, a wholly-owned subsidiary of the Company, from COSCO Trading and Supply Investments Limited, a wholly-owned subsidiary of COSCO Hong Kong ("COSCO

DIRECTORS' REPORT

Trading"), on 3rd March 2009. The acquisition was approved by the independent shareholders at the special general meeting of the Company held on 21st April 2009. After completion of the said acquisition, Double Rich was owned as to 18% by the Group, 7% by COSCO Trading and 75% by 中國船舶燃料有限責任公司 (China Marine Bunker (PetroChina) Co., Ltd.*) ("Chimbusco"). In January 2010, COSCO Trading disposed of its 7% interests in Double Rich to Chimbusco, subsequent to which Double Rich becomes owned as to 18% by the Group and as to 82% by Chimbusco.

As disclosed in the 2009 Circular, corporate guarantees were provided by COSCO Hong Kong in favour of Bank 1 of up to USD21,500,000 plus interest and other charges as security in support of the facilities of up to USD36,500,000 then made available by Bank 1 to Double Rich (which was referred to as "Facility 1" in the 2009 Circular) and a corporate guarantee was provided by COSCO Hong Kong in favour of Bank 2 of up to the principal amount of USD5,000,000 plus interest and other charges as security in support of the facilities of up to USD20,000,000 then made available by Bank 2 to Double Rich (which was referred to as "Facility 2" in the 2009 Circular). In relation to the facilities provided by Bank 1, the same have been renewed in June 2010 with an increase in facility amount to up to USD108,000,000 and modification of certain terms of the facilities. On the other hand, in relation to the facilities provided by Bank 2, the facilities of up to USD20,000,000 have been renewed in October 2010 with modification of certain terms of the facilities and additional facilities of up to USD80,000,000 were made available to Double Rich by Bank 2 in October 2010.

At the request of Double Rich, pursuant to a facility letter dated 19th April 2012, bank facilities 1 of up to USD108,000,000 ("Bank Facilities 1") have been made available to Double Rich by Bank 1 to replace the facilities of up to USD108,000,000 as mentioned above; and pursuant to a facility letter dated 27th February 2012, bank facilities 2 of up to USD41,000,000 ("Bank Facilities 2") have been made available to Double Rich by Bank 2 to replace the facilities of up to USD20,000,000 as mentioned above. As one of the conditions precedent to the availability of Bank Facilities 1 and Bank Facilities 2, the Company executed corporate guarantees on 30th April 2012 in favour of Bank 1 and Bank 2 of up to USD21,500,000 and USD5,000,000 respectively (which was referred to as "Guarantee 1" and "Guarantee 2" in the announcement of the Company dated 30th April 2012) in place of those corporate guarantees provided by COSCO Hong Kong in Facility 1 and Facility 2 as disclosed in the 2009 Circular.

Double Rich is owned as to 18% by the Group and as to 82% by Chimbusco. Since Chimbusco is a company owned as to 50% by COSCO, the ultimate holding company of the Company, and Double Rich is a subsidiary of Chimbusco, Double Rich is an associate of COSCO and thus a connected person of the Company under the Listing Rules. Accordingly, the provision of the guarantees by the Company for the benefit of Double Rich constitutes connected transactions of the Company. The Guarantee 1 and Guarantee 2 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 30th April 2012.

As set out in note 38(f) to the financial statements, the related party transactions of the Group also constituted connected transactions of the Group as disclosed above.

2. *Establishment of 中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*)*

On 2nd May 2012, the Company and 關西塗料(中國)投資有限公司 (Kansai Paint (China) Investment Co., Ltd.*) ("Kansai Paint (China)") entered into the joint venture articles (the "JV Articles") in relation to the establishment of 中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*) ("COSCO Kansai Paint (Shanghai)"). According to the JV Articles, COSCO Kansai Paint (Shanghai) would have a registered capital of US$25,600,000 of which the Company would contribute US$16,145,920, representing 63.07% of the registered capital, and Kansai Paint (China) would contribute US$9,454,080, representing 36.93% of the registered capital. Japan Kansai is a substantial shareholder of the COSCO Kansai Companies (all being non-wholly owned subsidiaries of the Company) and therefore Japan Kansai is a connected person of the Company. Kansai Paint (China) is a wholly-owned subsidiary of Japan Kansai. Kansai Paint (China) is therefore an associate of Japan Kansai and also a connected person of the Company. On the basis that (a) no shareholder of the Company is required to abstain from voting if the Company were to convene a general meeting for the approval of the JV

* *for identification purpose only*

Articles and the transactions contemplated thereunder (the "Transaction"), (b) written approval has been obtained from True Smart International Limited ("True Smart"), the substantial shareholder of the Company and (c) True Smart is entitled to vote on the Transaction, the Company applied for and the Stock Exchange granted a waiver from compliance with the requirement to hold a shareholders' meeting pursuant to Chapter 14A of the Listing Rules in relation to the establishment of COSCO Kansai Paint (Shanghai), details of which were disclosed in the announcement of the Company dated 2nd May 2012 and the circular of the Company dated 23rd May 2012.

As set out in note 38(g) to the financial statements, the related party transactions of the Group also constituted connected transactions of the Group as disclosed above.

3. *Proposed Acquisition of Hanyuan Technical Service Center GmbH*

On 18th March 2013, COSCO Europe GmbH ("COSCO Europe") and Yuantong Marine Service Co. Limited, a wholly-owned subsidiary of the Company ("Yuantong") entered into a memorandum in relation to the acquisition by Yuantong of the entire issued share capital of Hanyuan Technical Service Center GmbH from COSCO Europe for a consideration of not more than EUR1,200,000 (equivalent to approximately HK$12,012,000) (the "Proposed Acquisition"). The memorandum is not legally binding and the Proposed Acquisition is subject to a share purchase agreement to be discussed and entered into between relevant parties. As COSCO Europe is a subsidiary of COSCO, the ultimate holding company of the Company, COSCO Europe is a connected person of the Company and the Proposed Acquisition will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules when the share purchase agreement is entered into, details of which were disclosed in the announcement of the Company dated 18th March 2013.

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 of the Group 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 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") expired on 16th May 2012. Share options granted under the Share Option Scheme prior to its expiry shall continue to be valid and exercisable pursuant to the provisions of the Share Option Scheme. Summary of the Share Option Scheme disclosed in accordance with the Listing Rules is as follows:

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.

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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 the Share Option Scheme expired on 16th May 2012, no further share option can be granted under the Share Option Scheme. As at the date of the Report, a total of 63,024,000 shares representing 4.16% 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 quotation 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 expired 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 2012	Granted during the year	Category changed during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31st December 2012	Approximate percentage of total issued share capital of the Company	Notes
Director										
Mr. He Jiale*	1.37	–	–	1,200,000*	–	–	–	1,200,000	0.079%	(1),(4)
Ex-Directors										
Mr. Wang Futian#	3.666	800,000	–	(800,000)	–	–	–	–	–	(3),(4)
Mr. Jia Lianjun†	3.666	800,000	–	(800,000)	–	–	–	–	–	(3),(4)
Mr. Liang Yanfeng∞	3.666	1,100,000	–	(1,100,000)	–	–	–	–	–	(3),(4)
Mr. Wang Xiaodong∆	1.37	800,000	–	(800,000)	–	–	–	–	–	(1),(4)
	3.666	800,000	–	(800,000)	–	–	–	–	–	(3),(4)
Mr. Meng Qinghui†	1.37	800,000	–	(800,000)	–	–	–	–	–	(1),(4)
	3.666	800,000	–	(800,000)	–	–	–	–	–	(3),(4)
Mr. Chen Xuewen†	3.666	800,000	–	(800,000)	–	–	–	–	–	(3),(4)
Mr. Lin Wenjin∞	1.37	500,000	–	(500,000)	–	–	–	–	–	(1),(4)
	3.666	800,000	–	(800,000)	–	–	–	–	–	(3),(4)
Continuous contract employees of the Group and jointly controlled entity(ies)	1.37	6,890,000	–	420,000	–	–	(1,200,000)	6,110,000	0.404%	(1),(4)
	1.21	600,000	–	–	–	–	–	600,000	0.040%	(2),(4)
	3.666	13,430,000	–	60,000	–	–	(330,000)	13,160,000	0.869%	(3),(4)
Other participants	1.37	21,238,000	–	480,000	–	(800,000)	(1,200,000)	19,718,000	1.303%	(1),(4)
	1.21	550,000	–	–	–	–	–	550,000	0.036%	(2),(4)
	3.666	22,250,000	–	5,840,000	–	(1,900,000)	(1,200,000)	24,990,000	1.651%	(3),(4)

* Mr. He Jiale was appointed as Executive Director on 10th April 2012. At the time of his appointment, he already held such share options.
# Mr. Wang Futian resigned as Executive Director and Vice Chairman on 24th February 2012.
† Each of Mr. Jia Lianjun, Mr. Meng Qinghui and Mr. Chen Xuewen resigned as Non-executive Director on 10th April 2012.
∞ Each of Mr. Liang Yanfeng and Mr. Lin Wenjin resigned as Executive Director on 10th April 2012.
∆ Mr. Wang Xiaodong resigned as Executive Director and Managing Director on 12th July 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.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2012, 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 underlying shares of equity derivatives of the Company

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

2. Long positions in the shares of associated corporation(s)

Name of Director	Name of associated corporation	Capacity	Nature of interest	Total number of ordinary shares of associated corporation held	Approximate percentage of total issued share capital of associated corporation
Mr. Wu Shuxiong	COSCO Pacific Limited ("COSCO Pacific")	Beneficial owner	Personal	6,000	0.0002%
Mr. Xu Zhengjun	COSCO Pacific	Interest of spouse	Family	16,000	0.0006%

3. Long positions in the underlying shares of equity derivatives of associated corporation(s)

(a) Share options

Name of Director	Name of associated corporation	Exercise price (HK$)	Outstanding as at 1st January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2012	Approximate percentage of total issued share capital of associated corporation	Exercisable period	Notes
Ex-Directors										
Mr. Zhang Fusheng*	COSCO Pacific	13.75	1,000,000*	–	–	–	N/A	N/A	03.12.2004 – 02.12.2014	(1),(2)
Mr. Meng Qinghui#	COSCO Pacific	13.75	500,000#	–	–	–	N/A	N/A	29.11.2004 – 28.11.2014	(1),(2)

* Mr. Zhang Fusheng resigned as Executive Director and Chairman on 24th February 2012. As at 24th February 2012, he had 1,000,000 share options of COSCO Pacific at exercise price of HK$13.75 per share.

Mr. Meng Qinghui resigned as Non-executive Director on 10th April 2012. As at 10th April 2012, he had 500,000 share options of COSCO Pacific at exercise price of HK$13.75 per share.

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 participant as beneficial owner.

(b) Share appreciation rights

Name of Director	Name of associated corporation	Exercise price (HK$)	Outstanding as at 1st January 2012	Units granted during the year	Units exercised during the year	Units lapsed during the year	Outstanding as at 31st December 2012	Approximate percentage of total issued share capital H share of associated corporation	Notes
Mr. Ye Weilong*	China COSCO Holdings Company Limited ("China COSCO")	9.540	480,000*	–	–	–	480,000	0.019%	(3),(4)
Mr. Zhang Liang#	China COSCO	9.540	580,000#	–	–	–	580,000	0.022%	(3),(4)
Mr. Wang Wei^	China COSCO	3.195	75,000^	–	–	–	75,000	0.003%	(1),(4)
		3.588	65,000^	–	–	–	65,000	0.003%	(2),(4)
		9.540	60,000^	–	–	–	60,000	0.002%	(3),(4)
Mr. Wu Shuxiong∆	China COSCO	3.195	375,000∆	–	–	–	375,000	0.015%	(1),(4)
		3.588	500,000∆	–	–	–	500,000	0.019%	(2),(4)
		9.540	480,000∆	–	–	–	480,000	0.019%	(3),(4)
Mr. He Jiale†	China COSCO	3.195	375,000†	–	–	–	375,000	0.015%	(1),(4)
		3.588	500,000†	–	–	–	500,000	0.019%	(2),(4)
		9.540	480,000†	–	–	–	480,000	0.019%	(3),(4)
Mr. Xu Zhengjun∞	China COSCO	3.195	225,000∞	–	–	–	225,000	0.009%	(1),(4)
		3.588	280,000∞	–	–	–	280,000	0.011%	(2),(4)
		9.540	260,000∞	–	–	–	260,000	0.010%	(3),(4)
Ex-Directors									
Mr. Zhang Fusheng◊	China COSCO	3.195	600,000◊	–	–	–	N/A	N/A	(1),(4)
		3.588	800,000◊	–	–	–	N/A	N/A	(2),(4)
		9.540	780,000◊	–	–	–	N/A	N/A	(3),(4)
Mr. Jia Lianjun☆	China COSCO	3.195	75,000☆	–	–	–	N/A	N/A	(1),(4)
		3.588	65,000☆	–	–	–	N/A	N/A	(2),(4)
		9.540	60,000☆	–	–	–	N/A	N/A	(3),(4)

* Mr. Ye Weilong was appointed as Executive Director and Chairman on 24th February 2012. At the time of his appointment, he already held such share appreciation rights.

\# Mr. Zhang Liang was appointed as Executive Director and Vice Chairman on 24th February 2012. At the time of his appointment, he already held such share appreciation rights.

^ Mr. Wang Wei was appointed as Non-executive Director on 10th April 2012. At the time of his appointment, he already held such share appreciation rights.

∆ Mr. Wu Shuxiong was appointed as Non-executive Director on 10th April 2012. At the time of his appointment, he already held such share appreciation rights.

† Mr. He Jiale was appointed as Executive Director on 10th April 2012. At the time of his appointment, he already held such share appreciation rights.

∞ Mr. Xu Zhengjun was appointed as Executive Director and Managing Director on 12th July 2012. At the time of his appointment, he already held such share appreciation rights.

◊ Mr. Zhang Fusheng resigned as Executive Director and Chairman on 24th February 2012. As at 24th February 2012, he had 600,000, 800,000 and 780,000 share appreciation rights of China COSCO at exercise price of HK$3.195, HK$3.588 and HK$9.540 per unit respectively.

☆ Mr. Jia Lianjun resigned as Non-executive Director on 10th April 2012. As at 10th April 2012, he had 75,000, 65,000 and 60,000 share appreciation rights of China COSCO at exercise price of HK$3.195, HK$3.588 and HK$9.540 per unit respectively.

DIRECTORS' REPORT

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.

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 2012.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2012, 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	938,732,286	62.01%
COSCO Hong Kong	Interest of controlled corporation	Corporate interest	938,732,286	62.01%
True Smart	Beneficial owner	Beneficial interest	938,732,286	62.01%

Note:

True Smart has beneficial interest in 938,732,286 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 2012, 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 acknowledges that approximately 37.71% 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 2012.

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.

During the year, in order to align the amendments of the Listing Rules, the Company had reviewed and revised its respective terms of reference of Board, Audit Committee, Remuneration Committee and Nomination Committee of the Company as well as other internal policies. In order to preserve good corporate governance practices, COSCO International further arranged the execution of letters of appointment with those Executive Directors setting out the key terms and conditions of their appointment apart from the execution of letters of appointment with Non-executive Directors (including Independent Non-executive Directors). Meanwhile, in order to optimise the structure and enhance operational efficiency of Board Committees, the Board has merged Executive Committee and Investment Committee and thereafter renamed as Strategic Development Committee, and established Corporate Governance Committee for better performing the corporate governance function of the Company, and also adjusted the terms of reference of Risk Management Committee. The Board also adopted the Shareholder Communication Policy in order to enhance communication with the Shareholders.

The Board believed that the Company has complied with the code provisions of the Code on Corporate Governance Practices and the code provisions of Corporate Governance Code contained in Appendix 14 to the Listing Rules during the period from 1st January 2012 to 31st March 2012 and the period from 1st April 2012 to 31st December 2012 respectively except Mr. Alexander Reid Hamilton, the Independent Non-executive Director, was unable to attend the annual general meeting of the Company held on 31st May 2012 due to urgent personal matter.

The Audit Committee of the Company 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 consolidated financial statements of the Group for the year ended 31st December 2012. The Company has received from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors to be independent.

The Company has adopted a code of conduct regarding securities transactions of Directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code. 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 currently comprising the Chairman, the Vice Chairman, the Managing Director and a Director 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 2012, 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

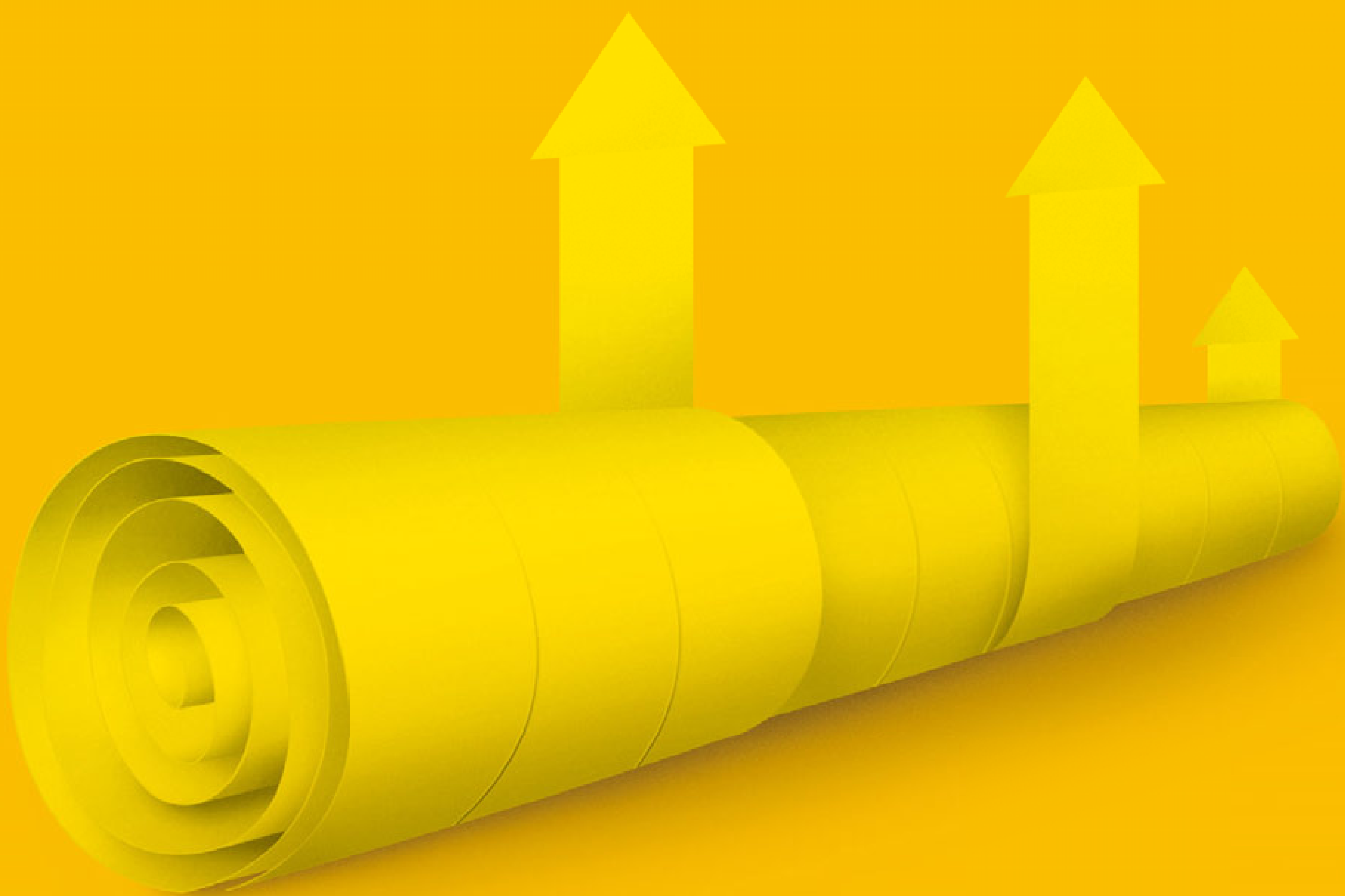
XU Zhengjun
Managing Director
Hong Kong, 21st March 2013

DEVELOPMENT

The Group will enhance the development of existing businesses and new businesses steadily. It will remain flexible in adapting its strategies to the market conditions by exercising stringent cost control and enhancing the core competitiveness of each existing business unit and overall synergies so as to increase profitability. COSCO International will continue to proactively seize the opportunities to expedite the establishment of global sales and services network and the acquisition of shipping service-related projects inside and outside the COSCO Group.

Explore new markets, for more

DEVELOPMENT OPPORTUNITIES

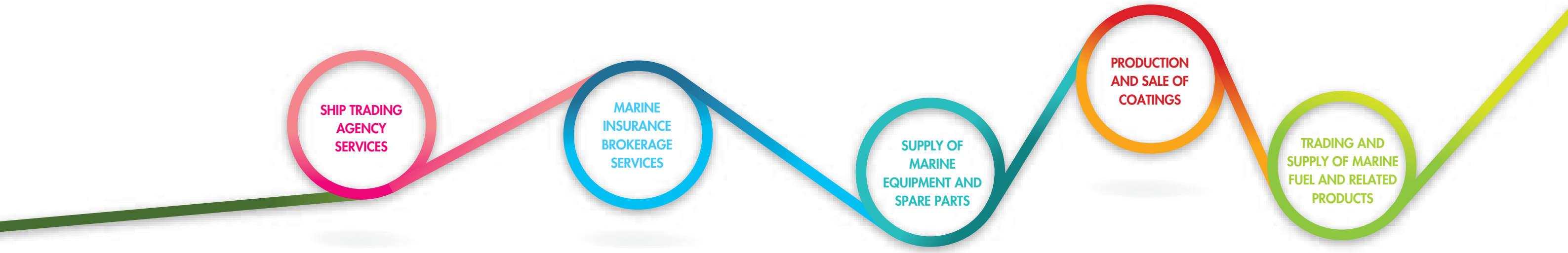


PROSPECTS

In 2013, the outlook for the global economy is far from optimistic and significant improvement on the economic conditions is unlikely. The Europe and United States economies show weak recovery while China sees slowdown in economic growth. However, favourable economic factors are increasing in China. Macroeconomic regulation and control has placed stable growth in a prominent position and the macroeconomic conditions are expected to be slightly better as compared to 2012. For the shipping market, as the supply of shipping capacity of the fleets around the world continues to grow in 2013, imbalance between supply and demand will persist. It is expected that freight rates will not recover much. The operating pressure experienced by shipping enterprises remained high as they are furthered affected by the ever-rising operating costs. As a result, shipping enterprises will adopt various measures to significantly reduce their costs, thereby bringing about major challenges for the Group, which is principally engaged in the provision of shipping services.

Facing the uncertainties in the market, COSCO International will seek development opportunities from the challenges. Its corporate vision is to establish itself as a global leading one-stop shipping service provider and to provide customers with one-stop services through its global network, by offering high quality services and competitive products. In the current stage, the strategic objective of COSCO International is to become a one-stop shipping service provider. In 2013, COSCO International will seize opportunities arising from the centralised procurement which will be implemented by COSCO Group in the supply of marine equipment and spare parts and marine insurance brokerage. It will complete its business network, focus on its services marketing and maintain quality customers and sound cooperation foundation. It will also innovate its customer service awareness and product types, thus gradually transforming itself into a one-stop shipping service provider from an agent. In the process of transformation, COSCO International will fully leverage the privileged resources of COSCO Group and synergy amongst various business segments to develop the new core shipping services and upgrade the value-added services for the fleet, thus creating more room for value growth.

The Group will enhance the development of existing businesses and new businesses steadily in accordance with its established plans while strictly control various operational risks. For the existing businesses, it will remain flexible in adapting its strategies to the market conditions by exercising stringent cost control and enhancing the core competitiveness of each business unit and overall synergies so as to increase profitability. 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, it is expected that postponement of new build vessel delivery and tightening cost control by shipping enterprises will put pressure on these three shipping services businesses. For ship trading agency services, COSCO Ship Trading will focus on keeping track of the operating conditions of shipyards and shipowners and coordinate with each party to ensure smooth delivery of new build vessels ordered through COSCO Ship Trading. Confronted with a poor new build vessel market, COSCO Ship Trading will secure every order by grasping new opportunities arising from new build vessels on the one hand, and explore new business development on the other hand, thereby providing driving force for the sustainable development of COSCO Ship Trading. The decrease in the price of second-hand vessels will also provide new investment opportunities for shipowners. Leveraging the good opportunities, COSCO Ship Trading will provide information and recommendations to shipowners on a timely basis to facilitate more transactions. For marine insurance brokerage services, COSCO Insurance Brokers, while consolidating and expanding their existing businesses, will proactively explore new insurance products and businesses. The centralised procurement of COSCO Group as to hull and machinery insurance will provide them a golden opportunity to grow their business volume and further expand their business channels and coverage. While stepping up efforts to develop the business for third parties, they will focus on developing the business from existing quality customers and expand their reinsurance business when keeping risk prevention in mind. They will also increase efforts in public relations and marketing to nurture offshore units builders' risk insurance as a new source of profit growth to offset the impact of the slow growth in insurance businesses due to the sluggish shipping market. For supply of marine equipment and spare parts, COSCO Yuantong Operation Headquarters will continuously improve the global spare parts service network by promoting the business restructuring of COSCO Group's overseas spare parts supply business. They will also work hard for market development. While maintaining and consolidating their relationship with shipowners within COSCO Group, they will also proactively explore the opportunities for cooperation with non-COSCO Group shipowners in order to increase their market share and further enhance their core competitiveness. In addition, COSCO Yuantong Operation Headquarters will make every effort to bring themselves in line with the implementation of the centralised procurement of COSCO Group as to spare parts. The profit margin from the sale of marine equipment and spare parts will decrease in the short run due to the pressure of the cost control of shipowners. However, the Group believed that it will benefit from the greater business volume explored outside the COSCO Group and the favourable terms secured from the manufacturers in the future as the business volume grows within COSCO Group.



For container coatings, it is expected that the demand for new build containers will be basically flat and the general demand for container coatings will remain stable due to no breakthrough in global trade volume growth. COSCO Kansai Companies will continue to strive to reduce their procurement costs, strengthen internal management, optimise business process and strengthen their technological research and development in order to enhance their corporate competitiveness. They will further strengthen their communication and exchange of ideas with container manufacturing enterprises to ensure support and recognition from major container manufacturers, container owners and container leasing companies in order to maintain their leading position in market share of the container coating market. They will gradually optimise their key customer management system to provide quality services to their customers, thus gaining customers' confidence. They will proactively promote environmental friendly coatings such as water-based container coatings to enhance their brand image. For industrial heavy-duty anti-corrosion coatings, it is expected that the market of industrial heavy-duty anti-corrosion coatings in China will record stable growth with the sustained, steady growth of China's economy and the launch of "Twelfth Five-year Plan". The growth of demand for the coatings used in, among others, marine works, petrochemical facilities, bridges and infrastructure facilities will remain rapid. COSCO Kansai Companies will expand their sales network; consolidate market resources; closely monitor major projects and expand marketing channels; and focus on exploring the business from key industries and business sectors with potential to promote the overall business volume. In addition, COSCO Kansai (Shanghai) will also proactively launch the construction of its new plant in Shanghai. The business registration of the new plant was completed and the partial capital contribution was made. A dangerous goods permit has been issued. After communicating with the related government authorities, the preliminary approval works for the new plant construction are under processing. It is expected that the construction work will be completed by the end of 2014 and it will have total annual production capacity of 75,000 tonnes based on double shift upon commencement of production, which will further strengthen COSCO Kansai Companies' leading position in the container coating market in China. For marine coatings, it is expected that the market demand for new build vessel coatings will decrease as new build vessels delivered by shipbuilders in China will decline year by year due to the significant drop in new orders for vessels during the past two years, together with possible postponement of new build vessel delivery. In addition, the use of high performance anti-fouling coatings will become a natural trend as fuel oil prices are ever-rising and the operating costs of shipowners persistently increase against a backdrop of green shipping, energy saving and emission reduction. Jotun COSCO will selectively develop its markets. It will strive to win orders for new build vessels coatings, select suitable products for major customers of its new build vessel business, increase its market share in coatings for repair, maintenance and continue to optimise customer management and sales workflow. It will also enhance customer satisfaction in the areas of customer service, product quality and on-site instruction. The new plant in Qingdao by Jotun COSCO (Qingdao) will commence operation by the end of 2013. It will have a total annual production capacity of 50,000,000 litres, which will further strengthen Jotun COSCO's leading position in the marine coating market in China.

The business of provision of bunker oil supply services is one of the major areas of shipping services which the Group is planning to develop. The Group will prudently develop its existing businesses and strive to enhance profitability. It will also continue to proactively study the feasibility of expanding the business scale of bunker oil supply through acquisition, thus providing higher returns for the Shareholders.

For general trading, 2013 is an important year for the expressway development plan in the Twelfth Five-Year Plan. It is expected that the demand for asphalt will enjoy more rapid growth due to the continued acceleration of the construction progress of new expressways as well as the construction of other roads. Facing fierce market competition in the traditional markets, CITC will continue to be positive and aggressive. It will strive to maintain its market share through measures such as enhancing the market and resources exploration, and strengthening the infrastructure, direct sale network and distribution network construction. Striving to gain traditional markets such as Guizhou and Yunnan, it will continue to strengthen its expansion in the asphalt market. It will be dedicated to achieving new breakthroughs while selectively exploring prospective new regional markets with development prospects such as Hunan and Ningxia.

For new business development, in 2013, COSCO International will continue to proactively seize the opportunities to push forward the establishment of global sales and services network and the acquisition of shipping service-related projects inside and outside the COSCO Group, and at the same time positively explore the development of upstream and downstream businesses along the value chain of existing businesses in accordance with its strategic development plan.

With the full support of COSCO and COSCO Hong Kong, the Group will continuously develop itself as a global leading one-stop shipping service provider to provide professional services for shipowners and to create value for the Shareholders.

INVESTOR RELATIONS

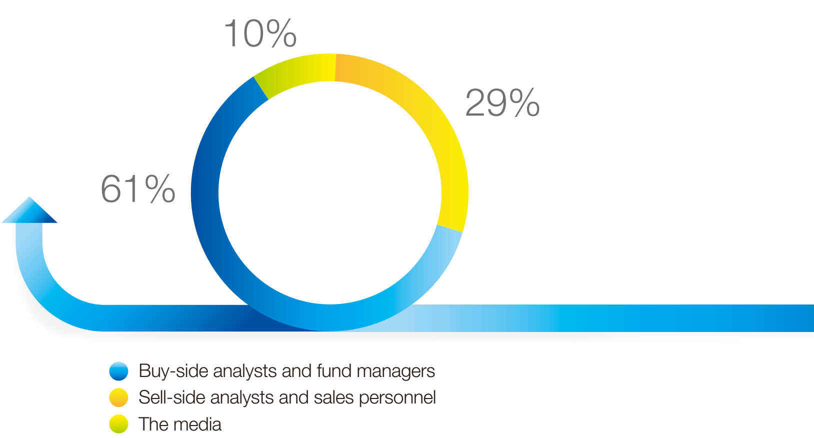
COSCO International's investor relations management strategy is to maintain good communications with shareholders and potential investors through timely, complete, accurate and truthful disclosure of the Company's valuable information. Our strategy aims to ensure investors have a better understanding and recognition of the operating results and development prospects of the Company, as well as to reflect the recommendations and advices from shareholders and investors to the Board and the management of the Company. We endeavour to protect the legitimate interests of shareholders and investors, and strengthen and enhance shareholders and investors' confidence in the Company. Therefore, it can continuously enhance the Company's intrinsic value in the long run and maximise shareholders' value.

PERSEVERANCE IN TWO-WAY COMMUNICATIONS UNDER THE UNFAVOURABLE ENVIRONMENT

The management of COSCO International believe that a good investor relations management is an important element to implement excellent corporate governance. The investor relations officers of the Company are responsible for setting up a bridge between the Company and shareholders and investors for sharing discloseable information. Through this bridge, on one hand, the Company provides up-to-date, accurate and complete corporate information, including the latest operating information, the development strategy of the Company and the industry prospects, for shareholders, investors and analysts to enhance their understanding of the Company and the industry in which it operates, so as to enable them to assess the investment value of the Company effectively and form proper forecast for the Company's prospects. On the other hand, through close and effective communications with shareholders and investors, the Company gathers and handles their concerns, as well as their advices and recommendations to the Company, especially those from the existing shareholders who have been long time holders of the Company's shares. The information will be reported to the management regularly, which provides valuable references for the management in decision making, thereby further enhancing corporate governance in order to build up a solid foundation for growing value of the Company.

Since 2012 to date, major securities firms have reduced the size of investor conferences and the number of roadshows amid the sluggish global economic recovery and the adverse markets and operating environment. Nonetheless, during the year, COSCO International actively introduced its business development model, operating information and future development strategy to shareholders and investors through results announcement press conferences, analysts meetings, post-result roadshows, the annual general meeting, company visits, conference calls and one-on-one meetings, and by proactively participating in the investors' conferences and industry forums organised by securities firms such as J.P. Morgan, Goldman Sachs, Bank of America Merrill Lynch, Citigroup, Macquarie and DBS Vickers in Hong Kong and Mainland China. The Company met institutional investors, sell-side analysts and sales personnel from securities firms and the media for 130 attendances, 61 attendances and 21 attendances respectively, amounting to a total of 212 attendances (2011: 390 attendances), through multi-channels and sincere and proactive communication means during the year.

BREAKDOWN OF INVESTOR RELATIONS OFFICERS' MEETINGS WITH INSTITUTIONAL INVESTORS, SELL-SIDE ANALYSTS AND THE MEDIA IN 2012 (BY PERCENTAGE)



ENHANCING THE MANAGEMENT OF INVESTOR RELATIONS WITH CONTINUOUS INNOVATIONS

The Company believes that good corporate governance is based on a sound and effective management system. For years, COSCO International has consistently implemented the Regulations for Investor Relations Management, the Information Management Policy and the Website Management Policy, and has taken initiatives to maintain effective communications with shareholders and investors in an honest, equal and proactive manner through fair, just and open channels. With the stricter requirements imposed by regulatory authorities on information disclosure and shareholder and investor communication, high-level investor relations management is becoming even more important. Therefore, the Company reviewed and revised its Investor Relations Management Policy and Website Management Policy during the year to further refine, define and clarify the basic principles, target audiences, contents and ways of communication of investor relations management, as well as the related organisation structure, spokesperson policy and the principle scope of work. In addition, COSCO International has endeavoured to improve the contents of investor presentation materials, including disclosing the historical public data in detail, so as to highlight the attractiveness of investment in the Company. The Company also actively enhanced the training of its investor relations team, and encouraged the investor relations personnel to participate in talks or conferences organised by professional investor relations organisations. The Company aims to foster a comprehensive, excellent and up-to-date investor relations team, so as to upgrade all aspects of the investor relations management standard of COSCO International.

AWARD-WINNING COMPANY'S WEBSITE WITH ABUNDANT INFORMATION

Keeping the Company's website updated with the latest and accurate information plays an important part in COSCO International's investor relations practices, as it is the most direct and timely channel to disseminate corporate information to the stakeholders of the Company. In 2012, COSCO International continued to enhance its maintenance of and update on the information at its corporate website to make sure the accurate information release in a timely manner. It also further enriched the site content which enabled investors to fully understand the latest development and financial position of the Company in a faster and more convenient way. According to Google Analytics' analysis of the usage of the Company's website, there were a total of 14,665 visits (2011: 12,528 visits) on COSCO International's website from 126 countries and regions in 2012. The result of the statistics reflected that more and more investors had known COSCO International through the Company's website as the number of visitors had continued to increase. The different origins of visitors reflected that investors around the world had interest in COSCO International. In 2012, the Company's website (www.coscointl.com) was awarded Silver Award in the "Investor/Shareholder Relations" category in the 12th International iNOVA Awards, which was the fourth time for COSCO International being awarded in this international competition. This proved that the Company's website had successfully served as an effective communications platform for investors and shareholders, and was highly recognised and endorsed by professionals.

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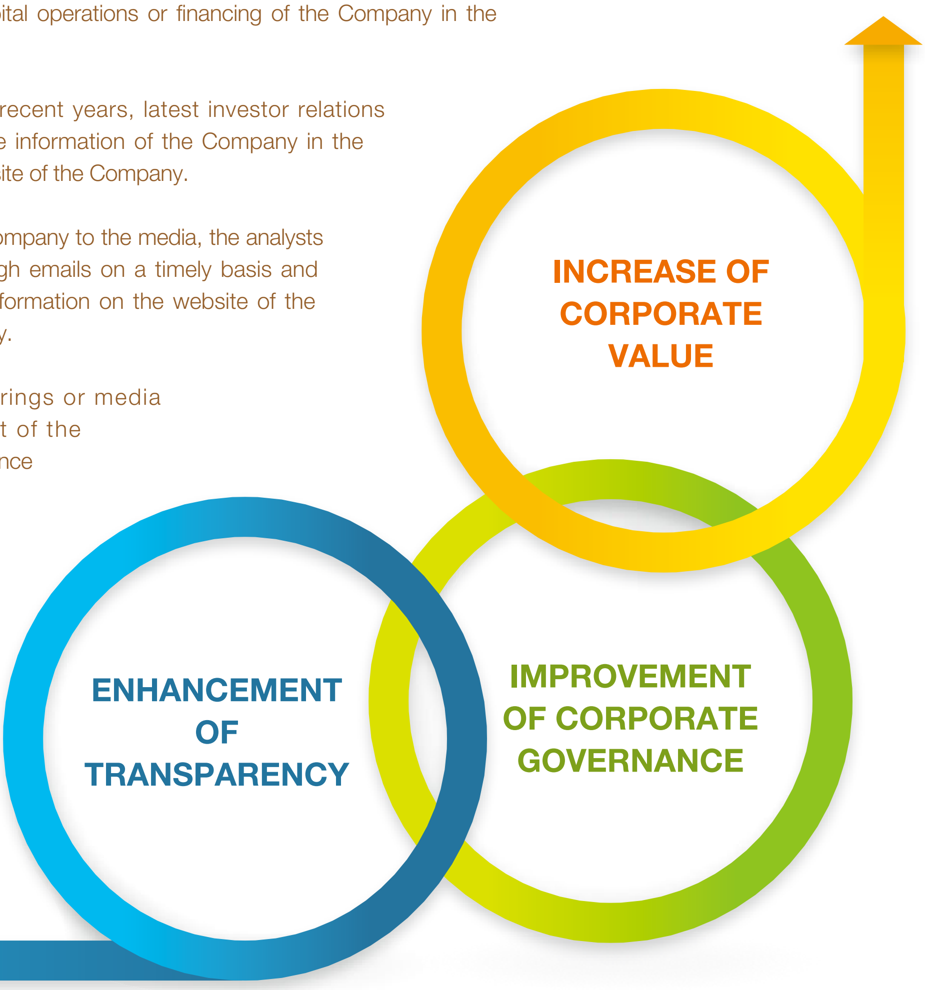
VARIOUS ACTIVITIES TO DEVELOP INVESTOR RELATIONS

- 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 has also been posted on the Company's website in 6 hours afterwards to allow access by shareholders and investors at anytime.
- Inviting shareholders' participation in important decisions-making process of the Company through polling at general meetings, and arranging direct communications for shareholders with the directors and the management of the Company to respond to shareholder's inquiries.
- Arranging one-on-one meetings or conference calls with analysts and fund managers to introduce the business model, latest operating information 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 latest operating information of the Company and the industry prospects to investors from various regions around the world.
- Communicating with the investment community to learn more about up-to-date industry information, in order to facilitate capital operations or financing of the Company in the future.
- Posting the financial statistics for 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 latest news of the Company to the media, the analysts and the institutional investors 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 from time to time to enhance media relations and increase media coverage on the Company, hence helping investors and the public better understand the mission and business activities of the Company as well as its latest news.



LIST OF INVESTOR RELATIONS AND MEDIA RELATIONS ACTIVITIES IN 2012

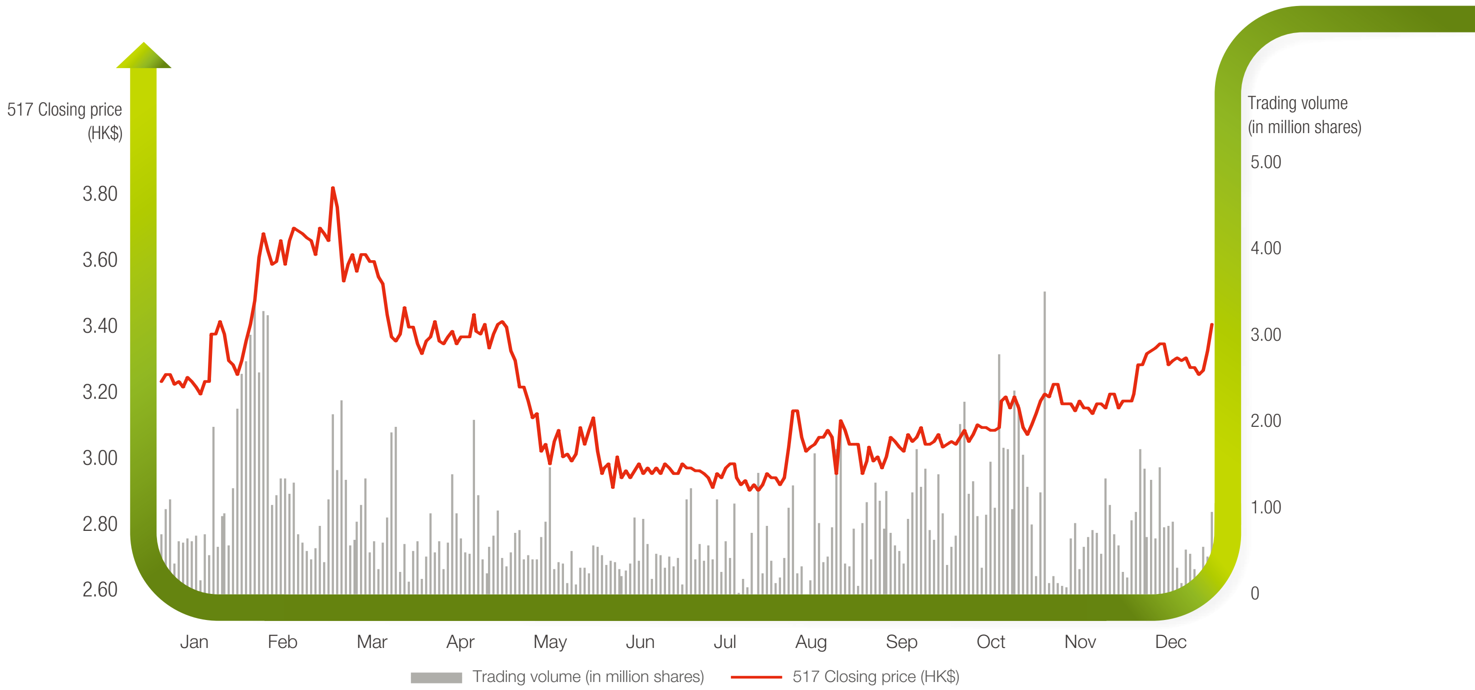
Month	Event
Mar	• Organised a press conference and an analyst meeting to announce 2011 annual results of COSCO International • Attended the 2011 annual results roadshow organised by DBS Vickers in Hong Kong
May	• Attended the Greater China Conference 2012 organised by Macquarie in Hong Kong
Jun	• Attended the 8th Annual China Conference organised by J.P. Morgan in Beijing, China
Aug	• Organised a press conference and an analyst meeting to announce 2012 interim results of COSCO International • Attended the 2012 interim results roadshow organised by DBS Vickers in Hong Kong
Oct	• Attended the Greater China CEO Summit 2012 organised by Goldman Sachs in Hong Kong
Nov	• Attended Citi China Investor Conference 2012 organised by Citigroup in Macau, China • Attended China Conference 2012 organised by Bank of America Merrill Lynch in Beijing, China

PERFORMANCE OF SHARE PRICE AND TRADING IN 2012

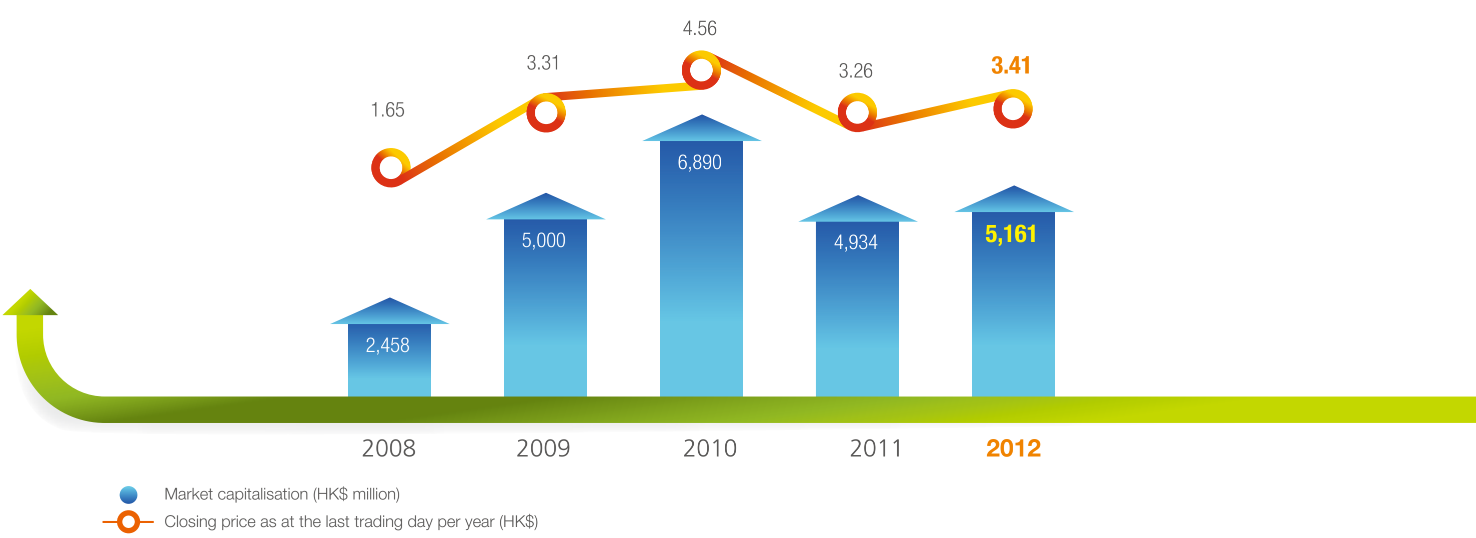
On the last trading day of 2012, the closing share price of COSCO International was HK$3.41 (2011: HK$3.26). The shares in issue of COSCO International were 1,513,627,429 shares (2011: 1,513,627,429 shares). The market capitalisation of the Company was HK$5,161,470,000 (2011: HK$4,934,425,000). During the year, the highest share price was HK$3.84 and the lowest share price was HK$2.85. The daily average trading volume and daily average trading turnover were 819,455 shares (2011: 3,829,000 shares) and HK$2,659,000 (2011: HK$17,511,000).

INVESTOR RELATIONS

CHANGES IN SHARE PRICE AND TRADING VOLUME IN 2012



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 2012 was 23.98 HK cents. In order to share the operating results with shareholders and as a return for the support of shareholders, the Board of COSCO International has recommended a final dividend of 6 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 8 HK cents (2011: 9 HK cents) per share represented a dividend payout ratio of 33% (2011: 35%).

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

	2008	2009	2010	2011	2012
Basic earnings per share (HK cents)	33.18	56.25	83.97	25.80	**23.98**
Dividends per share (HK cents)	7.40	9.40	40.00	9.00	**8.00**
– Interim and final dividends per share (HK cents)	7.40	9.40	5.00	9.00	**8.00**
– Special dividend per share (HK cents)	–	–	35.00	–	**–**
Dividend payout ratio (%)	22	17	48	35	**33**

INVESTOR RELATIONS PROSPECTS

Looking forward, the pace of global economic recovery will continue to be slow and the market will be volatile in 2013. However, COSCO International, as a listed company, believes that maintaining adequate and effective communication with its shareholders and investors irrespective of the changes in market conditions and operating environment is a prerequisite to sustain a high level of investor relations management. The Company will continue to comply with the principles of legal information disclosure, adequate information disclosure, equal opportunities for investors, honesty and integrity, efficiency and low cost as well as interactive communication, to communicate with its shareholders, potential investors, securities analysts, securities sale personnel, industry and financial media, stock commentators and other relevant institutions and individuals via investor-friendly channels and methods. Hence, investors can continuously, timely and easily receive information related to the Company's operating environment, development strategies and operating conditions. The specific measures include:

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

2. Maintaining close relations with securities firms, and actively participating in roadshows and investor conferences organised by securities firms in line with the development of the Company, in order to increase the Company's transparency and attract more sell-side analysts to cover the Company, thus raising the investors' interest in the Company.

3. Obtaining more latest news of the industry and investors' opinions and recommendations on the Company by reinforcing the communications with the investment community, so as to provide references for making decisions on corporate development strategy and day-to-day operation.

4. In compliance with the disclosure requirements of the Listing Rules, actively studying the feasibility of disclosing more information on the operating information of the Company, which enables the public to receive 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 corporate website as a key 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.

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FREQUENTLY ASKED QUESTIONS

1. What are the development strategies of COSCO International in 2013?

ANS: In 2013, the focus of COSCO International will be "seizing opportunities and pursuing development". That is, to seize opportunities and make good use of cash in hand and to explore the value of shipping services by investment and acquisition, so as to maximise the Company's profitability in shipping services as soon as possible and to increase the returns to shareholders provided that the risks are under control. Its development will focus on:

1. existing businesses;
2. upstream and downstream expansion along the industry chain of existing businesses; and
3. other areas of shipping services.

Facing imbalance between supply and demand of shipping capacity in the global shipping market, surging oil price and increasingly stricter environmental protection requirements, shipowners have to enhance their profitability by improving operating efficiency and reducing operating costs. Based on the development trend of the shipping market, COSCO International has a vision of "establishing itself as a global leading one-stop shipping services provider". It is committed to providing shipowners all over the world with one-stop professional service to upgrade their competitiveness in the market.

Looking forward, COSCO International will further improve its global service network to enhance its service capability and quality. Meanwhile, it will optimise its business mix by proactively expanding into upstream and downstream in various business segments so as to promote synergy. When opportunities arise, it will also enter into niche shipping services segments of highly added value and high technology, thus providing more diversified services for shipowners all over the world.

2. What is COSCO International's dividend policy? Will the Company raise its annual dividend payout ratio in the future on the condition that the Company has plenty of cash and no progress has been made in the potential acquisition projects?

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 COSCO International for 2012 was HK$363 million. Taking account of the profit of the Company for the year, the capital required for the development of the Company in the coming year and maintenance of a stable dividend payout ratio, the Board recommended a final dividend of 6 HK cents per share. Together with the interim dividend of 2 HK cents per share, the total dividends of 8 HK cents per share for 2012 represented a dividend payout ratio of 33%.

The Board of the Company considers the dividend payout ratio each year mainly based on, among other things, the profit of the Company, the capital required for future development of the Company, the macroeconomic situation and the shipping service market conditions. COSCO International 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 continue to reserve cash for expanding and developing the shipping services business segments of the Company, based on its strategic development plan for the sustainable development of the Company and creation of greater value for shareholders.

3. How does COSCO International manage its large amount of cash in hand? Does it acquire shares, bonds or other investment products? What would the currency and the interest rate be if the investment was in the form of bank deposits?

ANS: At the end of 2012, the balance of cash and deposits held by the Group amounted to HK$5.87 billion. COSCO International always manages its cash in hand based on the three principles, i.e. earnings, safety and liquidity. The Group has been proactively studying the expansion in shipping service business. The Company has maintained a prudent attitude towards investment in order to reserve capital for future prospective projects. The Company has mainly made investment in the form of bank deposits for the moment and has not invested in quoted securities as a majority of them are not related to shipping services and involve many uncertain market risks although they may generate relatively higher returns compared with bank deposits.

The cash of the Group is mainly in the form of deposits in United States dollars (approximately 81%). The Group succeeded in exploring channels for placing deposits with major financial institutions in Mainland China and Hong Kong with favourable terms of deposit rates. The average interest rate per annum for the year was approximately 2.2% (2011: approximately 1.8%)

4. At the end of 2012, how much were the trade receivables of the Company? What was the increase as compared with 2011? Which segment recorded the longer period and a greater increase of trade receivables? What was the corresponding measure taken by the Company?

ANS: At the end of 2012, the net trade receivables of the Group were HK$1.43 billion (At the end of 2011: HK$1.56 billion), representing a decrease of 9% from 2011, mainly because all business units actively strengthened the efforts to collect trade receivables. In particular, Sinfeng, which is engaged in trading and supply of marine fuel, successfully collected all outstanding trade receivables (including interest arising from overdue payments and legal costs) from a customer defaulting on trade receivables and thus reversed the relevant impairment provision of approximately HK$29.65 million. In 2012, the collection of trade receivables as a whole was normal. Most of the trade receivables of the Group were less than 90 days outstanding, while the trade receivables outstanding for more than 180 days increased by approximately HK$19.26 million from 2011. It was mainly because the asphalt business from general trading segment recorded an increase in receivables resulted from postponement of projects. The relevant projects were expected to be completed and settled in 2013.

The management of the Company have placed 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. If necessary, they will terminate their business with the customers and take legal action to get back receivables.

5. For the revenue of shipping services, what is the proportion from COSCO's subsidiaries (other than the Group)?

ANS: In 2012, revenue from COSCO's subsidiaries (other than the Group) accounted for about 28% 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 the Group's fellow subsidiaries were relatively high, i.e. 86%, 62% and 79% respectively. Segment revenues from coatings and trading and supply of marine fuel from the Group's fellow subsidiaries were relatively low, accounted for about 1% and 24% respectively.

6. 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 services are principally provided for vessels. All of its revenue is either 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 illustrates that:

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

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

3. the marine fuel supply business is not cyclical; and

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), and this business benefits from the capacity growth of the container shipping market and is also affected by the demand for container shipping.

According to the above analysis, 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 has limited effect on the overall earnings of the Company. If a continuous sluggish global economic growth or even recession drives the shipping industry falling into a trough for a prolonged period and the total number of vessels in operation accordingly decreases substantially, the overall earnings of COSCO International will be negatively impacted, which is the greatest risk during the operation of the Company.

7. The number of new build ship orders substantially decreased in the past two years because of the imbalance between supply and demand in the shipping market. To what extent does this affect the ship trading agency business of COSCO International?

ANS: At the end of 2012, new build vessels ordered through COSCO Ship Trading amounting to 5.14 million dead weight tonnages were scheduled for delivery in the coming two years. The number of new build vessels for delivery gradually decreased from the high in 2011, and there were delays in delivery of new build vessels ordered through COSCO Ship Trading in 2012 as shipowners and shipping companies were not very optimistic about the prospects, negatively affected the commission income from new build vessel delivery for 2012. The possibility of delays in delivery is not ruled out in 2013.

Confronted with the severe market situation, COSCO Ship Trading will, on the one hand, focus on tracking the operating conditions of shipyards and shipowners and coordinating with various parties well to ensure smooth delivery of new build vessels, and on the one hand, 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 income of COSCO Ship Trading is collected by stages based on the ship building schedule, such commission income will only be recognised upon the delivery of new vessels. Commission income on trading of second-hand vessels is payable within a specified period commencing from the delivery of the vessels from the vendor to the buyer and will be booked by the end of that period.

9. What will be the effect on COSCO International upon the implementation of the centralised procurement for marine insurance brokerage and the supply of marine equipment by COSCO Group's fleets in 2013?

ANS: From 2013 onwards, COSCO International becomes the platform of centralised procurement for all the shipping companies within COSCO Group and provides services such as ship trading agency, marine insurance brokerage and supply of spare parts, which further enhances its business volume of all shipping services business segments inside COSCO Group. Although the profit margin of the businesses of marine insurance brokerage and marine equipment and spare parts may be lower due to the pressure from shipowners' cost control measures, it is believed that taking advantage of the tremendous scale of COSCO Group's fleets, COSCO International can obtain favourable terms from major marine equipment manufacturers and insurance companies, which will not only help COSCO Group's fleets reduce costs, but also will benefit COSCO International in exploring more markets outside COSCO Group to achieve a win-win situation.

10. The sales of container coatings of the Group dropped in 2012, thus resulting in reduction in profit contribution of container coatings. What is the estimated demand for container coatings in 2013?

ANS: The demand for container coatings mainly depends on the number of new build containers. Demand for new containers slid in the second half of 2012 due to the slow recovery of global economy and the uncertainty in the increase on trading volume of container shipping. New containers in China for the year amounted to 2,430,000 TEUs (2011: 2,880,000 TEUs), representing a decrease of 16% from the previous year. Looking forward to 2013, benefiting from the increase of delivery of new container vessels, shipping companies' slow steaming and replenishment of stocks, demand for new containers is expected to be slightly better in general as compared with 2012. According to the estimates of the industry, the total production volume of new containers in China in 2013 will be about 2,500,000 TEUs. Based on the coating consumption of 0.075 tonne per TEU, the estimated demand for container coatings will be approximately 188,000 tonnes in 2013.

11. 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 major raw materials of the container coating products. The oil-refined products, such as epoxy resin and solvent, account for approximately 62% of the total production cost, while the metal products, including titanium dioxide and zinc dust, account for approximately 32% of the total production cost. The price of the above raw materials fell by different degrees in 2012. In the first half of 2012, the prospects for the container coatings market was optimistic. The price of container coatings rose in line with the price of new containers. In addition, the falling prices of oil-refined by-products and metal products significantly drove up the gross profit margin of COSCO Kansai Companies. 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 containers went down from its high. Together with the keener competition in the industry which kept prices low, the gross profit margin of the container coatings business for the second half of the year substantially dropped. The average gross profit margin of container coatings for the whole year 2012 decreased when compared with 2011.

12. 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: Oil-refined by-products and metal products account for approximately 68% and 14% of the raw materials respectively used for marine coating production of Jotun COSCO. The prices of oil-refined products, such as resin and solvent, fell in 2012 due to the decrease in international crude oil prices. The price of metal products, such as copper, titanium dioxide and zinc, also decreased due to the oversupply in the market during the year. In 2012, 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 entered into contracts, normally long-term contracts. During 2012, raw material prices decreased. As a result, the gross profit margin of Jotun COSCO picked up. Jotun COSCO will actively develop the dock repair market for coatings to increase its sales volume of maintenance and repair coating and reduce the pressure on gross profit margin resulted from higher costs in the future.

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13. As the outlook of the shipping and shipbuilding markets has not been promising, new build vessels to be delivered in China in the next few years will decline year by year and demand for coatings for new build vessel will fall accordingly. What will be the expected capacity utilisation rate of the new plant in Qingdao upon operation in 2013? Will it suffer from excess capacity? What measure will Jotun COSCO take to cope with the year-by-year decline in orders of coatings for new build vessels?

ANS: One of the reasons for building a new plant in Qingdao by Jotun COSCO is capacity replacement. Jotun COSCO will not suffer from excess capacity as it will close the plant in Guangzhou in 2013. It is expected that the construction of the new plant in Qingdao will be completed in 2013 with a total annual production capacity up to 50,000,000 litres (equivalent to approximately 67,500 tonnes). The expected capacity utilisation rate will be more than 70% in the coming three years, mainly because:

1. Although the demand for new vessels has been declining, Jotun COSCO has contracts on hand of marine coatings at the end of 2012, which are to be supplied for over 300 new build vessels. The sales volume of coatings for new vessel is expected to be more than 37,000,000 litres (equivalent to approximately 50,000 tonnes). In addition to the ever increasing volume of maintenance and repair coatings, the capacity utilisation rate of the new plant is expected to increase; and

2. Jotun COSCO will close the plant in Guangzhou and other outsourcing factories according to production status upon completion of the construction of the Qingdao plant to ensure the full capacity utilisation.

Jotun COSCO will take the following measures to maintain the capacity utilisation rate of the Qingdao plant:

1. maintaining and consolidating the sale shares of major shipyards and shipowners and paying attention to construction of large vessels in order to achieve a higher level in terms of dead weight tonnages of a single vessel sale; and

2. introducing new products with cost efficiency in due course and expanding the sales of repair and maintenance coatings.

14. How does the fluctuation in oil prices affect the gross profit and the gross profit margin of Sinfeng? Are there any other factors which lead 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 is at 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. In 2012, shipping companies operated under difficulties in a continuously sluggish shipping market. Sinfeng adopted a prudent operating strategy to reduce business volume from customers with high potential risks. Coupled with an intense market competition, this resulted in the declines in the gross profit and gross profit margin of Sinfeng .

15. Is the marine bunkering business of the Company mainly conducted in the spot market or in accordance with long-term contracts? What are their proportions?

ANS: Currently, the business of trading and supply of marine fuel is largely conducted through spot trading with short and medium-term shipment, which are neither paper goods nor non-deliverable futures but physical delivery. The delivery period of oil products ranges from a couple of days to within one year. In many cases, most of the delivery periods are from one to three months, while delivery may also be made by instalments within a year. Generally, the price is fixed for delivery in the near term, while the price may be fixed or variable for delivery in the longer term (namely, over a few months), depending on whether the oil company is willing to offer. In case that a fixed price is required by a customer and the oil company can only offer a variable price, Sinfeng will seek to limit the price risk by means of futures hedging. In addition, Sinfeng does not hold any inventories in the operating process.

16. The Chief Executive of Hong Kong stated in the Policy Address that the Government intended to develop a highly value-added shipping services industry. What is the Company's view on the support of Hong Kong Government on the local shipping services industry? What is the plan of the Company to seize the development opportunities brought about by the Government?

ANS: The 12th Five-Year Plan of the PRC has made clear that the PRC government will support Hong Kong to reinforce and enhance its status as an international shipping centre. Hong Kong Government has its own specific measures to support the development of shipping services industry, especially the strategy to develop a highly value-added shipping services industry, which is in line with the major trend of global economic development. The Company is of the opinion that there are promising prospects for the shipping services industry. London in the United Kingdom, for example, has completed its transformation from a shipping centre to a shipping services centre, and further built up itself as a centre for vessel financing, shipping insurance and legal services. We believe that Hong Kong, by virtue of its own advantages, is able to become an international shipping services centre in the future, which, of course, takes time to bring about such transformation. It involves various supporting policies at various aspects, including industry policies, corresponding personnel policies, etc.

As for COSCO International, the Government's introduction of relevant policies to further improve the operating environment of Hong Kong shipping services industry, which is certainly good news for future development of the Company. Despite the fact that COSCO International covers few high-end services in its existing business in respect of shipping services industry, we will pay more attention to development opportunities in these fields from now onwards and consider them as an important part of our strategic development in the future.

A GLANCE AT FIVE-YEAR FINANCIAL STATISTICS

For the year ended and as at 31st December	2008	2009	2010	2011	2012
Total number of shares issued[Note] (million)	1,490	1,511	1,511	1,514	**1,514**
Closing price[Note] (HK$)	1.65	3.31	4.56	3.26	**3.41**
Market capitalisation[Note] (HK$ million)	2,458	5,000	6,890	4,934	**5,161**
Basic earnings per share (HK cents)	33.18	56.25	83.97	25.80	**23.98**
Price/earnings ratio[Note] (times)	4.97	5.88	5.40	12.64	**14.22**
Dividends per share (HK cents)	7.40	9.40	40.0	9.00	**8.00**
Dividend payout ratio (by net profit) (%)	22%	17%	48%*	35%	**33%**
Net assets value per share (HK$)	3.72	4.25	4.83	4.69	**4.85**
Return on total assets (%)	7.3%	11.4%	15.0%	4.1%	**3.8%**
Return on shareholders' equity (%)	9.4%	14.1%	18.5%	5.4%	**5.0%**
Net cash-to-shareholders' equity ratio (%)	21.2%	19.7%	85.8%	80%	**81%**
Current ratio (times)	1.87	2.43	4.66	3.92	**4.30**
Quick ratio (times)	1.63	2.04	4.41	3.62	**4.05**
Interest coverage (times)	39.76	78.7	89.0	33.3	**123.4**

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 disposal of a substantial non-core asset.

CORPORATE SOCIAL RESPONSIBILITY

COSCO International has been adhering to the philosophy of social responsibility of COSCO Group and has abided by the scientific view of people-orientation, comprehensive, coordinative and sustainable development. Following the established four principles of corporate social responsibility (CSR) of 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 regards them as day-to-day CSR practices. It aims at safeguarding and balancing the interests among its stakeholders including the shareholders, business partners, employees, customers and suppliers, as well as striving for harmonious, long-term and sustainable development of the enterprise with the society, the environment and the economy.

In 2012, by the concerted efforts of its management and all employees, COSCO International was selected as a constituent of Hang Seng Corporate Sustainability Benchmark Index, which reflected that the Company's continued efforts in environment protection and social responsibility, as well as enhancing its governance was highly acclaimed in the capital market. COSCO International has been awarded the Caring Company Logo by the Hong Kong Council of Social Service for four consecutive years and was honoured with the "Best CSR (China Company)" in the Asian Excellence Recognition Awards 2012 by Corporate Governance Asia. The awards recognised that COSCO International's efforts and contribution in fulfilling social responsibility.

SAFETY

As an enterprise controlling various companies engaging in the production of inflammable and explosive coating chemical products in Mainland China, 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, the Group has always regarded ensuring safe and stable production as 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, relevant laws and regulations of local governments, industry standards and the relevant safety management regulations of the HKSAR government. The safety management work of each subsidiary was comprehensively regulated and managed, and the employees of all levels gain heightened awareness in occupational safety and health 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).

Step by Step, Continuous Promoting HSE Standardisation

The coating manufacturing subsidiaries of COSCO International obtained 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) and have been approved for two consecutive years, thus effectively guaranteeing the establishment of a healthy, safe and stable working environment. In addition, the Group attached great importance to various safety management and environmental assessment regarding to the construction of the new plant in Qingdao. Multiple units and working groups implemented the supervision and control from different aspects so as to ensure the project always be in accordance with the various requirements and standards on environmental protection, occupational health and safety from the construction period to the completion. Furthermore, the Group also established and developed the Safety Self Assessment System which required each subsidiary to conduct comprehensive self assessment with respect to the safety management system and identify drawbacks so as to further improve and update safety management of each unit including quality management, manufacturing environment and production procedures.

Strengthening Hidden Hazards Rectification and Advocating Safety in a Scientific Way

In 2012, each subsidiary of COSCO International 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 be ensured. To achieve the above two objectives, the Group implemented a three-pronged approach i.e. training and education, supervision and inspection as well as emergency drills. During the year, the Group continuously adhered to its working principle of "Continued Improvement and Cyclical Advancement" and a corporate safety risk identification system was 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 2012, the Safety Management Committee of the Group conducted a total of 28 (2011: 28) on-site safety inspections in the four key coating manufacturing plants in operation and conducted immediate rectification to the detected hidden hazards. The rectification ratio of hidden hazards tracked in the four coating manufacturing enterprises amounted to 100% during the year.

In addition, the Group emphasised and advocated safety in a scientific way and strengthened the reliability and controllability of safety equipment and facilities through technology. During the year, the Group installed video surveillance systems and hazardous gas detection and warning systems in all the important locations of its major coating manufacturing companies. Also, the Group had fully applied the successfully developed electrostatic control apparatus and made efforts to improve the ventilation facilities of the production plants. All these are examples of using technology to improve the corporate safety fundamentally.

In 2012, the coating manufacturing subsidiaries of the Group did not record any significant incident in relation to production safety.

Fully Promoting a Safety Culture Through Educational Activities

During the year, the Group adopted the "Training Supplemented with Activities" approach by setting different training goals for safety education according to different safety management tasks and organising a variety of training activities. There were diversified promotional and educational activities such as year-round activities including knowledge contest, examinations, external expert lectures, seminars and skills contest, and thematic activities including "safe production month", etc, thereby heightening the awareness of employees towards safety, occupational health and environmental protection and cultivating a corporate culture where occupational health and safety awareness were emphasised. 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 20 (2011:16) large-scale integrated emergency drills with 1,144 attendances (2011: 1,575 attendances).

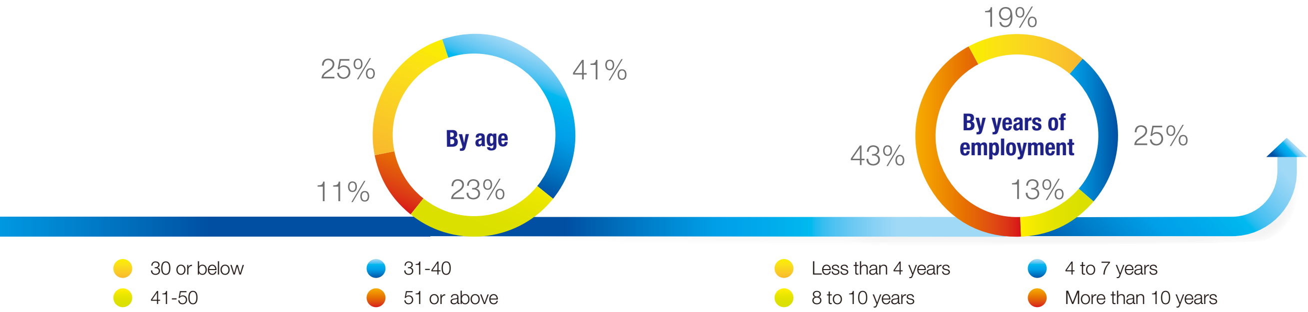
EMPLOYEES

People-oriented Governance Concept

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 2012, the Group, excluding jointly controlled entities and associates, had a total of 782 employees (2011: 747), of which 112 (2011: 110) were based in Hong Kong, 638 (2011: 604) in Mainland China and 32 (2011: 33) in overseas companies.

CORPORATE SOCIAL RESPONSIBILITY

EMPLOYEES' PARTICULARS IN 2012



The Company's management believes that if a 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 package, which is complemented with sound training programmes to nurture the talents, thereby 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.

Establishing Learning-oriented Enterprise

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 programmes and encourages and subsidises its employees to participate in individual continuing education programmes which are related to their job duties, with 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 2012, training courses organised by the Company and 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 result for exchange and learning from each other during training. In future, the Company will continue to enhance 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.

Valuing Integrity Management, Enhancing Incorruptibility Education

COSCO International considers the principles of honesty, integrity and fairness as the key elements of sustainable development of an enterprise. COSCO International formulated the Staff Code of Conduct ("the Code") in 2007, which serves as a clear and complete guideline to monitor the code of conduct of the employees of the Company and its subsidiaries during daily operations. Every year, the Group reviews the implementation status of the Code through a self-inspection process, in order to ensure that the contents of the Code had been applied throughout the actual operations and management practices, so as to balance and safeguard the interests between the Group and the stakeholders and build up a long term partnership.

Besides, the Company organised seminars on risk management in listed companies from time to time, in order to enhance risk management awareness of staff at each level of management and eliminate loopholes related to integrity issues that may arise in the course of performing duties, with the aim of further enhancing the professional conduct and integrity management of its management team, and promoting a management culture with high values of business ethics and incorruptibility. In 2012, COSCO International arranged its Hong Kong employees to participate in seminar on integrity management of enterprises jointly organised by COSCO Hong Kong and Independent Commission Against Corruption, to strengthen and raise the awareness of incorruptibility among its employees when facing the conflict of interests during daily work, which promoted the establishment of sound corporate culture of integrity and sustainable healthy development.

Promoting Healthy and Balanced Life

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, during the year, the Group organised diversified activities, including annual dinner, staff travel and various cultural and recreational activities, as well as exchange and learning tours to Mainland China, or set 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.

ENVIRONMENTAL PROTECTION

In the context of aggravating global climate change, shipping enterprises as the industry with the world's largest cargo volume play an important role in the development of a low-carbon economy. As a shipping services provider mainly serving vessels, the Group actively responds to COSCO Group's call for green shipping and continuously promotes energy saving and emission reduction, as well as reduces environmental pollution. In particular, the Group's coating manufacturing enterprises actively promoted the development of environmentally-friendly coatings in an effort to protect global climate.

Full Implementation of Green Coating Standards

In response to the demand for green shipping by the marine organisations and environmental protection departments worldwide, Jotun COSCO, COSCO International's jointly controlled entity which commands a leading position in the marine coating industry in China, has been fully prepared in accordance with the relevant laws and regulations. Jotun COSCO completed the coating system testing in accordance with the performance standard for protective coatings for cargo oil tanks (PSPC COT) to be implemented by the International Maritime Organisation in 2013, and optimised the technical terms and definitions, basic requirements, technical contents and test methods of ship antifouling paint, an environment label product, according to the standards stipulated in "Technical Requirement for Environmental Labelling Products: Ship Antifouling Paint". In addition, Jotun COSCO also actively assisted and followed up the development of standard methods for measuring traditional propeller performance advocated by Clean Shipping Coalition, an environmental protection organisation, and assisted shipowners to prepare for the implementation of the Energy Efficiency Design Index (EEDI) and the Ship Energy Efficiency Operations Index (EEOI) in 2013.

Research and Development of and Promoting Green Products

Jotun COSCO actively promoted the Sea Quantum series product of anti-fouling coatings

COSCO International is committed to advocating green shipping and, its jointly controlled entity, Jotun COSCO, has for years endeavoured to promote its marine coatings known as the Sea Quantum series product of anti-fouling coatings, which is an energy saving and environment-friendly coating product researched and developed on its own. As the product used raw materials without solvents but with low volatile organic compounds, it can effectively reduce marine fuel consumption by lessening the roughness of the vessel body, leading to minimising fuel cost of vessels and reducing pollution to the ocean. During the year, Jotun COSCO, through participation in major industry fairs or sponsorship programmes, industry conferences, and regular advertisements, press releases, interviews with senior management and current affairs coverage, as well as face-to-face exchange with customers, promoted its fuel saving solutions and related environment-friendly products to clients including shipyards, shipowners and vessel design research institutes and arranged for field test. They were well received by many customers.

CORPORATE SOCIAL RESPONSIBILITY

COSCO Kansai Companies strengthened research and development of environment-friendly coating products

COSCO Kansai Companies, subsidiaries of COSCO International, have been active in raising the level of research and development in recent years. Their technology centre in Tianjin has been listed as a branch centre of the national research centre of COSCO Group, and has been named as a post-doctoral research station by the Ministry of Human Resources and Social Security of the PRC. During the year, a number of research projects obtained recognition and funding from the relevant departments of the PRC. Three invention patents were awarded by the PRC, including "a method of preparation of water-based anti-corrosion coating resins, vinylidene chloride – acrylate", a method of preparation of vinylidene chloride – acrylic acetate emulsion preparation" and "water-based single-component container primer". In order to strengthen the promotion and application of green coatings, COSCO Kansai Companies actively promoted the high solid products and water-based container coatings researched and developed on its own to major container manufacturing enterprises and container owners. In addition, a trial spray coating of the high solid products was completed and was well received by container manufacturing enterprises. COSCO Kansai Companies' water-based coatings not only had high anti-corrosion effect, but also helped reduce the emission of volatile organic compounds, and therefore were able to reduce environmental pollution and safeguard occupational health of the workers, thereby playing an important role in establishing environment-friendly enterprises, and enhancing corporate competitiveness and brand influence.

Actively Implementing Environmental Management

The Group is committed to promoting green operation and actively implementing energy saving, reduction and recycling. The coating manufacturing enterprises of the Group have strictly implemented the various systems and management measures of the Environmental Management System Certification stipulated by the International Organisation for Standardisation (ISO), and researched on the new technologies and skills for the promotion of energy saving and emission reduction, in order to minimise the environmental damage caused by the production process. In 2012, the Group invested RMB737,000 in energy saving and emission reduction, which was mainly used in the following areas:

Coating manufacturing enterprises	
Energy saving	
• Upgrade of the sand mills in coating factories made the mills stop operation automatically after finished grinding of materials to reduce power consumption caused by empty grinding. A vertical sand mill was replaced by a horizontal airtight sand mill to prevent the volatile phenomenon of open type vertical sand mill, thereby reducing power of 19,869 kwh per annum.	
• Upgrade of the lighting systems of the production workshops in the coating plants by using lighting equipment with higher brightness and lower power consumption.	
Emission reduction	
Reducing greenhouse gas emissions	• Upgrade of the ventilation and dust filter system, and filter system of harmful organic gas of the production workshops to reduce harmful gas emissions and improve the working environment of employees. • Improvement of the packaging conditions by replacing vibrating screens with steel platform filters. The improved packaging process was basically airtight which effectively reduced the generation of volatile organic compounds. • Improvement of the coating basin lid by adjusting the middle opening of the basin lid and installing an airtight cap to reduce the emission of volatile organic gases from the middle opening.
Reducing hazardous waste	• Construction of a safe and reliable waste warehouse, strengthening of daily waste collection and management, and commissioning of qualified solid waste disposal contractors to transport and process waste in strict accordance with the environmental protection requirements. • Upgrade of the electric feeding pump of the sand mill of the coating production lines by using diaphragm pump to replace the internal gear pump driven by electric motor, thereby improving the safety standards and reducing energy consumption by saving 8-10 tonnes of standard coal per annum.

Reducing water consumption	• Construction of a sewage treatment system to ensure waste water drainage in compliance with the requirements. • Construction of a summer cooling water recycling pool in the tank farm to reduce loss of cooling water due to direct drainage. • Upgrade of the fire water supply pipes to reduce the loss of fire fighting water caused by the damage of pipelines due to land subsidence.
Recycling	
• Continuing to strengthen the utilisation of recycling bins at workshops, and the restoration and recycling of wooden pallets. In 2012, the Group recollected and reused wooden pallets of more than 8,000 pieces. • Testing the recollection and recycling of barrels for filling coating while a total of about 12,000 barrels were recollected in 2012. This saved costs for purchase of new barrels and reduces the impact on the environment.	
Non-manufacturing enterprises	
• Launching the environment-friendly campaign of "Saving a drop of water, a kilowatt of power and a piece of paper" by encouraging the staff to reduce office consumables such as printing papers; to save energy by turning off the computer or electrical appliances and equipment when not in use, to use energy efficient bulbs, and to adjust the air conditioning temperature to 25 degrees at office, so as to build up conservation awareness among all staff. • Promoting recycling. The Company cooperated with Christian Action to organise the "Green Collection Day" programme to encourage the employees to donate recycled items such as electrical appliances, toys and clothes for the people in need, to reduce waste. In 2012, a total of 140 kilograms of clothes and 5 pieces of appliance were 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.	

Cultivating Environmental Protection Awareness

During the year, the Group held diversified training and education through cooperation with different environmental protection organisations to raise its employees 'awareness of environmental conservation and enhance the application and knowledge of energy saving and carbon reduction, energy efficiency, thereby further establishing a corporate culture of low-carbon office. They included:

- Organising staff of coating manufacturing enterprises to participate in training courses on energy statistics, so as to strengthen staff's knowledge on policies concerning the industrial energy saving strategy adopted by the PRC as well as energy saving and comprehensive utilisation of resources.

- Encouraging its employees to reduce carbon foot print and participate in a fund-raising activity, "the Community Chest Green Day", organised by the Community Chest of Hong Kong. The activity urged its staff to reduce their carbon footprints by using environmentally friendly public transportation more frequently.

- Holding "eco-photography internship seminar" to promote staff awareness of the importance of caring for the environment and nature conservation.

In 2012, the Group had no significant incident record of environmental pollution.

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.

CORPORATE SOCIAL RESPONSIBILITY

Supporting Education in Mountainous Areas in Mainland China

COSCO International has always made donations to the students in mountainous areas to support them to continue their studies and change their lives with knowledge. Since 2008, COSCO International has sponsored the annual fund-raising activity of Sowers Action, non-profit making charitable organisation, namely "Sowers Action Challenging 12 Hours Charity Marathon". The Company has donated approximately HK$815,100 in total for the past five years, which supported more than 400 students to continue their studies, and has encouraged its staff to participate in the charity activity in person. In 2012, COSCO International dispatched 13 teams comprising 40 Hong Kong employees and their family members to participate in the activity, number of which hit record high. Three teams achieved good results respectively with the fifth, ninth and tenth places in the 10 km race, and one family team won the second place in the orienteering race. More than 130 attendances in total participated in the activity during the past five years, which fully reflected the care of the Group for the education in mountainous areas in Mainland China.

Assisting Local Community Development

Every year, COSCO International encourages its staff to participate in the charity activities held by the Community Chest of Hong Kong, such as Dress Special Day and Green Day. With a view to prompting more staff to donate, the Company initiated a programme of "HK$1 from an employee, HK$1 from the Company". The funds raised have been used for promoting children welfare, medical care and community development services. In 2012, COSCO International organised its holding headquarters and subsidiaries to participate in the fund-raising activity of "The Community Chest Green Day", which won strongly supports from various units with 87 participants.

Promoting a Volunteering Culture

With a view to building up a volunteering culture which encourages the staff to care for the community they live in, COSCO International has joined the Agency for Volunteer Services ("AVS") as a corporate member since 2011 and urged its employee and their family members to participate in volunteer services referred by AVS with other social services organisations. In 2012, COSCO International arranged Hong Kong employees and their family members to participate in volunteer visits organised by a non-profit social organisation namely the Neighbourhood Advice-Action Council to celebrate Dragon Boat Festival and Mid-Autumn Festival with the elderly who live alone, so as to deliver care to them. The number of volunteers participating in the two activities amounted to 47 while 188 volunteer hours were recorded. For the past two years, a total of about 100 attendances of volunteers with more than 320 volunteer hours recorded, thereby building up a corporate culture of caring for the community.

Going forward, the Company will continue to actively perform its corporate social responsibilities. While taking responsibility to its shareholders, the Company also fulfills its responsibilities to each stakeholder by prompting green lifestyle to mitigate global warming and partnering with social services organisations to urge the staff participate in more charitable activities, so as to contribute to the sustainable livelihood in future.

INDEPENDENT AUDITOR'S REPORT

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 107 to 189, which comprise the consolidated and company balance sheets as at 31st December 2012, 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 judgment, 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 2012, 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, 21st March 2013

CONSOLIDATED BALANCE SHEET

As at 31st December 2012

	Note	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Intangible assets	6	97,071	98,542
Property, plant and equipment	7	156,718	162,217
Prepaid premium for land leases	8	7,064	7,482
Investment properties	9	38,447	35,777
Jointly controlled entities	11	416,886	376,877
Associates	12	79,015	85,053
Available-for-sale financial assets	14	59,373	66,187
Deferred income tax assets	15(a)	62,044	72,640
Non-current deposits	21	61,654	–
		978,272	904,775
Current assets			
Completed properties held for sale	16	186	186
Inventories	17	487,264	665,656
Trade and other receivables	18	2,288,638	2,191,709
Available-for-sale financial assets	14	37,281	20,659
Derivative financial assets	19	–	78
Financial assets at fair value through profit or loss	20	700	377
Current income tax recoverable		19,589	1,471
Restricted bank deposits	21	41,570	36,890
Current deposits and cash and cash equivalents	21	5,763,888	5,666,734
		8,639,116	8,583,760
Total assets		9,617,388	9,488,535
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	151,363	151,363
Reserves	23	7,091,940	6,834,478
Proposed dividends	23	90,818	105,954
		7,334,121	7,091,795
Non-controlling interests		246,023	187,119
Total equity		7,580,144	7,278,914
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	15(b)	26,689	20,358
Current liabilities			
Trade and other payables	24	1,946,155	2,122,464
Current income tax liabilities		18,195	31,998
Short-term borrowings	25	46,205	34,801
		2,010,555	2,189,263
Total liabilities		2,037,244	2,209,621
Total equity and liabilities		9,617,388	9,488,535
Net current assets		6,628,561	6,394,497
Total assets less current liabilities		7,606,833	7,299,272

He Jiale
Director

Xu Zhengjun
Director

The notes on pages 114 to 189 form an integral part of these audited consolidated financial statements.

BALANCE SHEET

As at 31st December 2012

	Note	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**780**	874
Subsidiaries	10(a)	**197,545**	161,765
Jointly controlled entity	11	**143,688**	143,688
Amount due from a subsidiary	10(b)	**40,000**	–
		382,013	306,327
Current assets			
Amounts due from subsidiaries	10(b)	**1,284,146**	1,448,333
Other receivables	18	**160,112**	56,482
Current deposits and cash and cash equivalents	21	**4,458,689**	4,469,426
		5,902,947	5,974,241
Total assets		**6,284,960**	6,280,568
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	**151,363**	151,363
Reserves	23	**5,684,921**	5,748,558
Proposed dividends	23	**90,818**	105,954
Total equity		**5,927,102**	6,005,875
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	10(b)	**339,923**	258,781
Other payables	24	**14,783**	15,692
Current income tax liabilities		**3,152**	220
Total liabilities		**357,858**	274,693
Total equity and liabilities		**6,284,960**	6,280,568
Net current assets		**5,545,089**	5,699,548
Total assets less current liabilities		**5,927,102**	6,005,875

He Jiale
Director

Xu Zhengjun
Director

The notes on pages 114 to 189 form an integral part of these audited consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2012

	Note	2012 HK$'000	2011 HK$'000
Revenue	5	**10,005,705**	10,656,121
Cost of sales	27	**(9,319,720)**	(9,764,086)
Gross profit		**685,985**	892,035
Other income and gains	26	**63,199**	46,264
Selling, administrative and general expenses	27	**(448,053)**	(539,121)
Other expenses and losses	27	**(2,368)**	(28,199)
Operating profit		**298,763**	370,979
Finance income	30	**127,896**	108,736
Finance costs	30	**(3,948)**	(16,928)
Finance income – net	30	**123,948**	91,808
Share of results of jointly controlled entities	11	**37,996**	50,152
Share of results of associates	12	**13,126**	25,755
Profit before income tax		**473,833**	538,694
Income tax expenses	31	**(70,926)**	(90,963)
Profit for the year		**402,907**	447,731
Profit attributable to:			
Equity holders of the Company	32	**363,006**	390,339
Non-controlling interests		**39,901**	57,392
		402,907	447,731
Earnings per share attributable to equity holders of the Company during the year			
– basic, HK cents	33(a)	**23.98**	25.80
– diluted, HK cents	33(b)	**23.73**	25.37

The notes on pages 114 to 189 form an integral part of these audited consolidated financial statements.

	Note	2012 HK$'000	2011 HK$'000
Dividends	34	**121,091**	136,227

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2012

	2012 HK$'000	2011 HK$'000
Profit for the year	**402,907**	447,731
Other comprehensive income		
Adjustment on the adoption of HKAS 12 (Amendment)	**1,436**	–
Currency translation differences	**1,404**	45,585
Share of currency translation differences of a jointly controlled entity and an associate	**3,346**	13,109
Share of cash flow hedges of an associate, net of tax	**(28)**	1,453
Reserves realised in consolidated income statement upon disposal of a jointly controlled entity	**–**	(320)
Fair value gains/(losses) on available-for-sale financial assets	**9,808**	(37,182)
Reserves realised in consolidated income statement upon disposal of available-for-sale financial assets	**–**	(12,921)
Cash flow hedges, net of tax	**(78)**	78
Other comprehensive income for the year	**15,888**	9,802
Total comprehensive income for the year	**418,795**	457,533
Total comprehensive income attributable to:		
Equity holders of the Company	**378,552**	389,525
Non-controlling interests	**40,243**	68,008
	418,795	457,533

The notes on pages 114 to 189 form an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2012

	Note	Attributable to equity holders of the Company Share capital HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1st January 2012		151,363	1,177,541	5,762,891	7,091,795	187,119	7,278,914
Profit for the year		–	–	363,006	363,006	39,901	402,907
Other comprehensive income							
Adjustment on the adoption of HKAS 12 (Amendment)	23	–	1,436	–	1,436	–	1,436
Currency differences on translation of:							
– subsidiaries	23	–	1,168	–	1,168	–	1,168
– associates	23	–	(106)	–	(106)	–	(106)
– non-controlling interests		–	–	–	–	342	342
Share of currency translation differences of:							
– a jointly controlled entity	23	–	3,268	–	3,268	–	3,268
– an associate	23	–	78	–	78	–	78
Share of cash flow hedges of an associate, net of tax	23	–	(28)	–	(28)	–	(28)
Fair value gains on available-for-sale financial assets	23	–	9,808	–	9,808	–	9,808
Cash flow hedges, net of tax	23	–	(78)	–	(78)	–	(78)
Total comprehensive income for the year ended 31st December 2012		–	15,546	363,006	378,552	40,243	418,795
Transactions with owners							
Transfer between reserves	23	–	(1,711)	1,711	–	–	–
Capital contribution by non-controlling interests		–	–	–	–	23,725	23,725
Dividends paid	23	–	–	(136,226)	(136,226)	(5,064)	(141,290)
Total transactions with owners		–	(1,711)	(134,515)	(136,226)	18,661	(117,565)
Balance at 31st December 2012		151,363	1,191,376	5,991,382	7,334,121	246,023	7,580,144

The notes on pages 114 to 189 form an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2012

		Attributable to equity holders of the Company					
	Note	Share capital HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'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:							
– a jointly controlled entity	23	–	12,701	–	12,701	–	12,701
– an associate	23	–	408	–	408	–	408
Share of cash flow hedges of an associate, net of tax	23	–	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	23	–	(12,921)	–	(12,921)	–	(12,921)
Cash flow hedges, net of tax	23	–	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 between 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

The notes on pages 114 to 189 form an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December 2012

	Note	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Cash generated from operations	35	**339,440**	25,387
Income tax paid		**(84,880)**	(103,575)
Net cash generated from/(used in) operating activities		**254,560**	(78,188)
Cash flows from investing activities			
Decrease/(increase) in cash investments with maturity over three months		**1,869,429**	(3,484,109)
Increase in restricted bank deposits		**(4,658)**	(7,572)
Interest received		**127,896**	108,736
Advance of loan to a jointly controlled entity		**(108,592)**	(35,021)
Dividends received from investments		**2,377**	2,263
Dividends received from jointly controlled entities		**1,255**	2,517
Dividends received from associates		**19,108**	700
Net proceeds from sale of property, plant and equipment		**74**	105
Purchase of intangible assets		**(102)**	(5,919)
Purchase of property, plant and equipment		**(13,112)**	(14,757)
Net proceeds from disposal of a jointly controlled entity		**–**	8,886
Net proceeds from disposal of available-for-sale financial assets		**–**	14,037
Net cash generated from/(used in) investing activities		**1,893,675**	(3,410,134)
Cash flows from financing activities			
Drawdown of bank loans		**46,061**	7,691
Repayment of bank loans		**(34,751)**	(180,986)
Shares issued upon exercise of share options	22(d)	**–**	6,926
Capital contribution by non-controlling interests		**23,725**	–
Finance costs paid		**(3,948)**	(16,928)
Dividends paid to the Company's equity holders		**(136,226)**	(605,413)
Dividends paid to non-controlling interests		**(5,064)**	(4,933)
Net cash used in financing activities		**(110,203)**	(793,643)
Net increase/(decrease) in cash and cash equivalents		**2,038,032**	(4,281,965)
Cash and cash equivalents at the beginning of the year		**2,045,378**	6,299,798
Exchange (losses)/gains on cash and cash equivalents		**(4,310)**	27,545
Cash and cash equivalents at the end of the year	21(f)	**4,079,100**	2,045,378

The notes on pages 114 to 189 form an integral part of these audited consolidated financial statements.

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 21st March 2013.

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 2012, 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
HKAS 1 (Amendment)	Presentation of Financial Statements	1st July 2012
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets	1st January 2012
HKFRS 7 (Amendment)	Disclosure – Transfer of Financial Assets	1st July 2011

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

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

In December 2010, the HKICPA amended HKAS 12 ("Income Taxes") to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely through sale.

The adoption of this amendment has resulted in a change in accounting policy on the provision of deferred tax on revaluation of investment properties. Previously, provision for deferred tax was made at the income tax rates on the revaluation of, and the tax bases of, investment properties held under operating leases on the basis that their values would be recovered through use rather than through sale. As required by the amendment, the Group has re-measured the deferred tax relating to the investment properties according to the tax consequence on the presumption that they are recovered entirely by sale. This change in accounting policy should be accounted for retrospectively. However, as such change has no material effect on the results and financial position of the Group, the comparative figures have not been restated.

The adoption of the other 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 2012 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
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 2014
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
HKFRSs (Amendment)	Annual Improvements 2011	1st January 2013

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

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

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 except for HKFRS 10 "Consolidated Financial Statements" which the management has assessed that there is no impact on the determination of subsidiaries upon adoption.

(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.

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 identifiable net 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (Continued)

(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.

(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, net of any accumulated impairment loss.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 arises on the acquisition of subsidiaries, jointly controlled entities and associates and represents the excess of the consideration transferred over the Group's interest in net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree 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.

NOTES TO THE FINANCIAL STATEMENTS

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 an investment property. Investment property is measured initially at cost, including related transaction cost. After initial recognition, investment properties are carried at fair value.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Properties (Continued)

(i) Investment properties (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets (Continued)

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.

(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 a 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

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

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria 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 consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the 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 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 expenses for the period comprise 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Current and deferred income tax (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Foreign currency translation (Continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Employee benefits

(i) Pensions and retirement benefits

Following the adoption of the Mandatory Provident Fund Scheme ("MPF Scheme") in December 2000, all staff of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK$1,250. 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).

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Employee benefits (Continued)

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue and income recognition (Continued)

(vi) Interest income

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

(y) Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

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 2012 and 2011, 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 2012, 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$38,985,000 (2011: HK$37,674,000) 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 2012, 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$3,826,000 (2011: HK$6,849,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(2) Interest rate risk

Other than loan to a jointly controlled entity and 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$28,488,000 (2011: HK$27,342,000).

(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 2012, there were no outstanding derivative financial instruments entered into by the Group.

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	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
5% change in market price	**35**	19	**4,745**	4,254

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 2012 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$'000	**Between 2 and 3 years** HK$'000
Group		
At 31st December 2012		
Trade and other payables	**1,888,043**	**13,861**
Short-term borrowings	**47,128**	**–**
At 31st December 2011		
Trade and other payables	2,077,841	–
Short-term borrowings	35,026	–
Company		
At 31st December 2012		
Amounts due to subsidiaries	**339,923**	**–**
Other payables	**14,783**	**–**
At 31st December 2011		
Amounts due to subsidiaries	258,781	–
Other payables	15,692	–

NOTES TO THE FINANCIAL STATEMENTS

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 2011, is to maintain a low gearing ratio. The gearing ratios at 31st December 2012 and 2011 were as follows:

	2012 HK$'000	2011 HK$'000
Total borrowings	**46,205**	34,801
Total assets	**9,617,388**	9,488,535
Gearing ratio	**0.5%**	0.4%

(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).

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value at 31st December 2012 and 2011.

At 31st December 2012	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Available-for-sale financial assets				
– equity securities	**94,895**	**–**	**1,759**	**96,654**
Financial assets at fair value through profit or loss				
– trading securities	**700**	**–**	**–**	**700**
Total	**95,595**	**–**	**1,759**	**97,354**

At 31st December 2011	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'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

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

(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 2012, the carrying amount of goodwill was HK$92,346,000. 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.

NOTES TO THE FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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.

(g) Estimate of cost provisions

Cost provisions are recognised when the Group has a present legal or constructive obligation as a result of past events for which the amounts have been reliably estimated. With the degree of uncertainty surrounding the amount of the settlement, judgement is required in assessing the ultimate settlement of these provisions. Cost provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

(h) 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.

(i) Relocation of a production plant of coating business

In 2012, the Group is committed to relocate a production plant in the PRC by the end of 2014, the latest, in order to meet a provincial town planning. This has resulted in a provision for employee severance payment of HK$12,275,000. A high degree of management judgement is required in assessing the provision, which will be subject to reassessment at the end of each reporting period. In addition, the useful lives of certain non-movable property, plant and equipment are adjusted, which has resulted in an accelerated depreciation of HK$3,422,000 in 2012.

(j) Investment in Double Rich Limited ("Double Rich")

Management has assessed the level of influence that the Group has on Double Rich and determined that it has significant influence even though the shareholding is below 20% because of the board representation. Consequently, this investment has been classified as an associate.

NOTES TO THE FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION

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

	2012 HK$'000	2011 HK$'000
Sale of coatings	**1,274,861**	1,608,654
Sale of marine equipment and spare parts	**923,102**	970,159
Commission income from ship trading agency	**109,340**	150,156
Commission income from insurance brokerage	**85,142**	85,486
Sale of marine fuel and other products	**6,228,123**	6,679,864
Sale of asphalt and other products	**1,385,137**	1,161,802
	10,005,705	10,656,121

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 ("Jotun COSCO")
Marine equipment and spare parts	trading of marine equipment and spare parts, and holding of investments in jointly controlled entities
Ship trading agency	provision of agency services relating to shipbuilding, ship trading and bareboat charter business, and holding of investments in a jointly controlled entity and an associate
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
General trading	trading of asphalt and other products, and holding of investments in 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2012									
	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	1,274,861	924,386	109,351	85,426	6,280,320	8,674,344	1,391,996	–	(60,635)	10,005,705
Inter-segment revenue	–	(1,284)	(11)	(284)	(52,197)	(53,776)	(6,859)	–	60,635	–
Revenue from external customers	1,274,861	923,102	109,340	85,142	6,228,123	8,620,568	1,385,137	–	–	10,005,705
Segment operating profit	114,044	49,418	68,750	60,793	47,760	340,765	23,797	2,700	–	367,262
Finance income	7,263	3,337	7,495	1,189	120	19,404	2,441	–	(2,051)	19,794
Finance costs	(866)	(1,182)	(55)	(121)	(7,052)	(9,276)	(9,824)	–	2,051	(17,049)
Share of results of jointly controlled entities	38,303	(623)	316	–	–	37,996	–	–	–	37,996
Share of results of associates	–	–	20	–	13,796	13,816	(690)	–	–	13,126
Segment profit before income tax	158,744	50,950	76,526	61,861	54,624	402,705	15,724	2,700	–	421,129
Income tax expenses	(20,880)	(6,327)	(20,415)	(10,773)	(1,784)	(60,179)	(5,037)	–	–	(65,216)
Segment profit after income tax	137,864	44,623	56,111	51,088	52,840	342,526	10,687	2,700	–	355,913
Balance sheet items:										
Total segment assets	1,793,196	649,562	349,012	187,350	839,522	3,818,642	1,191,953	95,595	(134,461)	4,971,729
Total segment assets include:										
– Jointly controlled entities	400,822	13,570	2,494	–	–	416,886	–	–	–	416,886
– Associates	–	–	2,078	–	69,303	71,381	7,634	–	–	79,015
Total segment liabilities	747,839	329,492	108,481	84,462	661,929	1,932,203	978,774	–	(134,461)	2,776,516
Other items:										
Depreciation and amortisation, net of amount capitalised	16,447	1,428	776	86	–	18,737	1,818	–	–	20,555
Provision for impairment of inventories, net of reversal	2,215	–	–	–	–	2,215	–	–	–	2,215
Reversal of provision for impairment of trade and other receivables, net of provision	2,465	2,628	–	–	29,654	34,747	4,181	–	–	38,928
Reversal of provision for selling expenses (note 27)	65,000	–	–	–	–	65,000	–	–	–	65,000
Additions to non-current assets (other than available-for-sale financial assets and deferred tax assets)	5,093	363	22	21	–	5,499	7,465	–	–	12,964

NOTES TO THE FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	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/(loss)	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 expenses	(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

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:

	2012 HK$'000	2011 HK$'000
Profit before income tax for reportable segments	418,429	502,458
Profit before income tax for all other segments	2,700	14,728
Profit before income tax for all segments	421,129	517,186
Elimination of unrealised profit on inter-segment revenue	–	(1,464)
Elimination of segment income from corporate headquarters	(81)	(74)
Elimination of segment finance costs to corporate headquarters	13,113	6,445
Corporate finance income	108,102	99,726
Corporate finance costs	(12)	(19)
Corporate expenses, net of income	(68,418)	(83,106)
Profit before income tax for the Group	473,833	538,694
Income tax expenses for all segments	(65,216)	(82,083)
Corporate income tax expenses	(5,710)	(8,880)
Profit after income tax for the Group	402,907	447,731

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

	2012 HK$'000	2011 HK$'000
Total assets for reportable segments	5,010,595	5,003,272
Total assets for all other segments	95,595	85,464
Elimination of inter-segment receivables	(134,461)	(138,615)
	4,971,729	4,950,121
Corporate assets (mainly deposits and cash and cash equivalents)	5,415,905	5,426,538
Elimination of unrealised profit on inter-segment revenue	–	(1,464)
Elimination of corporate headquarters' receivables from segments	(770,246)	(886,660)
Total assets for the Group	9,617,388	9,488,535

NOTES TO THE FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

	2012 HK$'000	2011 HK$'000
Total liabilities for reportable segments	2,910,977	3,206,874
Elimination of inter-segment payables	(134,461)	(138,615)
	2,776,516	3,068,259
Corporate liabilities	30,974	28,022
Elimination of segment payables to corporate headquarters	(770,246)	(886,660)
Total liabilities for the Group	2,037,244	2,209,621

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$748,239,000 (2011: HK$793,629,000) and HK$9,257,466,000 (2011: HK$9,862,492,000) 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$576,831,000 (2011: HK$539,503,000) and HK$280,024,000 (2011: HK$226,445,000) respectively.

Revenue of HK$1,195,894,000 (2011: HK$1,378,532,000) is derived from a single external customer of the marine fuel and other products segment.

6 INTANGIBLE ASSETS

		Group	
	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
Cost:			
At 1st January 2012	98,327	7,994	106,321
Additions	–	102	102
Currency translation differences	3	(1)	2
At 31st December 2012	98,330	8,095	106,425
Accumulated amortisation and impairment:			
At 1st January 2012	5,984	1,795	7,779
Currency translation differences	–	2	2
Amortisation (note 27)	–	1,573	1,573
At 31st December 2012	5,984	3,370	9,354
Net book amount	92,346	4,725	97,071

NOTES TO THE FINANCIAL STATEMENTS

6 INTANGIBLE ASSETS (CONTINUED)

	Group		
	Goodwill HK$'000	Computer software HK$'000	Total 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

Impairment tests for goodwill

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

	2012 HK$'000	2011 HK$'000
Agency service in respect of shipbuilding, ship trading and bareboat charter business ("Ship trade business")	**48,320**	48,317
Provision of insurance brokerage services ("Insurance business")	**35,046**	35,046
Trading of marine equipment and spare parts ("Supply business")	**8,980**	8,980
	92,346	92,343

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.

NOTES TO THE FINANCIAL STATEMENTS

6 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill (Continued)

The key assumptions used for value-in-use calculations in 2012 are as follows:

	Ship trade business	Insurance business	Supply business
Weighted average growth rate	4%	2%	3%
Discount rate	13.5%	13.5%	13.5%

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	9.9%	9.9%	9.9%

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 pre-tax and reflect specific risks relating to the relevant segments.

NOTES TO THE FINANCIAL STATEMENTS

7 PROPERTY, PLANT AND EQUIPMENT

Group

	Properties HK$'000	Machinery, equipment and motor vehicles HK$'000	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
At 1st January 2011						
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
Year ended 31st December 2012						
Opening net book amount	**119,102**	**31,110**	**3,136**	**7,736**	**1,133**	**162,217**
Additions	**32**	**8,052**	**200**	**4,815**	**13**	**13,112**
Transfer between categories	**1,033**	**–**	**–**	**–**	**(1,033)**	**–**
Currency translation differences	**1,631**	**23**	**(4)**	**9**	**(3)**	**1,656**
Depreciation and amortisation (note 27(a))	**(7,584)**	**(6,821)**	**(1,702)**	**(4,116)**	**–**	**(20,223)**
Disposals	**–**	**–**	**–**	**–**	**(44)**	**(44)**
Closing net book amount	**114,214**	**32,364**	**1,630**	**8,444**	**66**	**156,718**
At 31st December 2012						
Cost	**166,975**	**89,992**	**16,528**	**37,413**	**66**	**310,974**
Accumulated depreciation, amortisation and impairment	**(52,761)**	**(57,628)**	**(14,898)**	**(28,969)**	**–**	**(154,256)**
Net book amount	**114,214**	**32,364**	**1,630**	**8,444**	**66**	**156,718**

NOTES TO THE FINANCIAL STATEMENTS

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 2011				
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
Year ended 31st December 2012				
Opening net book amount	**799**	**–**	**75**	**874**
Additions	**38**	**200**	**12**	**250**
Depreciation	**(311)**	**(3)**	**(30)**	**(344)**
Closing net book amount	**526**	**197**	**57**	**780**
At 31st December 2012				
Cost	**3,901**	**9,110**	**824**	**13,835**
Accumulated depreciation and impairment	**(3,375)**	**(8,913)**	**(767)**	**(13,055)**
Net book amount	**526**	**197**	**57**	**780**

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

	Group	
	2012 HK$'000	2011 HK$'000
Freehold properties held outside Hong Kong	**29,100**	27,582
Leasehold properties held in Hong Kong		
– on leases of over 50 years	**3,721**	3,756
– on leases of between 10 and 50 years	**1,802**	1,939
Leasehold properties held outside Hong Kong		
– on leases of between 10 and 50 years	**54,902**	55,922
– on leases of less than 10 years	**24,689**	29,903
	114,214	119,102

NOTES TO THE FINANCIAL STATEMENTS

8 PREPAID PREMIUM FOR LAND LEASES

	Group	
	2012 HK$'000	2011 HK$'000
At 1st January	**7,482**	7,478
Currency translation differences	**–**	369
Amortisation (note 27)	**(418)**	(365)
At 31st December	**7,064**	7,482

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

	Group	
	2012 HK$'000	2011 HK$'000
Held outside Hong Kong		
– on leases of between 10 and 50 years	**5,836**	5,958
– on leases of less than 10 years	**1,228**	1,524
	7,064	7,482

9 INVESTMENT PROPERTIES

	Group	
	2012 HK$'000	2011 HK$'000
At 1st January	**35,777**	32,543
Currency translation differences	**(42)**	(15)
Fair value gains (note 26)	**2,712**	3,249
At 31st December	**38,447**	35,777

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

	Group	
	2012 HK$'000	2011 HK$'000
Held in Hong Kong		
– on leases of over 50 years	**19,100**	17,100
Held outside Hong Kong		
– on leases of between 10 and 50 years	**19,347**	18,677
	38,447	35,777

Investment properties were revalued at 31st December 2012 and 2011 on an open market value basis by DTZ Debenham Tie Leung Limited, independent firm of Chartered Surveyors.

NOTES TO THE FINANCIAL STATEMENTS

10 SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2012 HK$'000	2011 HK$'000
Unlisted investments, at cost	**197,545**	161,765

(b) Amounts due from/to subsidiaries

	Company	
	2012 HK$'000	2011 HK$'000
Amounts due from subsidiaries	**1,324,146**	1,448,333
Less: amount due after one year, included under non-current assets	**40,000**	–
Amounts due from subsidiaries, included under current assets	**1,284,146**	1,448,333

Amounts due from subsidiaries as at 31st December 2012 are unsecured, interest-free and repayable on demand, except for certain amounts totalling HK$567,039,000 which are unsecured, interest bearing from 2%p.a. to 2.2%p.a. and repayable before 2014.

Amounts due from subsidiaries as at 31st December 2011 were unsecured, interest-free and repayable on demand, except for certain amounts totalling HK$645,888,000 which were unsecured, interest bearing from 1.5%p.a. to 2.2%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 2012 are set out in note 40 to the financial statements.

11 JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
At 1st January	**376,877**	320,401	**143,688**	143,688
Currency translation differences (note 23)	**–**	1,028	**–**	–
Share of reserves of a jointly controlled entity (note 23)	**3,268**	12,701	**–**	–
Share of results of jointly controlled entities	**37,996**	50,152	**–**	–
Dividends received	**(1,255)**	(2,517)	**–**	–
Disposal	**–**	(4,888)	**–**	–
At 31st December	**416,886**	376,877	**143,688**	143,688

NOTES TO THE FINANCIAL STATEMENTS

11 JOINTLY CONTROLLED ENTITIES (CONTINUED)

Notes:

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

	Group	
	2012	2011
	HK$'000	HK$'000
Assets		
Non-current assets	**119,358**	45,274
Current assets	**795,431**	962,041
	914,789	1,007,315
Liabilities		
Non-current liabilities	**(5,282)**	(57,755)
Current liabilities	**(492,621)**	(572,683)
	(497,903)	(630,438)
Net assets	**416,886**	376,877
Revenue	**1,466,744**	1,727,968
Expenses	**(1,428,748)**	(1,677,816)
Profit for the year	**37,996**	50,152

(b) Particulars of jointly controlled entities are set out in note 41 to the financial statements.

12 ASSOCIATES

	Group	
	2012	2011
	HK$'000	HK$'000
At 1st January	**85,053**	57,689
Currency translation differences (note 23)	**(106)**	448
Share of reserves of an associate (note 23)	**50**	1,861
Share of results of associates	**13,126**	25,755
Dividends received	**(19,108)**	(700)
At 31st December	**79,015**	85,053

NOTES TO THE FINANCIAL STATEMENTS

12 ASSOCIATES (CONTINUED)

Notes:

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

	Group	
	2012 HK$'000	2011 HK$'000
Assets		
Non-current assets	**75,743**	60,212
Current assets	**1,601,605**	1,274,781
	1,677,348	1,334,993
Liabilities		
Non-current liabilities	**–**	(30)
Current liabilities	**(1,598,333)**	(1,249,910)
	(1,598,333)	(1,249,940)
Net assets	**79,015**	85,053
Revenue	**9,849,270**	9,179,886
Expenses	**(9,836,144)**	(9,154,131)
Profit for the year	**13,126**	25,755

(b) Particulars of associates are set out in note 41 to the financial statements.

NOTES 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 2012					
Available-for-sale financial assets (note 14)	**–**	**–**	**–**	**96,654**	**96,654**
Trade and other receivables excluding prepayments (note 18)	**2,287,231**	**–**	**–**	**–**	**2,287,231**
Financial assets at fair value through profit or loss (note 20)	**–**	**700**	**–**	**–**	**700**
Restricted bank deposits, deposits and cash and cash equivalents (note 21)	**5,867,112**	**–**	**–**	**–**	**5,867,112**
Total	**8,154,343**	**700**	**–**	**96,654**	**8,251,697**
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

NOTES TO THE FINANCIAL STATEMENTS

13 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Group (Continued)

	Other financial liabilities HK$'000
Liabilities as per consolidated balance sheet	
At 31st December 2012	
Trade and other payables excluding commission income received in advance (note 24)	**1,901,904**
Short-term borrowings (note 25)	**46,205**
Total	**1,948,109**
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

Company

	Loans and receivables HK$'000
Assets as per balance sheet	
At 31st December 2012	
Amounts due from subsidiaries (note 10(b))	**1,324,146**
Other receivables excluding prepayments (note 18)	**159,259**
Current deposits and cash and cash equivalents (note 21)	**4,458,689**
Total	**5,942,094**
At 31st December 2011	
Amounts due from subsidiaries (note 10(b))	1,448,333
Other receivables excluding prepayments (note 18)	55,952
Current deposits and cash and cash equivalents (note 21)	4,469,426
Total	5,973,711

NOTES TO THE FINANCIAL STATEMENTS

13 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company (Continued)

	Other financial liabilities HK$'000
Liabilities as per balance sheet	
At 31st December 2012	
Amounts due to subsidiaries (note 10(b))	**339,923**
Other payables (note 24)	**14,783**
Total	**354,706**
At 31st December 2011	
Amounts due to subsidiaries (note 10(b))	258,781
Other payables (note 24)	15,692
Total	274,473

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2012 HK$'000	2011 HK$'000
At 1st January	**86,846**	138,344
Fair value gains/(losses) recognised in other comprehensive income (note 23)	**9,808**	(37,182)
Disposals	**–**	(14,316)
At 31st December	**96,654**	86,846
Less: current portion	**37,281**	20,659
Non-current portion	**59,373**	66,187

There were no impairment provisions on available-for-sale financial assets as at 31st December 2012 and 2011.

NOTES TO THE FINANCIAL STATEMENTS

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial assets include the following:

	Group	
	2012 HK$'000	2011 HK$'000
Unlisted securities	**1,759**	1,759
Market value of listed equity securities in Hong Kong	**94,895**	85,087
	96,654	86,846

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

	Group	
	2012 HK$'000	2011 HK$'000
Renminbi	**1,759**	1,759
Hong Kong dollars	**94,895**	85,087
	96,654	86,846

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	
	2012 HK$'000	2011 HK$'000
At 1st January	**52,282**	46,494
Currency translation differences	**(405)**	2,805
Adjustment on the adoption of HKAS 12 (Amendment) credited to equity (note 23)	**1,436**	–
Adjustment on the adoption of HKAS 12 (Amendment) charged to the consolidated income statement (note 31)	**(5,054)**	–
Transferred to current income tax liabilities	**3,267**	123
(Charged)/credited to the consolidated income statement, net (note 31)	**(16,171)**	2,860
At 31st December	**35,355**	52,282

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 2012, the Group has unrecognised tax losses of HK$50,642,000 (2011: HK$50,642,000) to carry forward against future taxable income.

NOTES TO THE FINANCIAL STATEMENTS

15 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances after offsetting where appropriate are as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Deferred income tax assets:		
– to be recovered after more than 12 months	**49,576**	63,408
– to be recovered within 12 months	**12,468**	9,232
	62,044	72,640
Deferred income tax liabilities:		
– to be settled after more than 12 months	**(26,689)**	(20,358)
– to be settled within 12 months	**–**	–
	(26,689)	(20,358)
	35,355	52,282

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 HK$'000	**Impairment losses** HK$'000	**Others** HK$'000	**Total** HK$'000
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
At 1st January 2012	**55,090**	**16,270**	**1,280**	**72,640**
Currency translation differences	**(20)**	**3**	**(13)**	**(30)**
(Charged)/credited to the consolidated income statement	**(10,343)**	**(340)**	**117**	**(10,566)**
At 31st December 2012	**44,727**	**15,933**	**1,384**	**62,044**

NOTES TO THE FINANCIAL STATEMENTS

15 DEFERRED INCOME TAX (CONTINUED)

(b) Deferred income tax liabilities

	Group			
	Accelerated tax depreciation HK$'000	**Fair value gains** HK$'000	**Withholding tax** HK$'000	**Total** HK$'000
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)
At 1st January 2012	**(319)**	**(3,244)**	**(16,795)**	**(20,358)**
Currency translation differences	**(2)**	**8**	**(381)**	**(375)**
Adjustment on the adoption of HKAS 12 (Amendment) credited to equity	**–**	**1,436**	**–**	**1,436**
Adjustment on the adoption of HKAS 12 (Amendment) charged to the consolidated income statement	**–**	**(5,054)**	**–**	**(5,054)**
Transfer to current income tax liabilities	**–**	**–**	**3,267**	**3,267**
Charged to the consolidated income statement	**(133)**	**(506)**	**(4,966)**	**(5,605)**
At 31st December 2012	**(454)**	**(7,360)**	**(18,875)**	**(26,689)**

As at 31st December 2012, deferred income tax liabilities of HK$18,875,000 (2011: HK$16,795,000) have been recorded for the withholding tax that would be payable on certain profits of the PRC subsidiaries, jointly controlled entities and an associate to be repatriated and distributed by way of dividends.

16 COMPLETED PROPERTIES HELD FOR SALE

	Group	
	2012 **HK$'000**	2011 HK$'000
Land cost	**54**	54
Development cost	**132**	132
	186	186

NOTES TO THE FINANCIAL STATEMENTS

16 COMPLETED PROPERTIES HELD FOR SALE (CONTINUED)

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

	Group	
	2012 **HK$'000**	2011 HK$'000
Held outside Hong Kong		
– on leases of over 50 years	**186**	186

17 INVENTORIES

	Group	
	2012 **HK$'000**	2011 HK$'000
Raw materials	**53,429**	64,973
Work in progress	**2,700**	3,103
Finished goods	**431,135**	597,580
	487,264	665,656

The cost of inventories recognised as expense and included in cost of sales amounted to HK$9,319,720,000 (2011: HK$9,764,086,000) (note 27).

During the year, the Group recognised inventories impairment provision of HK$16,695,000 (2011: HK$11,376,000) and reversed inventories impairment provision of HK$14,480,000 (2011: HK$15,217,000).

As at 31st December 2012, inventories of HK$51,672,000 (2011: HK$46,718,000) were carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Trade receivables				
– fellow subsidiaries (note (a))	**314,929**	161,765	**–**	–
– associated companies of COSCO (note (a))	**145,376**	197,472	**–**	–
– jointly controlled entities (note (a))	**7,012**	1,781	**–**	–
– associates (note (a))	**2**	–	**–**	–
– a holding company (note (a))	**14**	–	**–**	–
– non-controlling interests (note (a))	**554**	727	**–**	–
– third parties	**1,022,482**	1,296,688	**–**	–
	1,490,369	1,658,433	**–**	–
Less: provision for impairment (note (f))	**61,224**	96,041	**–**	–
Trade receivables – net	**1,429,145**	1,562,392	**–**	–
Bills receivables				
– associated companies of COSCO (note (a))	**14,499**	46,077	**–**	–
– non-controlling interests (note (a))	**1,233**	7,971	**–**	–
– third parties	**331,767**	179,918	**–**	–
Prepayments	**1,407**	1,292	**853**	530
Deposits and other receivables				
– fellow subsidiaries (note (a))	**4,713**	13,700	**–**	–
– a jointly controlled entity (note (a))	**–**	122	**–**	–
– an associate (note (a))	**1,011**	716	**–**	–
– third parties	**361,324**	344,413	**15,841**	20,965
Amounts due from fellow subsidiaries (note (a))	**153**	153	**32**	32
Loan to a jointly controlled entity (note (b))	**143,386**	34,955	**143,386**	34,955
	2,288,638	2,191,709	**160,112**	56,482

Notes:

(a) Balances with fellow subsidiaries, associated companies of COSCO, jointly controlled entities, associates, a holding company 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 in March 2013.

NOTES TO THE FINANCIAL STATEMENTS

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	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Renminbi	**1,267,887**	1,116,759	**–**	–
Hong Kong dollars	**12,838**	6,116	**1,123**	725
United States dollars	**819,986**	885,793	**158,989**	55,753
Others	**187,927**	183,041	**–**	4
	2,288,638	2,191,709	**160,112**	56,482

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

	Group	
	2012 HK$'000	2011 HK$'000
Current – 90 days	**1,088,735**	1,160,676
91–180 days	**181,381**	261,949
Over 180 days	**159,029**	139,767
	1,429,145	1,562,392

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 2012, trade receivables of HK$96,791,000 (2011: HK$138,893,000) 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$61,224,000 as at 31st December 2012 (2011: HK$96,041,000). The ageing analysis of these receivables is as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Current – 90 days	**2,704**	–
91–180 days	**4,121**	365
Over 180 days	**89,966**	138,528
	96,791	138,893

NOTES TO THE FINANCIAL STATEMENTS

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

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

	Group	
	2012 HK$'000	2011 HK$'000
At 1st January	**96,041**	70,235
Currency translation differences	**(21)**	3,123
Provision for impairment	**13,967**	50,252
Amount written off	**–**	(318)
Reversal of unused provision	**(48,763)**	(27,251)
At 31st December	**61,224**	96,041

(g) Trade receivables that are less than three months past due are not considered impaired. As at 31st December 2012, trade receivables of HK$208,478,000 (2011: HK$345,569,000) 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	
	2012 HK$'000	2011 HK$'000
Up to 90 days	**149,176**	44,884
91–180 days	**49,711**	217,920
Over 180 days	**9,591**	82,765
	208,478	345,569

(h) As at 31st December 2012, other receivables of HK$11,555,000 (2011: HK$18,230,000) were subject to impairment and the amount of impairment provision for these receivables was HK$1,632,000 (2011: 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 ASSETS

	Group	
	2012 HK$'000	2011 HK$'000
Fuel oil swap contracts – cash flow hedges	**–**	78

NOTES TO THE FINANCIAL STATEMENTS

19 DERIVATIVE FINANCIAL ASSETS (CONTINUED)

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. As at 31st December 2012, there were no outstanding derivative financial instruments entered into by the Group. The notional principal amounts of the outstanding swap contracts as at 31st December 2011 were HK$25,440,000.

During the year, fair value gains of HK$25,243,000 (2011: HK$16,318,000) recognised in the hedging reserve were reclassified to the 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	
	2012 HK$'000	2011 HK$'000
Market value of listed equity securities in Hong Kong	**700**	377

21 RESTRICTED BANK DEPOSITS, DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Non-current deposits with a fellow subsidiary (note (a))	**61,654**	–	**–**	–
Restricted bank deposits (note (b))	**41,570**	36,890	**–**	–
Current deposits with a fellow subsidiary (note (a))	**287,553**	258,045	**–**	–
Short-term bank deposits	**5,073,381**	4,611,168	**4,457,121**	4,468,088
Cash at bank and in hand	**402,954**	797,521	**1,568**	1,338
Current deposits and cash and cash equivalents	**5,763,888**	5,666,734	**4,458,689**	4,469,426
Total deposits and cash and cash equivalents	**5,867,112**	5,703,624	**4,458,689**	4,469,426

NOTES TO THE FINANCIAL STATEMENTS

21 RESTRICTED BANK DEPOSITS, DEPOSITS AND CASH AND CASH EQUIVALENTS (CONTINUED)

Notes:

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

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

(c) The carrying amounts of total deposits and cash and cash equivalents approximate their fair values and are denominated in the following currencies:

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Renminbi	**979,858**	825,959	**4**	13
Hong Kong dollars	**89,856**	123,096	**1,478**	34,802
United States dollars	**4,741,268**	4,686,777	**4,457,207**	4,434,611
Others	**56,130**	67,792	**–**	–
	5,867,112	5,703,624	**4,458,689**	4,469,426

(d) The Group's cash and cash equivalents denominated in Renminbi are deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

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

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

	Group	
	2012 HK$'000	2011 HK$'000
Total deposits and cash and cash equivalents	**5,867,112**	5,703,624
Less: restricted bank deposits	**41,570**	36,890
cash investments with maturity more than three months from date of placement	**1,746,442**	3,621,356
Cash and cash equivalents	**4,079,100**	2,045,378

NOTES TO THE FINANCIAL STATEMENTS

22 SHARE CAPITAL

	2012 Number of shares	2012 HK$'000	2011 Number of shares	2011 HK$'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	**1,513,627,429**	**151,363**	1,511,069,429	151,107
Shares issued upon exercise of share options (note (d))	**–**	**–**	2,558,000	256
At 31st December	**1,513,627,429**	**151,363**	1,513,627,429	151,363

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 2012	Granted during the year	Changed category during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31st December 2012	as at 31st December 2012	as at 31st December 2011
Directors	(a)	1.37	2,100,000	–	(900,000)	–	–	–	1,200,000	100	100
	(c)	3.666	5,900,000	–	(5,900,000)	–	–	–	–	100	100
Continuous contract employees	(a)	1.37	6,890,000	–	420,000	–	–	(1,200,000)	6,110,000	100	100
	(b)	1.21	600,000	–	–	–	–	–	600,000	100	100
	(c)	3.666	13,430,000	–	60,000	–	–	(330,000)	13,160,000	100	100
Others	(a)	1.37	21,238,000	–	480,000	–	(800,000)	(1,200,000)	19,718,000	100	100
	(b)	1.21	550,000	–	–	–	–	–	550,000	100	100
	(c)	3.666	22,250,000	–	5,840,000	–	(1,900,000)	(1,200,000)	24,990,000	100	100
			72,958,000	–	–	–	(2,700,000)	(3,930,000)	66,328,000		

NOTES TO THE FINANCIAL STATEMENTS

22 SHARE CAPITAL (CONTINUED)

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, no share options (2011: 1,068,000) were exercised and 3,200,000 share options (2011: nil) were cancelled and 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 from 6th June 2005 to 5th June 2015. No share options (2011: nil) were exercised during the year.

(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, no share options (2011: 1,490,000) were exercised and 3,430,000 share options (2011: 150,000) were cancelled and 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, there were no employee share option benefit expenses recognised (2011: HK$730,000) (note 28) as a result of the above equity-settled share based transactions on the basis of the fair value of share options granted.

NOTES TO THE FINANCIAL STATEMENTS

22 SHARE CAPITAL (CONTINUED)

Notes: (Continued)

(d) During the year, no share options (2011: 2,558,000) were exercised and a summary of share options exercised in 2011 analysed by exercise month, is set out below:

	Number of share options exercised	
	2012	2011
Exercise month		
January	–	50,000
March	–	58,000
April	–	880,000
May	–	1,470,000
July	–	100,000
	–	2,558,000

Exercise of share options in 2011 yielded proceeds as follows:

	2012 **HK$'000**	2011 HK$'000
Ordinary share capital – at par	–	256
Share premium	–	6,670
Proceeds	–	6,926

The weighted average closing price of the Company's shares on the dates when the share options were exercised in 2011 was HK$4.93.

NOTES TO THE FINANCIAL STATEMENTS

23 RESERVES

Group

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Statutory reserves (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 2012	141,986	52,704	101,169	676,218	135,896	6,363	61,674	1,531	5,762,891	6,940,432
Adjustment on the adoption of HKAS12 (Amendment) (note 15)	–	–	–	–	–	1,436	–	–	–	1,436
Transfer to statutory reserves (note (b))	–	–	4,943	–	–	–	–	–	(4,943)	–
Transfer to retained profits	–	–	(1,646)	–	–	–	–	–	1,646	–
Transfer of reserve upon the lapse and cancellation of share options	–	(5,008)	–	–	–	–	–	–	5,008	–
Currency differences on translation of:										
– subsidiaries	–	–	–	–	1,168	–	–	–	–	1,168
– associates (note 12)	–	–	–	–	(106)	–	–	–	–	(106)
Share of reserves of a jointly controlled entity (note 11)	–	–	–	–	3,268	–	–	–	–	3,268
Share of reserves of an associate (note 12)	–	–	–	–	78	–	–	(28)	–	50
Fair value gains on available-for-sale financial assets (note 14)	–	–	–	–	–	–	9,808	–	–	9,808
Cash flow hedges, net of tax	–	–	–	–	–	–	–	(78)	–	(78)
Profit for the year (note (a))	–	–	–	–	–	–	–	–	363,006	363,006
Dividends paid	–	–	–	–	–	–	–	–	(136,226)	(136,226)
Balance at 31st December 2012	141,986	47,696	104,466	676,218	140,304	7,799	71,482	1,425	5,991,382	7,182,758
Representing:										
Reserves	141,986	47,696	104,466	676,218	140,304	7,799	71,482	1,425	5,900,564	7,091,940
2012 proposed final dividend	–	–	–	–	–	–	–	–	90,818	90,818
	141,986	47,696	104,466	676,218	140,304	7,799	71,482	1,425	5,991,382	7,182,758

NOTES TO THE FINANCIAL STATEMENTS

23 RESERVES (CONTINUED)

Group

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Statutory reserves (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 to statutory 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 a jointly controlled entity (note 11)	–	–	–	–	12,701	–	–	–	–	12,701
Share of reserves of an associate (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

NOTES TO THE FINANCIAL STATEMENTS

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 2012	**141,986**	**52,704**	**676,218**	**4,983,604**	**5,854,512**
Transfer of reserve upon the lapse and cancellation of share options	**–**	**(5,008)**	**–**	**5,008**	**–**
Profit for the year	**–**	**–**	**–**	**57,453**	**57,453**
Dividends paid	**–**	**–**	**–**	**(136,226)**	**(136,226)**
Balance at 31st December 2012	**141,986**	**47,696**	**676,218**	**4,909,839**	**5,775,739**
Representing:					
Reserves	**141,986**	**47,696**	**676,218**	**4,819,021**	**5,684,921**
2012 proposed final dividend	**–**	**–**	**–**	**90,818**	**90,818**
	141,986	**47,696**	**676,218**	**4,909,839**	**5,775,739**

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

Notes:

(a) Profit for the year of HK$363,006,000 (2011: HK$390,339,000) includes net profits of HK$37,996,000 (2011: HK$50,152,000) attributable to jointly controlled entities and HK$13,126,000 (2011: HK$25,755,000) attributable to associates.

(b) Statutory reserves represent the PRC statutory reserves of certain subsidiaries, jointly controlled entities and associates.

(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.

NOTES TO THE FINANCIAL STATEMENTS

24 TRADE AND OTHER PAYABLES

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Trade payables				
– fellow subsidiaries (note (a))	**25,643**	56,044	**–**	–
– associated companies of COSCO (note (a))	**6**	9,958	**–**	–
– jointly controlled entities (note (a))	**267**	564	**–**	–
– associates (note (a))	**27,257**	–	**–**	–
– non-controlling interests (note (a))	**562**	78	**–**	–
– third parties	**840,421**	983,755	**–**	–
	894,156	1,050,399	**–**	–
Bills payables				
– non-controlling interests (note (a))	**–**	981	**–**	–
– third parties	**267,595**	157,783	**–**	–
Advances from customers and other payables				
– fellow subsidiaries (note (a))	**141,470**	112,776	**–**	–
– associated companies of COSCO (note (a))	**59,761**	135,121	**–**	–
– jointly controlled entities (note (a))	**96**	136	**–**	–
– a holding company (note (a))	**142**	–	**–**	–
– non-controlling interests (note (a))	**2,418**	2,512	**–**	–
– third parties	**404,927**	476,054	**709**	467
Accrued liabilities	**45,474**	31,050	**14,074**	15,225
Commission income received in advance	**44,251**	44,623	**–**	–
Amounts due to fellow subsidiaries (note (a))	**727**	5,719	**–**	–
Dividend payable to non-controlling interests	**85,138**	105,310	**–**	–
	1,946,155	2,122,464	**14,783**	15,692

Notes:

(a) Balances with fellow subsidiaries, associated companies of COSCO, jointly controlled entities, associates, a holding company and non-controlling interests are unsecured, interest-free and have no fixed terms of repayment except for the trade related balances and bills payables, which are repayable accordingly to the respective credit terms.

NOTES TO THE FINANCIAL STATEMENTS

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	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Renminbi	**1,013,934**	1,158,463	**418**	418
Hong Kong dollars	**96,451**	71,886	**14,365**	15,274
United States dollars	**711,909**	780,065	**–**	–
Others	**123,861**	112,050	**–**	–
	1,946,155	2,122,464	**14,783**	15,692

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

	Group	
	2012 HK$'000	2011 HK$'000
Current – 90 days	**854,052**	958,622
91–180 days	**29,111**	80,207
Over 180 days	**10,993**	11,570
	894,156	1,050,399

25 SHORT-TERM BORROWINGS

	Group	
	2012 HK$'000	2011 HK$'000
Unsecured bank loans, repayable within one year	**46,205**	34,801

Notes:

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

	Group	
	2012 HK$'000	2011 HK$'000
Renminbi	**46,205**	–
United States dollars	**–**	34,801
	46,205	34,801

NOTES TO THE FINANCIAL STATEMENTS

25 SHORT-TERM BORROWINGS (CONTINUED)

Notes: (Continued)

(b) The effective interest rates of short-term borrowings during the year ended 31st December 2012 and 2011 are as follows:

	2012	2011
Renminbi	**4.43%**	5.23%
United States dollars	**2.62%**	4.52%

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

26 OTHER INCOME AND GAINS

	2012 HK$'000	2011 HK$'000
Gain on disposal of property, plant and equipment	**30**	82
Rental income	**1,262**	1,106
Fair value gains on investment properties (note 9)	**2,712**	3,249
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
Reversal of provision for impairment of trade receivables, net of provision	**34,796**	–
Reversal of provision for impairment of other receivables, net of provision	**4,132**	–
Dividend income from listed and unlisted investments	**2,377**	2,263
Fair value gains on financial assets at fair value through profit or loss	**323**	–
Net exchange gains	**4,810**	13,825
Others	**12,757**	4,938
	63,199	46,264

NOTES TO THE FINANCIAL STATEMENTS

27 EXPENSES BY NATURE

	2012 HK$'000	2011 HK$'000
Cost of sales		
Cost of inventories sold (note 17)	**9,319,720**	9,764,086
Selling, administrative and general expenses		
Selling expenses, net#	**107,536**	218,768
Depreciation and amortisation (note 27(a))	**7,309**	6,740
Amortisation of intangible assets (note 6)	**1,573**	1,213
Amortisation of prepaid premium for land leases (note 8)	**418**	365
Operating lease rental expenses (note 27(b))	**28,741**	23,525
Administrative staff costs	**157,946**	135,073
Auditors' remuneration	**4,597**	4,666
Employee severance expenses	**12,275**	–
Others	**127,658**	148,771
	448,053	539,121
Other expenses and losses		
Direct operating expenses for generating rental income	**153**	181
Provision for impairment of inventories, net of reversal	**2,215**	–
Write-off of inventories	**–**	34
Provision for impairment of trade receivables, net of reversal	**–**	23,001
Provision for impairment of other receivables	**–**	4,806
Fair value losses on financial assets at fair value through profit or loss	**–**	177
	2,368	28,199

Selling expenses include a reversal of provision of HK$65,000,000 (2011: nil) made in prior years as it is no longer probable that an outflow of resources will happen as a result of sales discount arrangement made with certain customers.

(a) Depreciation and amortisation

	2012 HK$'000	2011 HK$'000
Charge for the year (note 7)	**20,223**	15,982
Charged to cost of sales	**(11,599)**	(8,276)
Capitalised in inventories	**(1,315)**	(966)
	7,309	6,740

(b) Operating lease rental expenses

	2012 HK$'000	2011 HK$'000
Land and buildings	**28,741**	23,525

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:

	2012 HK$'000	2011 HK$'000
Wages, salaries and benefits, including directors' emoluments (note 29(a))	**229,893**	212,626
Employee share option benefits (note 22(c))	**–**	730
Pension costs – defined contribution scheme (note)	**18,802**	16,080
	248,695	229,436
Included in:		
Cost of sales	**29,875**	37,344
Selling, administrative and general expenses	**218,820**	192,092
	248,695	229,436

Note:

There were no forfeited contributions (2011: nil) utilised during the year and no forfeited contributions were available at the year-end to reduce future contributions. There were no contributions (2011: 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 2012 are as follows:

Name of directors	Fees HK$'000	Salaries and other emoluments HK$'000	Total HK$'000
Mr. Zhang Liang (appointed on 24th February 2012)	–	4,260	4,260
Mr. Wang Futian (resigned on 24th February 2012)	–	740	740
Mr. Xu Zhengjun (appointed on 12th July 2012)	–	1,138	1,138
Mr. Wang Xiaodong (resigned on 12th July 2012)	–	1,276	1,276
Mr. Lin Wenjin (resigned on 10th April 2012)	–	299	299
Mr. Tsui Yiu Wa, Alec	230	–	230
Mr. Jiang, Simon X.	230	–	230
Mr. Alexander Reid Hamilton	230	–	230
	690	7,713	8,403

NOTES TO THE FINANCIAL STATEMENTS

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 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	–	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

As at 31st December 2012, directors of the Company had outstanding share options to subscribe for 1,200,000 (2011: 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 (2011: two) directors whose emoluments are reflected in the above analysis. The emoluments of the remaining three (2011: three) individuals during the year are as follows:

	2012 HK$'000	2011 HK$'000
Basic salaries, other allowances and benefit-in-kind	4,165	4,065
Pension costs – defined contribution scheme	41	36
	4,206	4,101

The emoluments of the individuals fell within the following bands:

Emolument band	Number of individuals 2012	2011
HK$1,000,001 – HK$1,500,000	2	2
HK$1,500,001 – HK$2,000,000	1	1

NOTES TO THE FINANCIAL STATEMENTS

29 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

(c) Emoluments of senior management

Other than the emoluments of directors disclosed in notes 29(a), the emoluments of senior management whose profiles are included in the Profile of Directors and Senior Management section of this report fell within the following bands:

Emolument band	Number of individuals 2012	2011
Below HK$1,000,000	**2**	4
HK$1,000,001 – HK$1,500,000	**4**	5
HK$1,500,001 – HK$2,000,000	**–**	1

30 FINANCE INCOME – NET

	2012 HK$'000	2011 HK$'000
Interest income from:		
– a fellow subsidiary	**7,697**	2,308
– a jointly controlled entity	**3,015**	90
– bank deposits	**117,184**	106,338
Total finance income	**127,896**	108,736
Interest expenses on bank loans wholly repayable within five years	**(693)**	(11,727)
Other finance charges	**(3,255)**	(5,201)
Total finance costs	**(3,948)**	(16,928)
Finance income – net	**123,948**	91,808

31 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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% (2011: 25%) except for certain subsidiaries, which were taxed at reduced rates ranging from 12.5% to 15% (2011: 12.5% to 22%) based on different local preferential policies on income tax and approval by relevant tax authorities.

NOTES TO THE FINANCIAL STATEMENTS

31 INCOME TAX EXPENSES (CONTINUED)

Other 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 43% (2011:17% to 46%) during the year.

	2012 HK$'000	2011 HK$'000
Current income tax		
– Hong Kong profits tax	**20,755**	23,394
– the PRC enterprise income tax	**24,532**	62,170
– other overseas taxation	**4,884**	8,150
– over-provision for Hong Kong profits tax in prior years	**(1,196)**	(32)
– under-provision for the PRC taxation in prior years	**726**	185
– over-provision for other overseas taxation in prior years	**–**	(44)
Deferred tax adjustment on the adoption of HKAS 12 (Amendment) (note 15)	**5,054**	–
Deferred income tax charge/(credit) – net (note 15)	**16,171**	(2,860)
Income tax expenses	**70,926**	90,963

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:

	2012 HK$'000	2011 HK$'000
Profit before income tax (excluding share of profits of jointly controlled entities and associates)	**422,711**	462,787
Calculated at a tax rate of 16.5% (2011: 16.5%)	**69,747**	76,360
Effect of different tax rates in the PRC and other overseas countries	**6,372**	10,845
Effect of prospective change in tax rate applicable to a subsidiary in the PRC	**(2,141)**	–
Income not subject to income tax	**(27,688)**	(23,004)
Expenses not deductible for tax purposes	**13,493**	17,192
Utilisation of previously unrecognised tax losses	**–**	(159)
(Over)/under-provision in prior years	**(470)**	109
Withholding tax on profits of entities in the PRC	**4,966**	6,600
Other temporary differences	**977**	(102)
Withholding tax on interest income	**1,854**	4,611
Adjustment on the adoption of HKAS 12 (Amendment)	**5,054**	–
Special tax credit	**(1,238)**	(1,489)
Income tax expenses	**70,926**	90,963

NOTES TO THE FINANCIAL STATEMENTS

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$57,453,000 (2011: HK$4,713,678,000).

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.

	2012	2011
Profit attributable to equity holders of the Company	**HK$363,006,000**	HK$390,339,000
Weighted average number of ordinary shares in issue	**1,513,627,429**	1,512,730,793
Basic earnings per share	**23.98 HK cents**	25.80 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.

	2012	2011
Profit attributable to equity holders of the Company	**HK$363,006,000**	HK$390,339,000
Weighted average number of ordinary shares in issue	**1,513,627,429**	1,512,730,793
Adjustment for assumed issuance of shares on exercise of share options	**16,215,193**	26,092,217
Weighted average number of ordinary shares for diluted earnings per share	**1,529,842,622**	1,538,823,010
Diluted earnings per share	**23.73 HK cents**	25.37 HK cents

34 DIVIDENDS

	2012 HK$'000	2011 HK$'000
Interim dividend paid of HK$0.02 (2011: HK$0.02) per ordinary share	**30,273**	30,273
Final dividend proposed of HK$0.06 (2011: HK$0.07) per ordinary share	**90,818**	105,954
	121,091	136,227

At the board meeting held on 21st March 2013, the directors of the Company proposed a final dividend of HK$0.06 per ordinary share for the year ended 31st December 2012. This proposed dividend has not been recognised as a liability in the financial statements for the year ended 31st December 2012, but will be recognised in shareholders' equity in the year ending 31st December 2013.

NOTES TO THE FINANCIAL STATEMENTS

35 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of operating profit to cash generated from operations

	2012 HK$'000	2011 HK$'000
Operating profit	**298,763**	370,979
Amortisation of intangible assets	**1,573**	1,213
Depreciation and amortisation of property, plant and equipment, net of amount capitalised	**18,908**	15,016
Gain on disposal of property, plant and equipment	**(30)**	(82)
Amortisation of prepaid premium for land leases	**418**	365
Fair value gains on investment properties	**(2,712)**	(3,249)
Gain on disposal of a jointly controlled entity	**–**	(4,318)
Gain on disposal of available-for-sale financial assets	**–**	(12,642)
Fair value (gains)/losses on financial assets at fair value through profit or loss	**(323)**	177
Provision for/(reversal of) impairment of inventories, net	**2,215**	(3,841)
Write-off of inventories	**–**	34
(Reversal of)/provision for impairment of trade receivables, net	**(34,796)**	23,001
(Reversal of)/provision for impairment of other receivables	**(4,132)**	4,806
Reversal of provision for selling expenses	**(65,000)**	–
Employee share option benefits	**–**	730
Dividend income	**(2,377)**	(2,263)
Operating profit before working capital changes	**212,507**	389,926
Decrease/(increase) in inventories	**177,711**	(184,471)
Decrease/(increase) in trade receivables, bills receivables, prepayments, deposits and other receivables	**47,189**	(576,049)
Increase in amounts due from fellow subsidiaries	**–**	(29)
Decrease in amounts due from jointly controlled entities	**–**	194
(Decrease)/increase in trade payables, bills payables, advances from customers, other payables, accrued liabilities and commission income received in advance	**(72,803)**	395,478
(Decrease)/increase in amounts due to fellow subsidiaries	**(4,992)**	338
Decrease in dividend payable to non-controlling interests	**(20,172)**	–
Cash generated from operations	**339,440**	25,387

NOTES TO THE FINANCIAL STATEMENTS

36 FINANCIAL GUARANTEE CONTRACTS

As at 31st December 2012, the Group and the Company had financial guarantees issued in favour of banks as security for general banking facilities granted to an associate and a jointly controlled entity, and financial guarantee issued in favour of the shareholder of a jointly controlled entity as counter guarantee in relation to general banking facilities granted to the jointly controlled entity.

Terms and face values of the liabilities guaranteed were as follows:

	Year of maturity	Group and Company 2012 HK$'000 Face value
General banking facilities of:		
– a jointly controlled entity	2013	**38,753**
– an associate	2013	**205,390**
Counter guarantee	2013	**22,477**
		266,620

As at 31st December 2012, the credit risk and liquidity risk exposure relating to the above financial guarantee contracts are considered as low.

The fair value of these guarantee contracts is not material and has not been recognised in the financial statements.

37 COMMITMENTS

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

	Group	
	2012 HK$'000	2011 HK$'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	
	2012 HK$'000	2011 HK$'000
Authorised but not contracted for	**4,085**	99,083
Contracted but not provided for	**72,237**	62,193
	76,322	161,276

NOTES TO THE FINANCIAL STATEMENTS

37 COMMITMENTS (CONTINUED)

(c) As at 31st December 2012, the Company had capital commitments of HK$89,303,000 relating to the share of outstanding capital contribution to a non-wholly owned subisidiary (note 38(g)).

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

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Within one year	**23,796**	23,041	**8,672**	8,672
In the second to fifth years inclusive	**7,984**	29,429	**–**	8,672
Over five years	**–**	1,832	**–**	–
	31,780	54,302	**8,672**	17,344

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

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

	Group	
	2012 HK$'000	2011 HK$'000
Within one year	**999**	484
In the second to fifth years inclusive	**175**	133
	1,174	617

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

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 62.29% of the Company's shares as at 31st December 2012. The remaining 37.71% 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.

NOTES TO THE FINANCIAL STATEMENTS

38 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

For the years 2012 and 2011, the Group's significant transactions with entities that are controlled, jointly controlled or significantly influenced by the PRC government mainly include most of its bank deposits and the corresponding interest income and part of sales and purchases of goods and services. The price and other terms of such transactions are set out in the agreements governing these transactions or as mutually agreed.

Apart from the above-mentioned transactions with the government-related entities and the related party information shown elsewhere in the financial statements, the following is a summary of the significant related party transactions carried out in the normal course of the Group's business during the year:

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

	Note	2012 HK$'000	2011 HK$'000
Sale of coatings to:	(i)		
– fellow subsidiaries		**9,361**	5,543
– associated companies of COSCO		**457,251**	688,522
– non-controlling interests		**2,915**	3,397
– a jointly controlled entity		**127**	9,985
Sale of marine equipment and spare parts to:	(ii)		
– fellow subsidiaries		**722,593**	719,138
– associated companies of COSCO		**9,031**	61,656
– jointly controlled entities		**5,151**	7,911
Commission income in relation to the provision of ship trading agency services to:	(iii)		
– fellow subsidiaries		**98,436**	105,102
– associated companies of COSCO		**4,222**	24,007
– a holding company		**433**	868
– a jointly controlled entity		**10,215**	26,486
Commission income in relation to the provision of insurance brokerage services to:	(iv)		
– fellow subsidiaries		**53,271**	56,434
– associated companies of COSCO		**1,413**	1,511
– holding companies		**122**	86
Sale of marine fuel to fellow subsidiaries:	(v)		
– fellow subsidiaries		**1,503,344**	478,244
– associated companies of COSCO		**3,302**	–
Sale of ship supplies and other products to:	(vi)		
– fellow subsidiaries		**2,814**	9,539
– associated companies of COSCO		**342**	2,304
Interest income received from a fellow subsidiary (note 21(a))	(vii)	**7,697**	2,308
Interest income received from a jointly controlled entity (note 18(b))		**3,015**	90

NOTES TO THE FINANCIAL STATEMENTS

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:

(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.

(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 and associated companies of COSCO was conducted on terms as set out in the agreements governing these transactions.

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

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

NOTES TO THE FINANCIAL STATEMENTS

38 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Note	2012 HK$'000	2011 HK$'000
Rental expenses paid to fellow subsidiaries	(i)	25,782	19,893
Commission expenses in relation to the sale of coatings paid to:	(ii)		
– fellow subsidiaries		5,821	4,645
– associated companies of COSCO		61	36,091
Commission expenses in relation to the provision of ship trading agency services paid to:	(iii)		
– fellow subsidiaries		860	4,463
– a jointly controlled entity		1,270	–
Commission expenses in relation to the sale of marine equipment paid to an associated company of COSCO	(iv)	3,470	5,057
Purchase of marine equipment from an associated company of COSCO	(iv)	62,825	92,646
Purchase of raw materials from non-controlling interests	(v)	2,375	3,682
Transportation costs paid to fellow subsidiaries	(vi)	26,816	46,241
Purchase of marine fuel from:	(vii)		
– fellow subsidiaries		1,179,537	1,227,631
– associated companies of COSCO		218,281	–
– an associate		177,930	41,767
Technology usage fee paid to non-controlling interests	(viii)	5,572	7,327
Management service fees paid to a holding company and fellow subsidiaries	(ix)	15,673	17,273

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$1,565,000. 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 and a jointly controlled entity 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.

NOTES TO THE FINANCIAL STATEMENTS

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)

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

(vii) Purchase of marine fuel from fellow subsidiaries, associated companies of COSCO 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 29th June 2009, the Group executed corporate guarantee of US$5,000,000 (equivalent to approximately HK$38,753,000) in favour of a bank as security for general banking facilities of US$5,000,000 (equivalent to approximately HK$38,753,000) granted by the bank to Jotun COSCO.

(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) On 20th October 2011, the Group executed corporate guarantee of US$2,900,000 (equivalent to approximately HK$22,477,000) in favour of Jotun A/S, the shareholder of Jotun COSCO, as counter guarantee in relation to general banking facilities granted to Jotun COSCO.

(f) On 30th April 2012, the Group executed corporate guarantees of US$21,500,000 (equivalent to approximately HK$166,637,000) and US$5,000,000 (equivalent to approximately HK$38,753,000) respectively in favour of two banks as security for general banking facilities of US$108,000,000 (equivalent to approximately HK$837,062,000) and US$41,000,000 (equivalent to approximately HK$317,773,000) respectively granted by the banks to Double Rich.

(g) On 2nd May 2012, the Group and Kansai Paint (China) Investment Co., Ltd., a wholly-owned subsidiary of the Group's non-controlling interest, Kansai Paint Co., Ltd. ("Japan Kansai") entered into an agreement whereby a new company known as COSCO Kansai Paint (Shanghai) Co., Ltd. will be established for the purpose of operating coating business in the PRC. The new company with a registered capital of US$25,600,000 (equivalent to approximately HK$198,415,000) will be owned as to 63.07% equity interest by the Group and 36.93% equity interest by Japan Kansai.

(h) During the year, the Group appointed a fellow subsidiary to enter into fuel oil swap contracts with total notional principal amounts of HK$514,493,000 (2011: HK$161,197,000) to hedge against the risk of fuel oil price fluctuation.

NOTES TO THE FINANCIAL STATEMENTS

39 EVENT AFTER THE BALANCE SHEET DATE

On 18th March 2013, COSCO Europe GmbH ("COSCO Europe"), a subsidiary of COSCO, and Yuantong Marine Service Co. Limited ("Yuantong"), a wholly-owned subsidiary of the Company, entered into a memorandum in relation to the acquisition by Yuantong of the entire issued share capital of Hanyuan Technical Service Center GmbH ("Hanyuan") from COSCO Europe for a consideration of not more than EUR1,200,000 (equivalent to approximately HK$12,012,000) (the "Proposed Acquisition"). The memorandum is not legally binding and the Proposed Acquisition is subject to share purchase agreement to be discussed and entered into between relevant parties. Hanyuan is a company incorporated in Germany and registered in Hamburg and is primarily engaged in the provision of technical support and assistance for ships, including trading of marine equipment and spare parts.

40 PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries of the Group as at 31st December 2012 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held	
				2012	2011
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%
COSMART Company Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	Provision of agency services in ship trading business	–	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%

NOTES TO THE FINANCIAL STATEMENTS

40 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2012	2011
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%
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%
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%
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%

NOTES TO THE FINANCIAL STATEMENTS

40 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2012	2011
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%
COSCO Kansai Paint (Shanghai) Co., Ltd.#	PRC, wholly foreign-owned enterprise	US$25,600,000	Production and sale of coatings	**63.07%**	–
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 Limited	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	Provision of professional services of insurance brokerages	**55%**	55%
Yuantong Marine Trade (Shanghai) 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

NOTES TO THE FINANCIAL STATEMENTS

41 JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Particulars of jointly controlled entities and associates of the Group as at 31st December 2012 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2012	2011
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 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, Sino-foreign equity joint venture enterprise	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 2012

	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				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Revenue	**10,005,705**	10,656,121	8,666,901	1,630,055	2,100,937
Operating profit	**298,763**	370,979	293,969	186,831	203,763
Finance income – net	**123,948**	91,808	1,127	2,646	12,858
Share of results of jointly controlled entities	**37,996**	50,152	79,725	104,025	46,728
Share of results of associates	**13,126**	25,755	438,995	366,194	319,184
(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	**473,833**	538,694	1,358,752	904,983	582,533
Income tax expenses	**(70,926)**	(90,963)	(65,793)	(58,756)	(34,268)
Profit for the year	**402,907**	447,731	1,292,959	846,227	548,265
Profit attributable to:					
Equity holders of the Company	**363,006**	390,339	1,268,600	843,675	491,015
Non-controlling interests	**39,901**	57,392	24,359	2,552	57,250
	402,907	447,731	1,292,959	846,227	548,265

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED BALANCE SHEET

	As at 31st December				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
ASSETS					
Non-current assets					
Intangible assets	**97,071**	98,542	91,733	91,340	91,323
Property, plant and equipment	**156,718**	162,217	159,082	130,454	123,824
Prepaid premium for land leases	**7,064**	7,482	7,478	7,687	13,194
Investment properties	**38,447**	35,777	32,543	27,164	26,815
Jointly controlled entities	**416,886**	376,877	320,401	234,062	130,935
Associates	**79,015**	85,053	57,689	4,722,687	4,052,810
Available-for-sale financial assets	**59,373**	66,187	138,344	104,084	38,503
Deferred income tax assets	**62,044**	72,640	59,710	37,426	40,844
Non-current deposits	**61,654**	–	–	–	–
	978,272	904,775	866,980	5,354,904	4,518,248
Current assets	**8,639,116**	8,583,760	8,498,429	2,154,968	2,740,817
Total assets	**9,617,388**	9,488,535	9,365,409	7,509,872	7,259,065
CAPITAL AND RESERVES					
Share capital	**151,363**	151,363	151,107	151,070	148,967
Reserves	**7,182,758**	6,940,432	7,148,920	6,263,790	5,396,728
Total shareholders' equity	**7,334,121**	7,091,795	7,300,027	6,414,860	5,545,695
Non-controlling interests	**246,023**	187,119	230,201	200,712	241,373
Total equity	**7,580,144**	7,278,914	7,530,228	6,615,572	5,787,068
LIABILITIES					
Non-current liabilities					
Deferred income tax liability	**26,689**	20,358	13,216	8,636	8,363
Current liabilities					
Short-term borrowings	**46,205**	34,801	207,299	11,725	316,960
Other current liabilities	**1,964,350**	2,154,462	1,614,666	873,939	1,146,674
	2,010,555	2,189,263	1,821,965	885,664	1,463,634
Total liabilities	**2,037,244**	2,209,621	1,835,181	894,300	1,471,997
Total equity and liabilities	**9,617,388**	9,488,535	9,365,409	7,509,872	7,259,065
Net current assets	**6,628,561**	6,394,497	6,676,464	1,269,304	1,277,183
Total assets less current liabilities	**7,606,833**	7,299,272	7,543,444	6,624,208	5,795,431

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