SITC International Holdings Company Limited

海豐國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1308

Annual Report

2012


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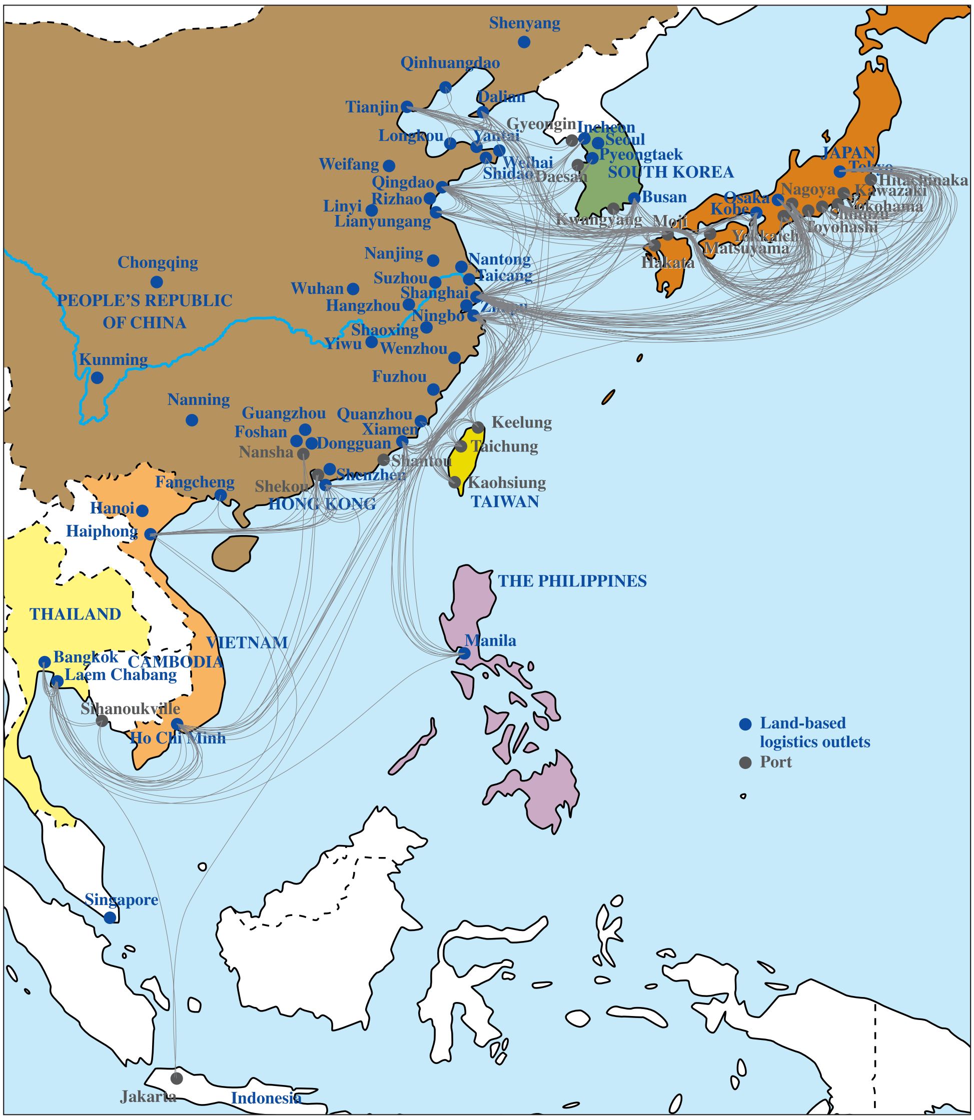
Corporate Profile

SITC International Holdings Company Limited (the "**Company**" or "**SITC**" or "**we**") is a leading Asia-based shipping logistics company that provides integrated transportation and logistics solutions. As at 31 December 2012, we ranked 26 among international container shipping companies in terms of shipping capacity, according to Alphaliner, an independent industry consultant. We focus exclusively on servicing the intra-Asia trade market, which is the largest in the world and one of the fastest growing in terms of shipping volume, according to Drewry, an independent industry consultant.

The following map illustrates our intra-Asia container shipping route (including trade lanes operated through joint services and container slot exchange arrangements) and land-based logistics network as of 31 December 2012:



Our business can be segregated into two main business segments: our sea freight logistics business and our land-based logistics business. Our sea freight logistics business seeks to provide high-frequency container shipping services on our high-density intra-Asia route network. Together with our container shipping route network, our land-based logistics business offers integrated logistics services, including freight forwarding, shipping agency, depot and warehousing, customs clearance, trucking and ship brokerage services.

Corporate Information

DIRECTORS

Executive Directors

YANG Shaopeng (Chairman)
YANG Xianxiang (Vice-Chairman and Chief Executive Officer)
LIU Kecheng (Joint Company Secretary)
XUE Peng
LAI Zhiyong (appointed on 11 March 2013)
XUE Mingyuan (appointed on 11 March 2013)

Independent Non-Executive Directors

TSUI Yung Kwok
YEUNG Kwok On
LO Wing Yan, William
NGAI Wai Fung

BOARD COMMITTEES

Audit Committee

TSUI Yung Kwok (Chairman)
LO Wing Yan, William
NGAI Wai Fung

Remuneration Committee

YEUNG Kwok On (Chairman)
NGAI Wai Fung
TSUI Yung Kwok
YANG Shaopeng
YANG Xianxiang

Nomination Committee

YANG Shaopeng (Chairman)
LO Wing Yan, William
NGAI Wai Fung
YANG Xianxiang
YEUNG Kwok On

Disclosure Committee

YANG Xianxiang (Chairman)
LIU Kecheng
XUE Peng
LAI Zhiyong
XUE Mingyuan

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

CORPORATE HEADQUARTERS

Rooms 2202-2203, 22/F
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

HEADQUARTER IN THE PRC

No. 30, 1388 Zhangdong Road
Pudong District
Shanghai
PRC

AUTHORISED REPRESENTATIVES

LIU Kecheng
XUE Peng

JOINT COMPANY SECRETARIES

LIU Kecheng
HO Siu Pik (FCS, FCIS)

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")

NAME OF STOCK

SITC International Holdings Company Limited (SITC)

STOCK CODE

01308

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
China Merchants Bank
Bank of China
Bank of America
Citibank

AUDITORS

Ernst & Young

LEGAL ADVISORS

As to Hong Kong law:

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

WEBSITE

www.sitc.com

Financial and Operating Highlights

		2012	2011	Change
Results				
Turnover	US$' 000	**1,204,615**	1,060,004	**13.6%**
Profit attributable to owners of the parent	US$' 000	**93,488**	93,558	**(0.1)%**
Basic earnings per share	US cents	**3.61**	3.60	**0.3%**
Profit margin	%	**7.8**	8.9	**(1.1)% pt.**
Net cash flows from operating activities	US$' 000	**103,838**	94,089	**10.4%**
Financial Position				
Equity attributable to owners of the parent	US$' 000	**702,856**	649,970	**8.1%**
Net current assets	US$' 000	**330,555**	367,453	**(10.0)%**
InterestÐbearing bank borrowings	US$' 000	**132,867**	37,153	**(257.6)%**
Financial Ratio				
Return on equity (note 1)	%	**13.8**	15.1	**(1.3)% pt.**
Return on assets (note 2)	%	**10.1**	11.5	**(1.4)% pt.**
Assets turnover ratio (note 3)	times	**1.3**	1.3	**–**
Gearing ratio	%	**–**	–	**–**
Operating Statistics				
Number of vessels operated as at year end	vessels	**60**	53	**7**
Shipping volume – Sea freight logistics	TEU	**1,774,054**	1,546,259	**227,795**
Freight forwarding volume – Land-based logistics	TEU	**1,394,358**	1,290,718	**103,640**

Note 1

Return on equity is calculated by using profit for the year and the average balance of total equity as at beginning of year and end of year.

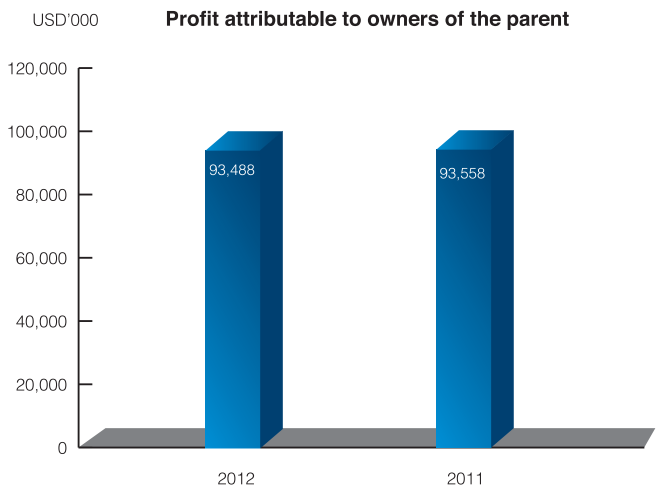
Note 2

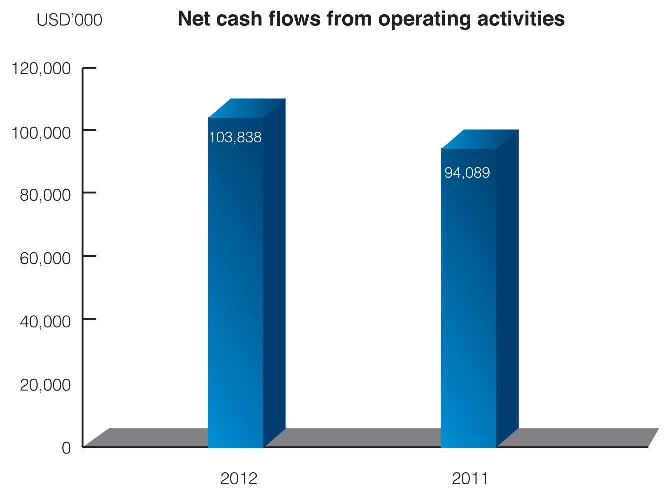
Return on assets is calculated by using the profit of the year and the average balance of total assets as at beginning of year and end of year.

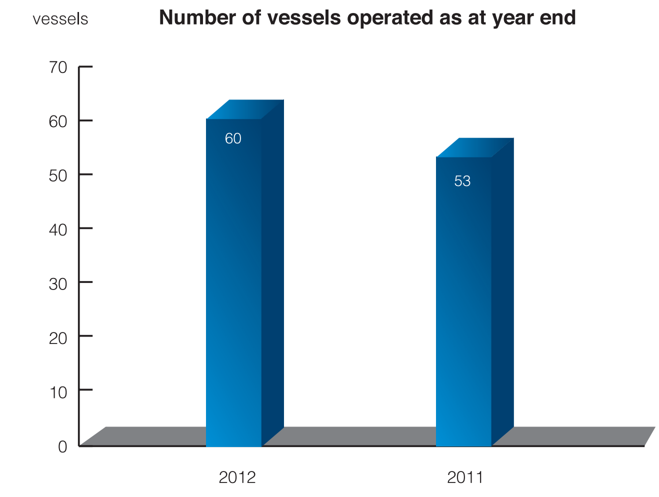
Note 3

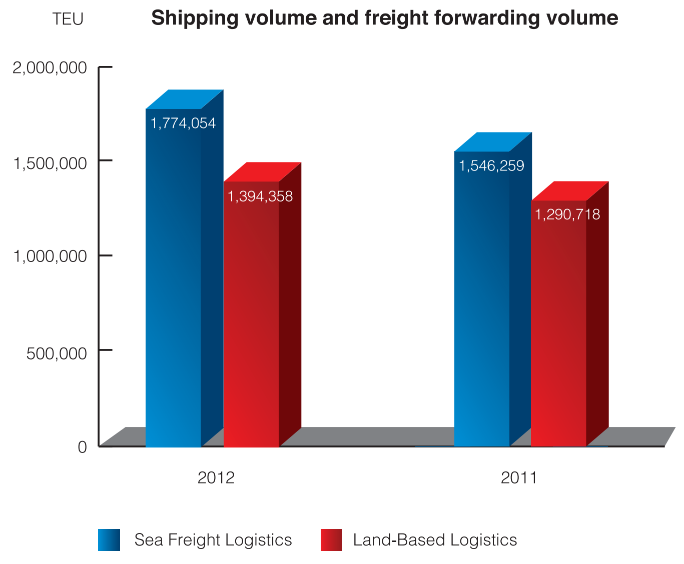
Assets turnover ratio is calculated by using the turnover and the average balance of total assets as at beginning of year and end of year.

Financial and Operating Highlights









Major Milestones in 2012

MARCH 2012

SITC Logistics (Singapore) was formally put into operation.

Shandong Shipping Management Co., Ltd. (山東省海豐船舶管理有限公司) ("**Shangdong Shipping Management**"), a subsidiary of SITC, was rated as Class A in the "Rating Assessment for Credit 2012" organized by the Shangdong Maritime Safety Administration.

APRIL 2012

Further develop the scale of onshore logistics facilities after the completion of the entire acquisition of Qingdao SITC Logistics Park Management Company Limited.

MAY 2012

Awarded "2012 Logistics in Trading – the Best Enterprise" in The 8th China International Logistics Week by China Communication & Transportation Association.

Mr. Yang Xiangxiang, the Vice-Chairman, Chief Executive Officer and an executive Director of SITC was awarded "Outstanding Contribution in Logistics to Industry 2012" in The 8th China International Logistics Week and "The Best High Level Management" by TradeWindsShipping China.

JUNE 2012

Completed the overall SAP lines project for the financial system.

Awarded "The Best China-Japan lanes of Top Ten Container Freight Companies of Comprehensive Services" and "The Best LCL Consolidation Service of Top Ten Freight Forwarding Companies of Comprehensive Services" in the China Freight Industry Awards by China Shipping Gazette.

JULY 2012

SITC Container Lines Co., Ltd., (新海豐集裝箱運輸有限公司) ("**SITC Container Lines**"), a subsidiary of SITC, and Dalian Port Group Co., Ltd. entered into a strategic collaboration agreement.

AUGUST 2012

Focused on the development of third party logistics services through restructuring of the Company's business structure and establishment of a shipping group and a logistics group.

Building a backup pool of talents and optimization of the training mechanism.

SEPTEMBER 2012

The SITC VTI shipping route smoothly berthed Jakarta International Terminals, which marked SITC has successfully entered the Indonesian market.

SITC Container Lines Integration Management Information System (SIMIS) was officially implemented in Taiwan and Hong Kong.

OCTOBER 2012

Awarded "2012 Top 100 Logistics Enterprises in China" and "2012 National Advanced Logistics Enterprise" by China Communication & Transportation Association.

NOVEMBER 2012

Awarded "Most Potential Enterprise for Investment" and "Top 100 Logistics Brand Value" by the Organizing Committee of Logistics Week of China Communication & Transportation Association.

Major Milestones in 2012

FLEET EXPANSION:

In 2012, SITC was delivered a total of 12 newly-built container vessels and one second-hand container vessel.

NETWORK EXPANSION:

During the year 2012, SITC established seven new shipping agency and freight forwarding outlets in Singapore and several cities in China, including Wuhan, Chongqing, Quanzhou, Hangzhou, Weifang and Rizhao, which were all put into operation.

COMMUNITY WELFARE:

In October 2012, SITC donated RMB1 million to Ai You Foundation, a private charity foundation in mainland China, for medical assistance for solitary poor children.

SHARE REPURCHASE:

SITC repurchased 5.4 million shares in the open market.

Chairman's Statement

We will continue to optimize our unique business model, expand its intra-Asia service network, work for the objective of becoming the first choice of customers, provide its customers with quality services through construction of comprehensive logistics facilities and tailor-made logistics solutions, and bring itself closer to the goal of becoming a world-class integrated logistics service provider.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of SITC International Holdings Company Limited ("**SITC**" or the "**Company**", together with its subsidiaries referred to as the "**Group**"), I hereby present to you the Group's annual results for the year ended 31 December 2012.

The market environment of the global shipping sector remained sluggish in the year 2012. Affected by the slow recovery of the United States economy and the sovereign debt crisis in Europe, demand in the global shipping market slowed down. Furthermore, excess shipping capacity resulted in increased competition and declining freight rates. Fuel costs surged, and shipping companies generally operated in challenging conditions.

In contrast to the economies of the United States and Europe, China experienced a 7.8% growth in its gross domestic product in 2012, and remained the world's second largest economy. In line with the increasing spending power and the infrastructure investment and the urbanization development in Asia as well as the relocation of more production bases to Southeast Asian countries, including Vietnam, Cambodia and Burma, merchandise trade between this region and other parts of Asia also kept increasing. Consequently, the overall intra-Asia container shipping volume experienced continuous growth in 2012 on a year-on-year basis and remained the world's largest container shipping market.

SITC is a leading shipping logistics company dedicated to serving the intra-Asia trade market. The Group leverages on the comprehensive coverage of its shipping and logistics supply chain, unique business model, high quality customer base and its high-density, high-frequency container shipping route and logistics network covering major ports in Asia to derive full benefits of the growth in the trade and economies of China and other Asian countries. Despite the declining shipping rate as a result of the intense competition in the sea freight market and high fuel costs, the Group still performed well during the year under review, with turnover reaching approximately US$1,204.6 million, representing an increase of 13.6% as compared with 2011. Gross profit reached approximately US$138.4 million, representing an increase of 20.6% as compared with 2011. Profit before income tax amounted to approximately US$96.1 million, representing a slight decrease of 0.3% from 2011. Profit attributable to owners of the parent amounted to approximately US$93.5 million, and earnings per share was approximately US$3.61 cents. For the year ended 31 December 2012, the Board resolved to recommend the payment of a final dividend of HK$0.12 per share.

Over the past years, SITC continued to record significant increase in container shipping volume and outperform many of our peers by actively capitalizing on the intra-Asia economic development. The total container shipping volume for the year increased by 14.7% to 1,774,054 TEU, with average freight rate of US$539/TEU, down 0.7% year on year. The Group's land-based freight forwarding business achieved total volume of 1,394,358 TEU, up 8.0% year on year. SITC maintained stable growth in intra-Asia shipping market share in 2012.

The Group leveraged on its strong operating cash flow to expand its operations amidst the unfavorable industrial trend, and pursued development opportunities at low costs. SITC has actively pursued expansion of its fleet. In 2012, a total of 12 new vessels and 1 second-hand vessel were delivered. Our total fleet capacity at the end of 2012 reached 61,303 TEU, increasing by 21.7% year on year. The Group considers that the new vessel orders placed at a time of low vessel price helps the Group expand our self-owned fleet and secure a long-term cost advantage for SITC. As at 31 December 2012, the Group had 27 self-owned vessels and 33 chartered vessels. The Group plans to expand its total operating fleet from 60 vessels to about 80 vessels in the next three to five years.

In respect of the sea freight logistics business, the Group made 52 shipping route optimizations during the year in an attempt to cope with the complex and intense competition in the intra-Asia market through more frequent port calls and more reasonable scheduling. In the meantime, the Group continued to extend its intra-Asia shipping routes by adding 7 ports of call, namely Nansha and Shantou in China, Daesan and Gyeongin in South Korea, Kawasaki and Hitachinaka in Japan and Djakarta in Indonesia, to expand the coverage of its network. As of 31 December 2012, the Group operated 52 trade lanes, including four trade lanes through joint services and 19 trade lanes through container slot exchange arrangements.

In respect of the land-based logistics business, the Group added 7 on-land marketing centers in Singapore and Wuhan, Chongqing, Quanzhou, Hangzhou, Weifang and Rizhao of the PRC during the year. The Group also actively developed the land-based third party logistics businesses and operated (including through joint ventures) approximately 676,000 m2 of depot and 76,000 m2 of warehousing space.

While the global shipping industry is expected to face various difficulties and challenges in 2013, the Group's management remains confident about the business environment in intra-Asia container shipping and logistics market in the year of 2013. As its business expands, SITC will continue to optimize its unique business model, expand its intra-Asia service network, work for the objective of becoming the first choice of customers, provide its customers with quality services through construction of comprehensive logistics facilities and tailor-made logistics solutions, and bring itself closer to the goal of becoming a world-class integrated logistics service provider.

Finally, I would like to extend my heartfelt gratitude to our shareholders for their concern and support to the Group. I would like to express my appreciation to all directors of the Company ("Directors"), members of senior management and staff of the Group for their hard work during the past year. I believe that SITC is progressing towards its goal of becoming a world-class shipping logistics enterprise and will deliver more outstanding results in the future.

YANG Shaopeng
Chairman

11 March 2013

Management Discussion and Analysis

OVERVIEW

Business Review

SITC is one of Asia's leading shipping logistics companies that provides integrated transportation and logistics solutions.

In the year 2012, the Group's sea freight logistics business continued to provide container shipping services that focused exclusively on the intra-Asia market. As of 31 December 2012, the Company operated a total of 52 trade lanes, including 4 trade lanes through joint services and 19 trade lanes through container slot exchange arrangements. These trade lanes cover 46 major ports in the PRC, Japan, Korea, Taiwan, Hong Kong, Vietnam, Thailand, the Philippines, Cambodia and Indonesia. As of 31 December 2012, the Company operated a fleet of 60 vessels with total capacity of 61,303 TEU, comprised of 27 self-owned and 33 chartered vessels, with an average age of 7.2 years. 53 of these 60 vessels were of the 1,000 TEU type. Revenue generated by the Group's sea freight logistics business for the year 2012 amounted to US$956.1 million, representing an increase of approximately 13.9% as compared to the same period in the year 2011. The increase represented mainly the increases in the shipping volume due to the increase in the shipping capacity from 1,546,259 TEU in 2011 to 1,774,054 TEU in 2012.

The Group's land-based logistics business is another key part of its business model, which includes freight forwarding, shipping agency, depot and warehousing, trucking and ship brokerage services. As of 31 December 2012, the Group's freight forwarding network covered 29 major cities in the PRC, Japan, Korea, Hong Kong, Vietnam and Singapore while the Group's shipping agency network covered 42 major ports and cities in the PRC, Japan, Korea, Hong Kong, Vietnam, Thailand and the Philippines. The Group also operated, including joint ventures, approximately 676,000 m^2 of depot and 76,000 m^2 of warehousing space. Revenue generated by its land-based logistics business for the year ended 31 December 2012 amounted to US$739.6 million as compared to US$673.6 million for the same period in the year 2011. The increase was mainly attributed to the increase in the Group's freight forwarding business.

Shipping industry worldwide is expected to face various difficulties and challenges in 2013. The management of the Group remains confident in the Asia's operating environment and performance of container shipping logistics in 2013. With the Group's business continuing to expand, the Group will continue to optimize its unique business model, expand its intra-Asia service network, aim at being the priority choice for customers and provide premier services to client by way of integrated logistics facilities and tailor-made logistics solutions. Through the above measures and together with the Group's continuous enhancement on its information technology systems, the Group will strive to become a world-class integrated logistics service solutions provider.

Market Review

During the year 2012, the global shipping industry performance was still lingering at the bottom on the whole despite a slow recovery was underway. The intra-Asia container shipping market (which is the focus of the Group's sea freight logistics business) still maintained a remarkable growth benefiting from higher economic and trade growth in the PRC and Southeast Asian countries, and remained the world's largest shipping market.

For the year ended 31 December 2012, the Company recorded an approximately 14.7% increase in shipping volume and an increase of approximately 8.0% in land-based freight forwarding volume.

Financial Overview

	Year ended 31 December							
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	Sea freight logistics		**Land-based logistics**		**Inter-segment sales**		**Total**	
	US$'000	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	**US$'000**	US$'000 (Restated)
Revenue	**956,124**	839,599	**739,561**	673,585	**(491,070)**	(453,180)	**1,204,615**	1,060,004
Cost of sales	**(909,709)**	(797,466)	**(647,619)**	(601,018)	**491,070**	453,180	**(1,066,258)**	(945,304)
Gross profit	**46,415**	42,133	**91,942**	72,567			**138,357**	114,700
Other income and gains (excluding interest and other investment income)	**144**	19,638	**1,094**	2,468			**1,238**	22,106
Administrative expenses	**(13,684)**	(12,194)	**(46,990)**	(39,895)			**(60,674)**	(52,089)
Share of profits and losses of:								
Jointly ventures	—	—	**6,640**	5,145			**6,640**	5,145
Associates	—	—	**548**	258			**548**	258
Other expenses and losses	**(842)**	(4,363)	—	(146)			**(842)**	(4,509)
Segment results	**32,033**	45,214	**53,234**	40,397			**85,267**	85,611
Finance costs							**(2,141)**	(1,622)
Interest and other investment income							**12,967**	12,372
Profit before tax							**96,093**	96,361
Income tax expense							**(2,293)**	(2,004)
Profit for the year							**93,800**	94,357
Profit attributable to:								
Owners of the parents							**93,488**	93,558
Non-controlling interests							**312**	799
							93,800	94,357

Revenue

The Group's total revenue after inter-segment elimination increased by approximately 13.6% from approximately US$1,060.0 million for the year ended 31 December 2011 to US$1,204.6 million for the year ended 31 December 2012. The increase primarily reflected (i) the increase in its shipping volume; and (ii) the continuous growth in the Group's freight forwarding operations.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales of the Group increased by approximately 12.8% from approximately US$945.3 million for the year ended 31 December 2011 to approximately US$1,066.3 million for the year ended 31 December 2012. This increase was primarily attributable to (i) the increase in the Group's shipping volume; and (ii) the increase in the major components of its cost of sales, such as bunkers.

As a result of the foregoing, gross profit increased from approximately US$114.7 million for the year ended 31 December 2011 to approximately US$138.4 million for the year 2012. The Group's gross profit margin increased from approximately 10.8% for the year ended 31 December 2011 to approximately 11.5% for the year ended 31 December 2012.

Other Income and Gains (excluding interest and other investment income)

For the year ended 31 December 2012, the Group's other income and gains (excluding interest and other investment income) decreased by US$20.9 million from US$22.1 million for the year ended 31 December 2011 to US$1.2 million for the year 2012. In 2011, the amount mainly represented the US$18.8 million gain in the foreign exchange translation from RMB deposits, whereas the Group recorded a foreign exchange loss in 2012.

Administrative Expenses

Administrative expenses increased by 16.5% from US$52.1 million for the year ended 31 December 2011 to US$60.7 million for the year ended 31 December 2012. The increase was primarily attributable to the overall increase in staff cost.

Share of profits and losses of joint ventures

The Group's share of profit and losses of joint ventures increased from US$5.1 million in 2011 to US$6.6 million in 2012. The increase was mainly attributable to the expansion in the Group's warehouse and depot businesses.

Share of profits and losses of associates

The Group's share of profits and losses of associates increased from US$0.3 million in 2011 to US$0.5 million in 2012. The increase was mainly attributable to the commencement of the terminal business in Qingdao in 2012.

Other Expenses and Losses

For the year ended 31 December 2012, the Group's other expenses and losses decreased from US$4.5 million for the year ended 31 December 2011 to US$0.8 million for the same period in 2012. The amount in 2011 mainly represented the fair value losses of the Group's financial instruments of US$3.9 million and the amount dropped to US$0.4 million in 2012.

Finance Costs

The Group's finance cost for the year ended 31 December 2012 was US$2.1 million, representing an increase of approximately US$0.5 million as compared to the finance cost of US$1.6 million for the year ended 31 December 2011. There was no material change in the effective interest rate for the year 2012 compared as to that for the year 2011.

Interest and Other Investment Income

The Group's amount of interest and other investment income increased from US$12.4 million for the year ended 31 December 2011 to US$13.0 million for the year ended 31 December 2012. The increase was mainly attributable to higher average interest yield from the Group's principal guarantee investment products.

Profit Before Tax

As a result of the foregoing, the Group's profit before tax decreased by approximately 0.3% from US$96.4 million for the year ended 31 December 2011 to US$96.1 million for the year ended 31 December 2012.

Income Tax Expense

The Group's income tax expenses increased by approximately 15% from US$2 million for the year ended 31 December 2011 to US$2.3 million for the year ended 31 December 2012.

Profit for the Year

The Group's profit for the year ended 31 December 2012 was US$93.8 million, representing an decrease of approximately 0.6% as compared to the profit of US$94.4 million for the year ended 31 December 2011.

Sea Freight Logistics

The following table sets forth selected income statement data for the sea freight logistics segment for the years indicated:

	Year ended 31 December			
	2012		2011 (Restated)	
	Amount (US$'000)	% of segment revenue	Amount (US$'000)	% of segment revenue
Income Statement Data:				
Sales to external customers	**488,163**	**51.1%**	407,158	48.5%
Inter-segment sales	**467,961**	**48.9%**	432,441	51.5%
Segment revenue	**956,124**	**100.0%**	839,599	100%
Cost of Sales	**(909,709)**	**(95.1)%**	(797,466)	(95.0)%
Equipment and cargos transportation costs	**(495,325)**	**(51.8)%**	(425,677)	(50.7)%
Voyage costs	**(294,012)**	**(30.7)%**	(254,221)	(30.3)%
Vessels costs	**(120,372)**	**(12.6)%**	(117,568)	(14.0)%
Gross Profit	**46,415**	**4.9%**	42,133	5.0%
Other income and gains (excluding interest and other investment income)	**144**	**—%**	19,638	2.4%
Administrative expenses	**(13,684)**	**(1.4)%**	(12,194)	(1.5)%
Other expenses and losses	**(842)**	**(0.1)%**	(4,363)	(0.5)%
Segment results	**32,033**	**3.4%**	45,214	5.4%

Segment results

The following table sets forth the number of trade lanes of the Group as at the years ended 31 December 2011 and 2012, and port calls per week and the average freight rates for the years indicated:

Year ended 31 December		As at 31 December			
2012	2011	**2012**	2011	**2012**	2011
Average freight rate *(US$ per TEU)*		**Number of trade lanes**		**Port calls per week**	
539	543	**52**	51	**308**	279

Revenue

Revenue of the Group's sea freight logistics business before inter-segment elimination increased by approximately 13.9% from US$839.6 million for the year ended 31 December 2011 to US$956.1 million for the year ended 31 December 2012. This increase was primarily attributable to the increase in shipping volume from 1,546,259 TEU in 2011 to 1,774,054 TEU in 2012. In 2012, the averge freight rate was US$539 per TEU, representing a decrease of 0.7% over the average freight rate of US$543 per TEU in 2011.

Cost of Sales, Gross Profit and Gross Profit Margin

The cost of sales of the Group's sea freight logistics business increased by approximately 14.1% from US$797.5 million for the year ended 31 December 2011 to US$909.7 million for the year ended 31 December 2012. This increase primarily reflected the followings:

- Equipment and cargos transportation costs increased by approximately 16.3% from US$425.7 million for the year ended 31 December 2011 to US$495.3 million for the same period in 2012, primarily reflecting an increase in loading and discharge cost by approximately 10.8% from US$274.7 million for the year ended 31 December 2011 to US$304.4 million for the year ended 31 December 2012 as a result of an increase in the Group's loading and discharge volume due to its increased shipping volume. The average loading and discharge expenses per TEU were generally stable during these periods. The costs of containers increased by approximately 18.3% from US$49.7 million for the year ended 31 December 2011 to US$58.8 million for the year ended 31 December 2012. Such increase was primarily attributable to the increase in the number of containers leased to support the Group's business expansion.

- Voyage costs increased by approximately 15.7% from US$254.2 million for the year ended 31 December 2011 to US$294 million for the same period in 2012. The increase primarily reflected an increase in (i) bunkers cost of approximately 16.5% from US$206.5 million for the year ended 31 December 2011 to US$240.5 million for the year ended 31 December 2012; and (ii) average bunker costs per tonne by approximately 4.5% from US$669 in 2011 to US$699 in 2012. The volume of bunker consumption for the year ended 31 December 2012 was 344 thousand tonnes, which represented a grow of 11.3% from 309 thousand tonnes from that of 2011.

- Vessel costs increased by approximately 2.4% from US$117.6 million for the year ended 31 December 2011 to US$120.4 million for the same period in 2012. The increase is a combined effect of (i) decrease in the vessel charter expense as a result of the decrease in average daily bulk vessel charter rate from US$7,684 in 2011 to US$6,412 in 2012; (ii) the increase in vessel crew cost; and (iii) increased depreciation as a result of the expansion of the Group's fleet size.

As a result of the foregoing, the Company recorded gross profit of US$46.4 million in its sea freight logistics business for the year ended 31 December 2012, representing an approximately 10.2% increased as compared to US$42.1 million for the corresponding period in 2011. The Group's gross profit margin of 5.0% in 2011 was comparable to that of 4.9% in 2012.

Other Income and Gains (excluding interest and other investment income)

For the year ended 31 December 2012, the other income and gains (excluding interest and other investment income) decreased from US$19.6 million for the year ended 31 December 2011 to US$0.1 million. In 2011, the amount mainly represented the gain in the foreign exchange translation from RMB deposits whereas the Group recorded a foreign exchange loss in 2012.

Administrative Expenses

Administrative expenses of the Group's sea freight logistics business increased by 12.3% from US$12.2 million for the year ended 31 December 2011 to US$13.7 million in the corresponding period in 2012. The increase primarily reflected the overall increase in the Group's staff costs.

Other Expenses and Losses

Other expenses and losses for the Group's sea freight logistics business decreased from US$4.4 million for the year ended 31 December 2011 to US$0.8 million for the same period in 2012. The amount in 2011 mainly represented the fair value losses of financial instruments.

Segment Results

As a result of the foregoing, the segment results of the Group's sea freight logistics business decreased by 29.2% from US$45.2 million for the year ended 31 December 2011 and US$32 million for the year ended 31 December 2012.

Land-Based Logistics

The following table sets forth selected income statement data for the Group's land-based logistics segment for the periods indicated:

	Year ended 31 December			
	2012		2011 (Restated)	
	Amount (US$'000)	% of segment revenue	Amount (US$'000)	% of segment revenue
Income Statement Data:				
Sales to external customers	**716,452**	**96.9%**	652,846	96.9%
Inter-segment sales	**23,109**	**3.1%**	20,739	3.1%
Segment revenue	**739,561**	**100%**	673,585	100.0%
Freight forwarding and shipping agency	**717,531**	**97%**	655,786	97.4%
Other land-based logistic businesses	**22,030**	**3%**	17,799	2.6%
Cost of Sales	**(647,619)**	**(87.6)%**	(601,018)	(89.2)%
Freight forwarding and shipping agency	**(633,956)**	**(85.7)%**	(588,256)	(87.3)%
Other land-based logistic businesses	**(13,663)**	**(1.9)%**	(12,762)	(1.9)%
Gross Profit	**91,942**	**12.4%**	72,567	10.8%
Other income and gains (excluding interest and other investment income)	**1,094**	**0.1%**	2,468	0.4%
Administrative expenses	**(46,990)**	**(6.3)%**	(39,895)	(5.9)%
Other expenses and losses	—	—	(146)	(0.02)%
Share of profits and losses of:				
Joint ventures	**6,640**	**0.9%**	5,145	0.8%
Associates	**548**	**0.1%**	258	—
Segment results	**53,234**	**7.2%**	40,397	6.0%

Revenue

The revenue of the Group's land-based logistics business before inter-segment elimination increased by approximately 9.8% from US$673.6 million for the year ended 31 December 2011 to US$739.6 million for the year ended 31 December 2012. This increase was mainly attributable to the continuous growth of the Group's freight forwarding business.

- *Freight forwarding and shipping agency*. Revenue of the Group's freight forwarding and shipping agency business increased by approximately 9.4% from US$655.8 million for the year ended 31 December 2011 to US$717.5 million for the corresponding period in 2012. This increase primarily reflected the increase in our freight forwarding volume from 1.29 million TEU in the year ended 31 December 2011 to 1.39 million TEU for the corresponding period in the year 2012 due to the increased scale of our business.

- *Other land-based logistic business*. Revenue of the Group's other land-based logistic business increased by approximately 23.6% from US$17.8 million for the year ended 31 December 2011 to US$22 million for the same period in 2012. This increase primarily reflected the expansion of third party logistics business and other land-based logistics businesses.

Cost of Sales, Gross Profit and Gross Profit Margin

The cost of sales of the Group's land-based logistics business increased by approximately 7.8% from US$601 million for the year ended 31 December 2011 to US$647.6 million for the corresponding period in 2012. This increase primarily reflected the expansion of the Group's freight forwarding business.

- *Freight Forwarding and Shipping Agency*. Cost of sales of the Group's freight forwarding and shipping agency businesses increased by approximately 7.8% from US$588.3 million for the year ended 31 December 2011 to US$634 million for the same period in 2012, primarily reflecting an increase in the Group's freight forwarding volume.

- *Other land-based logistic businesses*. Cost of sales of the Group's other land-based logistic business increased by approximately 7.0% from US$12.8 million for the year ended 31 December 2011 to US$13.7 million for the same period in 2012. This increase primarily reflected the cost increase in connection with the expansion in third party logistics businesses and cost for other logistics projects.

As a result of the foregoing, the gross profit of our land-based logistics business increased by approximately 26.6% from US$72.6 million for the year ended 31 December 2011 to US$91.9 million for the same period in 2012. The gross profit margin of the Group's land-based logistics business was 10.8% and 12.4% for the year ended 31 December 2011 and 2012, respectively.

Other Income and Gains (excluding interest and other investment income)

Other income and gains (excluding interest and other investment income) of the Group's land-based business were US$1.1 million for the year ended 31 December 2012. It represented a decrease of US$1.4 million from US$2.5 million for the year ended 31 December 2011 as the Group recorded a one time terminal compensation income of US$2.4 million in 2011.

Administrative Expenses

The Group's administrative expenses of its land-based logistics business increased by approximately 17.8% from US$39.9 million for the year ended 31 December 2011 to US$47.0 million for the same period in 2012. The increase primarily reflected overall increase in staff cost and headcount.

Other Expenses and Losses

Other expenses and losses by the Group's land-based logistics business for 2012 was comparable to the corresponding period in 2011.

Share of profits and losses of joint ventures

The Group's share of profit and losses of joint ventures increased from US$5.1 million in 2011 to US$6.6 million in 2012. The increase was mainly attributable to the expansion in our warehouse and depot businesses.

Share of profits and losses of associates

The Group's share of profits and losses of associates increased from US$0.3 million in 2011 to US$0.5 million in 2012. The increase was mainly attributable to commencement of the terminal business in Qingdao in 2012.

Segment Results

As a result of the foregoing, the segment results of the Group's land-based logistics business increased by approximately 31.7% from US$40.4 million for the year ended 31 December 2011 to US$53.2 million for the year ended 31 December 2012.

Assets and Liabilities

As at 31 December 2012, total assets of the Group amounted to US$1,000.6 million, representing an increase of 17.5% in an amount of US$148.9 million as compared to US$851.7 million as of 31 December 2011. Total liabilities of the Group increased by approximately 49.2% from US$198.3 million as of 31 December 2011 to US$295.8 million as of 31 December 2012.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Yang Shaopeng (楊紹鵬), aged 56, is the Chairman of the Board of Directors (the "**Board**"), an executive Director, the Chairman of the nomination committee ("**Nomination Committee**") and a member of the remuneration committee ("**Remuneration Committee**") of our Company. Mr. Yang has been the Chairman of our Company since April 2006 and has been actively and extensively involved in the management and strategic development of our Company, and oversees the overall development of our Company. Mr. Yang graduated from Asia International Open University (Macau) in 2000 with a master's degree in business administration and completed a CEO class in China Europe International Business School in 2004. The CEO program is a non-degree specialised executive education program that is offered to address the business and management issues relating to industry consolidation, globalisation, and economic reform. Mr. Yang has over 35 years of experience in the shipping industry through his employment in the shipping and foreign trade companies. From November 1988, Mr. Yang worked as an assistant general manager at Sinotrans (Shandong) Co., Ltd. (中國外運(山東)公司), a state-owned shipping enterprise. From September 1990, he served as the deputy manager in the storage and transportation department of Shandong Foreign Trade Corporation ("**SFTC**"), a state-owned foreign trade corporation. From May 1991 to May 1992, he served as a deputy general manager of Shandong International Transportation Corporation and as general manager between May 1992 and December 1996. From December 1996 to January 2002, he served as the general manager in SITC Maritime (Group) Co., Ltd. ("**SITC Group**"). Prior to its restructuring in December 2000, SITC Group was a state-owned enterprise. From October 1998 to December 2000, Mr. Yang was a vice-president of SFTC. From January 2002 to January 2005, Mr. Yang served as the president of SITC Maritime Group Co., Ltd. (山東海豐國際航運集團有限公司) ("**Shandong SITC**") and also as the chairman of the same company from January 2001 to November 2011. Save as disclosed above and in the Company's prospectus dated 20 September 2010, Mr. Yang Shaopeng is not related to any other Directors or senior management or substantial shareholder of our Company.

Mr. Yang Xianxiang (楊現祥), aged 46, is the Vice-Chairman of the Board, Chief Executive Officer, an executive Director, the Chairman of the disclosure committee ("**Disclosure Committee**") as well as a member of the Nomination Committee and Remuneration Committee of our Company. Mr. Yang has been a Director and chief executive officer of our Company since January 2008. He is actively involved in the management and the decision-making process of our Company. Mr. Yang graduated from Asia International Open University (Macau) with a master's degree in Business Administration in 2000 and completed a chief executive officer class in Tsinghua University in 2003. He also received a master's degree in business administration from China Europe International Business School in 2006. He completed a non-degree course in Sinology in Fudan University in 2009, which is a course on Chinese heritage classical study, and completed another non-degree Chief Executive Officer Class at the Cheung Kong Graduate School of Business in 2010. Mr. Yang has over 26 years of experience in the shipping industry through his employment in the shipping companies. In July 1987, Mr. Yang joined Lufeng Shipping Co., Ltd. (魯豐航運有限公司) ("**Lufeng Shipping**"), a container shipping company, and was subsequently promoted to be a manager before he left in July 1997. From August 1997 to December 2001, he served as a general manager in SITC Container Lines (Shandong) Co., Ltd. (山東省海豐船務有限公司). Between January 2002 and January 2005, he served as executive vice president in Shangdong SITC and as president in the same company between January 2005 and May 2007. From May 2007 to January 2008, he served as president of SITC Container Lines and as a chief executive officer of SITC Steamship (Shanghai) Co., Ltd.. Mr. Yang was appointed as an executive Director on 9 April 2010.

Mr. Liu Kecheng (劉克誠), aged 39, is an executive Director, joint company secretary, authorized representative and a member of the Disclosure Committee of our Company. Mr. Liu has been a Director of our Company since December 2006. Since October 2010, Mr. Liu has been appointed as the director for investment and securities, responsible for investments and equity funding. Mr. Liu graduated from Shandong Foreign Economic and Trade School in 1994 where he majored in foreign trade and accounting, and from Shandong University of Economics in 1996 where he majored in accounting. In 2005, he graduated from Renmin University of China majoring in accounting. He also received a master's degree in business administration from China Europe International Business School in 2007. Mr. Liu has over 19 years of experience in the shipping industry through his employment in the shipping companies. Mr. Liu worked the finance department Shandong Foreign Trade Corporation, a state-owned foreign trade corporation, from July 1994 to June 1998. From July 1998 to May 2000, he served as a finance manager in Shandong SITC International Container Storage and Transportation Company Limited (山東海豐國際集裝箱儲運有限公司). Between June 2000 and January 2003, he served as the manager of the finance centre and the deputy general manager of Shandong SITC. From January 2003 to October 2003, he served as the deputy general manager in the planning & development center of Shandong SITC. Between October 2003 and December 2006, Mr. Liu served as the general manager of the investment and development center in Shandong SITC. From December 2006 to January 2008, he served as the director and chief financial officer of SITC Group Company Limited ("**SITC Holding**") and Shandong SITC. Mr. Liu was appointed as an executive Director on 9 April 2010.

Mr. Xue Peng (薛鵬), aged 42, is an executive Director, chief financial officer, authorized representative and a member of the Disclosure Committee of our Company. Mr. Xue has been a Director and chief financial officer of our Company since January 2008. Mr. Xue is responsible for finance accounting and cash management in our Company. Mr. Xue graduated from Shandong Province Foreign Trade and Economic University in 1991 majoring in financial accounting, and graduated from Shangdong University of Economics in 1997 majoring in accounting. He was qualified as an accountant in 2004 and also obtained an undergraduate degree in accounting from Renmin University of China in 2006. He received a master's degree in business administration from China Europe International Business School in 2011. Mr. Xue has over 20 years of experience in the shipping industry through his employment in the shipping companies. From March 1993 to March 1996, Mr. Xue worked in Lufeng Shipping, a container shipping company. From March 1996 to January 1998, he served as a financial manager in Guang Lian Shipping Agency (Shandong) Company Limited (山東廣聯船務有限公司), a company that is principally engaged in the shipping agency business. Between January 1998 and March 1999, he served as a financial manager in SITC Container Lines (Shandong) Co., Ltd. and Shandong SITC respectively. From March 1999 to February 2002, he served as the finance manager of SITC Japan Co., Ltd. Between February 2002 and January 2003, he served as the general manager of the supervision department in Shandong SITC. He served as a deputy general manager of the finance center of Shandong SITC from January 2003 to April 2006, and as the general manager of the finance department of SITC Holding between April 2006 and January 2008. Between April 2006 and January 2008, he also served as the financial manager of SITC Holding and SITC Shipping Agency (HK) Company Limited (新海豐船務代理(香港)有限公司), respectively. Mr. Xue was appointed as an executive Director on 9 April 2010.

Mr. Lai Zhiyong (賴智勇), aged 40, an executive Director and a member of the Disclosure Committee of our Company. He has been serving as the president of SITC Logistics Group since December 2012. Mr. Lai graduated from Ocean University of China (中國海洋大學) in July 1994 specialising in International Trade. Mr. Lai has over 18 years of experience in the shipping industry. During the period from August 1997 to November 2012, Mr. Lai had served as the supervisor of the import division of SITC Lianji (Shandong) Co., Ltd. (山東海豐聯集有限公司) ("**Shandong SITC Lianji**"), the manager of the import department, operation department and marketing department of SITC Container Lines and the general manager of SITC Container Lines (Hong Kong) Co., Ltd. (新海豐集運(香港)有限公司). Mr. Lai was appointed as an executive Director on 11 March 2013.

Mr. Xue Mingyuan (薛明元), aged 39, an executive Director and a member of the Disclosure Committee of our Company. He has been serving as the president of SITC Shipping Group and the general manager of SITC Container Lines since December 2012. Mr. Xue obtained a master degree in international shipping and logistics management from The Hong Kong Polytechnic University (香港理工大學) in November 2004. Mr. Xue has over 16 years of experience in the shipping industry. During the period from August 1997 to November 2012, Mr. Xue had served as the export supervisor of Shandong SITC Lianji, the manager of the customers service department and the sales and marketing department of SITC Container Lines, the deputy general manager and general manager of SITC Container Lines (Korea) Co., Ltd. and the general manager of SITC Container Lines. Mr. Xue was appointed as an executive Director on 11 March 2013.

Independent Non-executive Directors

Mr. Tsui Yung Kwok (徐容國), aged 44, is an independent non-executive Director, the chairman of the audit committee ("**Audit Committee**") and a member of the Remuneration Committee of our Company. Mr. Tsui was appointed as our independent non-executive Director in September 2010. He was awarded a bachelor's degree in business (accounting) from Curtin University of Technology, Australia in 1992 and a master's degree in corporate governance from The Hong Kong Polytechnic University in 2007. Mr. Tsui has nearly 20 years of experience in accounting and finance through his senior position in an international accounting firm in Hong Kong from February 1994 to October 2003 and his office as the chief financial officer of Qin Jia Yuan Media Services Company Limited, a company listed on the Stock Exchange (Stock Code: 2366) from 2003 to 2004. Mr. Tsui has been the chief financial officer and the company secretary of Ju Teng International Holdings Limited, a company listed on the Stock Exchange (Stock Code: 3336), since 2004. Mr. Tsui became an executive director of Ju Teng International Holdings Limited in June 2005. Mr. Tsui has also served as an independent non-executive director of Shenguan Holdings (Group) Limited (Stock Code: 829) and 361 Degrees International Limited (Stock Code: 1361), since September 2009 and September 2012, respectively, both are companies listed on the Stock Exchange. Mr. Tsui is a member of the Institute of Chartered Accountants in Australia, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

Mr. Yeung Kwok On (楊國安), aged 52, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Nomination Committee of our Company. Mr. Yeung was appointed as our independent non-executive Director in September 2010. He is a Philips Chair Professor of human resources management at China Europe International Business School. He received a Ph.D. of business administration from University of Michigan in 1990. Mr. Yeung worked in Acer Group as chief human resources officer from early 1999 to June 2002. During the same period of time, he simultaneously served as the president of Aspire Academy under Acer Foundation. Mr. Yeung is a member of five editorial advisory boards, including Human Resources Management Journal (USA), and Human Relations Journal (USA). Mr. Yeung is an expert in organizational capabilities, human resources strategy, and leadership development. He is an independent director of Trina Solar Limited, a company listed on the New York Stock Exchange (NYSE: TSL) and an independent non-executive director of Kingdee International Software Group Company Limited, a company listed on the Stock Exchange (Stock Code: 268), respectively. Mr. Yeung also serves as independent board director for other three private corporations, and advises chief executive officers of several leading Chinese firms.

Dr. Lo Wing Yan, William (盧永仁), aged 52, was appointed as an independent non-executive Director and a member of the Audit Committee and Nomination Committee of our Company in September 2010. He received an M. Phil. and a Ph.D. degree, both from the University of Cambridge in England in March 1986 and March 1988, respectively. Dr. Lo is currently the Vice-Chairman of South China Media Group. He was also a Bye-Fellow of Downing College, the University of Cambridge. In 1999, he was appointed as a Justice of Peace (J.P.) by the government of Hong Kong. In 2003, he was appointed as a Member of Shantou Committee of the Chinese People's Political Consultative Conference. Dr. Lo is an Adjunct Professor of The School of Business of Hong Kong Baptist University. He is also a governor of an independent school, the ISF Academy, as well as the Chairman of Junior Achievement Hong Kong. Dr. Lo is currently an independent non-executive director of Nam Tai Electronics, Inc. (New York Stock Exchange: NTE), Westminster Travel Limited (Singapore Stock Exchange: WTL), Varitronix International Limited (the Stock Exchange, Stock Code: 710) and LZYE Group Plc (London Stock Exchange AIM listed LZYE. L.). He was appointed as an independent non-executive director of South China Land Limited (GEM of the Stock Exchange, Stock Code: 8155) since 2002 and was re-designated as a non-executive director in September 2011.

Dr. Ngai Wai Fung (魏偉峰), aged 51, was appointed as an independent non-executive Director as well as a member of the Audit Committee, Remuneration Committee and Nomination Committee of our Company in September 2010. Dr. Ngai is currently a vice president of the Hong Kong Institute of Chartered Secretaries, the Adjunct Professor of Law of Hong Kong Shue Yan University and a member of Qualification and Examination Board of the Hong Kong Institute of Certified Public Accountants. He has recently been appointed by the Chief Executive of The HKSAR as a member of Work Group on Professional Services under the Economic Development Commission. He was a director and head of listing services of KCS Hong Kong Limited (formerly the corporate and commercial divisions of KPMG and Grant Thornton), an independent integrated corporate services provider. Dr. Ngai was the company secretary of Industrial and Commercial Bank of China (Asia) Limited (中國工商銀行 (亞洲) 有限公司), a company listed on Stock Exchange (Stock Code 349), in 2005, the company secretary of China Unicom Limited (中國聯通股份有限公司), a company listed on Stock Exchange (Stock Code 762), from 2001 to 2003, an executive director, the company secretary and the chief financial officer of Oriental Union Holdings Limited (東聯控股有限公司) (now known as CY Foundation Group Limited) (中青基業集團有限公司), a company listed on the Stock Exchange from 1999 to 2001, which was involved in the business of feeder operation and management, sea and air freight-forwarding and depot services. Dr. Ngai has led or participated in a number of significant corporate finance projects including listing, mergers and acquisitions as well as issuance of debt securities, and the provision of professional services and support to many state-owned enterprises and red-chip companies in the areas of regulatory compliance, corporate governance and secretarial services. Dr. Ngai received a master's degree in business administration from Andrews University of Michigan in 1992, a master's degree in corporate finance from Hong Kong Polytechnic University in 2002 and a doctorate in Economics (Finance) from Shanghai University of Finance and Economics in 2011. Dr. Ngai is a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the Hong Kong Institute of Company Secretaries, a fellow of the Hong Kong Institute of Directors and a member of the Hong Kong Securities and Investment Institute. Dr. Ngai is currently an independent non-executive director of Bosideng International Holdings Limited (the Stock Exchange, Stock Code 3998), China Railway Construction Limited (the Stock Exchange, Stock Code: 1186), BaWang International (Group) Holdings Limited (the Stock Exchange, Stock Code: 1338), Powerlong Real Estate Holdings Limited (the Stock Exchange, Stock Code: 1238), Sany Heavy Equipment International Holdings Company Limited (the Stock Exchange, Stock Code: 631), Biostime International Holdings Limited (the Stock Exchange, Stock Code: 1112) and China Coal Energy Company Limited (the Stock Exchange, Stock Code: 1898). Dr. Ngai is also an independent director of LDK Solar Co., Ltd. (the New York Stock Exchange, Stock Code: LDK).

Dr. Ngai was independent non-executive director of Franshion Properties (China) Limited (Stock Exchange, Stock Code: 817) from May 2007 to June 2011 and China Life Insurance Company Limited (Stock Exchange, Stock Code: 2628) from December 2006 to May 2009.

JOINT COMPANY SECRETARIES

Ms. Ho Siu Pik (何小碧), aged 49, is a fellow of the Hong Kong Institute of Chartered Secretaries and also a fellow of the Institute of Chartered Secretaries and Administrators. Ms. Ho is a joint company secretary of our Company. Ms. Ho is also the director of Tricor Services Limited and she has over 26 years of experience in the company management and secretarial field. She is currently the company secretary of Sun Art Retail Group Limited and China Polymetallic Mining Limited and the joint company secretary of China Molybdenum Co., Ltd. and Yashili International Holdings Ltd., all of which are companies listed on the Hong Kong Stock Exchange. She was appointed as a joint company secretary of our Company on 10 September 2010. In the service contract of Ms. Ho with our Company, Ms. Ho has agreed to maintain the confidentiality of all information she acquires by virtue of her appointment as the company secretary of the Company. She is not a full-time employee of our Company.

Mr. Liu Kecheng (劉克誠), is our joint company secretary. For details regarding Mr. Liu's experience, see the paragraph headed "Directors" under the section headed "Directors and Senior Management" in the report. Mr. Liu has over seven years of experience in corporate secretarial services. Mr. Liu served as the company secretary in SITC Holding from October 2006 to January 2008, and has been company secretary of Shandong SITC from January 2006 to November 2011. He was appointed as a joint company secretary of our Company on 10 September 2010.

SENIOR MANAGEMENT

Due to the adjustment of the organisational structure of the Company during the year 2012, the senior management of the Company are the Company's current directors.

Changes in Information of Directors

Pursuant to Rule 13.51(B) (1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the change in information of Directors of the Company subsequent to the publication of the 2012 interim report in August 2012 is set out below:-

- Ms. Li Xuexia has resigned as executive Director of the Company with effect from 11 March 2013;
- Ms. Li Rongli has resigned as non-executive Director of the Company with effect from 11 March 2013;
- Mr. Xue Mingyuan and Mr. Lai Zhiyong have been appointed as executive Directors by the Board on 11 March 2013; and
- Dr. Lo Wing Yan, William, an independent non-executive Director of the Company, has been appointed as an independent non-executive director of LYZE Group Plc (a company listed in the London Stock Exchange AIM, Stock Code: LZYE.L) with effect from 25 July 2012.

Report of the Board of Directors

The Directors of the Company are pleased to present their report and the audited financial statements for the year ended 31 December 2012 of the Group.

MAJOR BUSINESS

The Company is an Asian shipping logistics company that provides integrated transportation and logistics solutions. The analysis of the revenue of the Group for the year is set out in Note 4 to the Financial Statements.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Comprehensive Income. The financial position as of 31 December 2012 of the Group is set out in the Consolidated Statement of Financial Position. The cash flow position of the Group during the year is set out in the Consolidated Statement of Cash Flows.

SHARE CAPITAL

The changes in the share capital of the Group during the year are set out in Note 29 to the Financial Statements.

FINAL DIVIDEND

At the Board meeting held on 11 March 2013 (Monday), it was proposed that a final dividend of HK$0.12 per share be paid on or after 15 May 2013 (Wednesday) to the shareholders of the Company whose names appear on the Company's register of members at the close of business at 4:30 p.m. on 6 May 2013 (Monday). The proposed final dividend is subject to approval by the shareholders at the annual general meeting ("**Annual General Meeting**") of the Company to be held on 30 April 2013 (Tuesday).

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 26 April 2013 (Friday) to 30 April 2013 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 25 April 2013 (Thursday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 7 May 2013 (Tuesday) to 9 May 2013 (Thursday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 6 May 2013 (Monday).

RESERVE

Details of the changes in reserve of the Group during the year ended 31 December 2012 are set out in Note 31 to the Financial Statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution of dividends to the shareholders subject to the provisions of the Company's articles of association (the "**Articles of Association**"), with the sanction of an ordinary resolution, dividend may be declared and paid out of share premium account of any other fund or account which can be authorised for this propose. As at 31 December 2012, the Company had distributable reserve amounting to approximately US$450,232,000.

PROPERTY, PLANT AND EQUIPMENTS

The changes in property, plant and equipments during the year ended 31 December 2012 are set out in Note 14 to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 35.4% of the Group's total purchase. The percentage of turnover attributable to the Group's five largest customers accounted for approximately 31.1% of the Group's total turnover.

None of the Directors or his/her associates and none of the shareholders possessing over 5% of the interest in the capital of the Company possessed any interest in the above-mentioned suppliers and customers.

DONATION

During the year, the charitable contributions and other donations made in Hong Kong and China totalled approximately HK$1.23 million.

DIRECTORS

The directors in office during the year and as of the date of this report are as follows:

Executive Directors

YANG Shaopeng
YANG Xianxiang
LIU Kecheng
XUE Peng
XUE Mingyuan (appointed on 11 March 2013)
LAI Zhiyong (appointed on 11 March 2013)
LI Xuexia (resigned on 11 March 2013)

Non-executive Director

LIU Rongli (resigned on 11 March 2013)

Independent non-executive Directors

TSUI Yung Kwok
YEUNG Kwok On
LO Wing Yan, William
NGAI Wai Fung

Details of the resume of the directors and senior management are set forth in the section "Directors and Senior Management" of this report.

Pursuant to the terms of the Articles of Association of the Company and the Corporate Governance Code and the letters of appointments of all independent non-executive Directors, TSUI Yung Kwok, YEUNG Kwok On, LO Wing Yan, William, NGAI Wai Fung, XUE Mingyuan and LAI Zhiyong will retire in the coming annual general meeting, and being qualified, have offered to be re-elected and re-appointed at the Annual General Meeting.

SERVICE CONTRACTS OF DIRECTORS

Details of service contracts for our executive Directors and non-executive Directors are set out under the section headed "Appointment and Re-election of Directors" of the Corporate Governance Report. There was no service contract entered by the Company and any Directors to be re-elected in the coming annual general meeting stipulating that the Company may not terminate the appointment without compensation payment (other than the statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Other than those transactions disclosed in Note 35 to the Financial Statements and in the section "Connected transactions" below, there was no other significant contract with any member of the Group as the contracting party and in which the Directors of the Company possessed direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

Our Chairman, Mr. YANG Shaopeng, through Better Master Investment Limited ("**Better Master**") and Resourceful Link Management Limited ("**Resourceful Link**") owns approximately 55.67% of the issued share capital in the Company. Mr. YANG Shaopeng, Better Master and Resourceful Link are the controlling shareholders of the Company. Mr. YANG Shaopeng, one of the controlling shareholders of the company, the chairman and an executive Director also owns as to 62.5% in SITC Manitime Group Company Limited ("**Qingdao SITC Shipping**") (formerly known as SITC Investment Holdings (Qingdao) Company Limited), which is involved in various business which had been excluded from a supplemental deed of non-competition entered into between the Company and Qingdao SITC Shipping. Pursuant to such supplemental deed of non-competition, the following businesses have been excluded from the supplemental deed of non-competition provided by the controlling shareholders to the Company:

(a) SITC Steamship (Shandong) Co., Ltd. (山東海豐航運有限公司) ("**Shandong Steamship**"), a 100% subsidiary of Qingdao SITC Shipping which is principally engaged in the ship-owning business, continues to hold operating licenses for the mainland China-Taiwan routes. The vessels that operate on this route belong to the Company but are chartered to Shandong Steamship for the mainland China-Taiwan route. These vessels are being used to operate such routes on terms that permit the Company to enjoy the charter fee revenues derived from such operation.

(b) During the year under review, Shandong Steamship owned two PRC-registered vessels named the Hai Feng Lian Fan and Feng Lian Jie of which Hai Feng Lian Fan was disposed by Shandong Steamship during the year 2012 and Shandong Steamship continues to own Hai Feng Lian Jie. According to the PRC Regulations Governing the Registration of Ships (中華人民共和國船舶登記條例) promulgated by the State Council on 2 June 1994 and effective as of 1 January 1995, only Chinese enterprises which are owned by Chinese investors as to not less than 50% are permitted to own Chinese flag vessels, and the Company is therefore unable to acquire control of this vessel under applicable laws and regulations for the time being. However, this vessel is subject to a lease to the Company.

(c) The Company has invested in companies in which Qingdao SITC Shipping also has shareholding (whether or not such companies are subsidiaries of the Company). These companies are companies in which the Company has already, in terms of economic interests, maximized the shareholding percentage to the highest extent permitted under the laws and regulations at such time. A list of such companies that originally the Company and Shandong SITC have both invested in, and which are subsequently transferred to Qingdao SITC Shipping, are set out in the section headed "Relationship with our Controlling Shareholders" in the Prospectus.

(d) In December 2009, SITC Container Lines and Shanghai Steamship entered into a joint venture contract to establish a joint venture, SITC Shipping (Shanghai) Co., Ltd. (上海海嵐豐航運有限公司), to engage in shipping and other businesses within the PRC that can only be conducted by majority PRC companies. The shareholding interest of SITC Shipping (Shanghai) Co., Ltd. is SITC Container Lines and Shanghai Steamship (a wholly-owned subsidiary of Qingdao SITC Shipping) holding a 49% and a 51% equity interest, respectively. As at the date of this report, application has been made to de-register SITC Shipping (Shanghai) Co., Ltd..

We have received an annual written confirmation from each of the Company's controlling shareholders in respect of the compliance by them and their associates with the supplemental deed of non-competition entered into by and among our Company, our controlling shareholders, Mr. YANG Shaopeng, Better Master and Resourceful Link.

The independent non-executive Directors have reviewed the supplemental deed of non-competition and whether the controlling shareholders have abided by the supplemental non-competition undertaking. The independent non-executive Directors confirmed that they had determined that the controlling shareholders have not been in breach of the supplemental non-competition undertaking during the year ended 31 December 2012.

Save as disclosed, no Directors nor their respective connected persons possessed any interests in any business that competed or might compete with the business that the Group conducted.

SHARE OPTION SCHEME

On 10 September 2010, the Company adopted a share option scheme ("**Share Option Scheme**") whereby the board of Directors (the "**Board**") of the Company can grant options for the subscription of the shares of the Company to the employees, managerial staff and senior employees and those other persons that the Board considers that they will contribute or have contributed to the Group (the "**Participants**") as described in the Share Option Scheme in order to serve as compliment and to reciprocate their contribution to the Group. The maximum number of shares that can be issued according to the Share Option Scheme was 260,000,000 shares which is equivalent to 10% of the issued capital of the Company after completion of the Global Offering (as defined in the Prospectus).

The number of options that may be granted pursuant to the terms of the Share Option Scheme shall not exceed 10% of the issued shares immediately after the completion of the Global Offering. Unless otherwise approved by the shareholders of the Company in general meeting, the number of shares that may be granted to the Participants under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial shareholders (as defined in the Listing Rules)), or the total number of shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time. There is no minimum period that the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the Board, however no options shall be exercised 10 years after they have been granted. The exercise price of the option shall be the higher of (a) the closing price of the Shares on the daily quotation sheet of the Stock Exchange on the date of grant; (b) the average closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) nominal value of the Share.

Each grantee shall pay a consideration of HK$1.00 at the time the option is granted. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date.

The following are details of the options granted pursuant to the Post-IPO Share Option Scheme but not yet exercised during the year ended 31 December 2012:

Grantee and position	Date of grant of options	Number of options granted	Number of options of granted during the year	Number of options exercised/ cancelled/lapsed during the year	Number of options not yet exercised on 31 December 2012	Approximate percentage of shareholding upon the exercise of the options
YANG Shaopeng (Executive Director)	25 October 2011	1,000,000	—	—	1,000,000	0.04%
YANG Xianxiang (Executive Director)	25 October 2011	1,000,000	—	—	1,000,000	0.04%
LIU Kecheng (Executive Director)	25 October 2011	300,000	—	—	300,000	0.01%
LI Xuexia* (Executive Director)	25 October 2011	300,000	—	—	300,000	0.01%
XUE Peng (Executive Director)	25 October 2011	300,000	—	—	300,000	0.01%
TSUI Yung Kwok (Independent non-executive Director)	25 October 2011	400,000	—	—	400,000	0.02%
YEUNG Kwok On (Independent non-executive Director)	25 October 2011	400,000	—	200,000	200,000	0.01%
LO Wing Yau, William (Independent non-executive Director)	25 October 2011	400,000	—	—	400,000	0.02%
NGAI Wai Fung (Independent non-executive Director)	25 October 2011	400,000	—	—	400,000	0.02%
Other employees	25 October 2011	7,100,000	—	—	7,100,000	0.27%
Total		**11,600,000**	—	**200,000**	**11,400,000**	**0.44%**

* resigned on 11 March 2013

PRE-IPO SHARE OPTION SCHEME

The Company adopted a pre-IPO share option scheme on 10 September 2010 (the "**Pre-IPO Share Option Scheme**"). The purpose of the Pre-IPO Share Option Scheme is to reward the contribution of certain employees, executives or officers of the Company made or may have made to the growth of the Company and/or the listing of Shares on the Stock Exchange. The principal terms of the Pre-IPO Share Option Scheme, which were confirmed and approved by resolutions in writing of all the Shareholders passed on 10 September 2010, are substantially the same as the terms of the Share Option Scheme except that:

(a) The subscription price per share shall be a price equivalent to a 20% discount to the Offer Price of the Shares under the Global Offering, that means HK$3.824 per share;

(b) The total number of shares involved in the Pre-IPO Share Option Scheme was 79,160,000 shares, which is equivalent to approximately 3.0% of the Shares in issue of the Company after completion of the Global Offering; and

(c) the eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of the Company or any of the subsidiaries who have been in employment with the Company for over one year prior to the date of the adoption of the Pre-IPO Share Option Scheme or any other persons who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of the subsidiaries;

(d) the conditions which the Board may in its absolute discretion to consider (including, without limitation, any minimum period for which an Option must be held before it can be exercised and/or any performance targets which must be achieved before an Option can be exercised) as it may think fit; and

(e) save for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on the Stock Exchange.

The followings are details of the options granted pursuant to the Pre-IPO Share Option Scheme but not yet exercised during the year ended 31 December 2012:

Grantee and position	Date of grant of options	Number of options granted	Number of options exercised/ cancelled/lapsed during the year	Number of options not yet exercised on 31 December 2012	Approximate percentage of shareholding upon the exercise of the options
YANG Shaopeng					
(Executive Director)	10 September 2010	7,200,000	—	7,200,000	0.28%
YANG Xianxiang					
(Executive Director)	10 September 2010	5,220,000	—	5,220,000	0.20%
LIU Kecheng					
(Executive Director)	10 September 2010	800,000	—	800,000	0.03%
LI Xuexia*					
(Executive Director)	10 September 2010	800,000	—	800,000	0.03%
XUE Peng					
(Executive Director)	10 September 2010	800,000	—	800,000	0.03%
Other employees	10 September 2010	60,820,000	2,440,000	58,380,000	2.26%
Total		**75,640,000**	**2,440,000**	**73,200,000**	**2.83%**

* resigned on 11 March 2013

The grantees to whom an option has been granted under the Pre-IPO Share Option Scheme will be entitled to exercise his/her option in the following manner:

(a) up to 25% of the Shares that are subject to the Option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing from the first anniversary of the Listing Date and ending on the second anniversary of the Listing Date;

(b) up to 25% of the Shares that are subject to the Option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing from the second anniversary of the Listing Date and ending on the third anniversary of the Listing Date;

(c) up to 25% of the Shares that are subject to the Option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing from the third anniversary of the Listing Date and ending on the fourth anniversary of the Listing Date; and

(d) such number of Shares that are subject to the Option so granted to him/her less the number of Shares in respect of which the Options has been exercised at any time during the period commencing from the fourth anniversary of the Listing Date and ending on the expiry of the option period.

The Options granted under the Pre-IPO Share Option Scheme are not transferable and options not exercised within the exercise period above will lapse and cease to be of further effect.

Other details of the Pre-IPO Share Option Scheme can be found in the Prospectus.

DEBENTURE

At any time during the year, the Company, its holding company or its subsidiaries were not the contracting parties of any arrangements from which the Directors could make a profit by purchasing the shares or debentures of the Company or any other companies.

INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at the date 31 December 2012, the interest or short position of the Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies, are as follows:

(i) Interest in the Company

Name of Director	Nature of Interest	Number of Securities	Approximate percentage of Shareholding
YANG Shaopeng [(1)]	Beneficiary of the Pengli Trust	1,438,703,158	55.67%
LIU Rongli [(2)*]	Beneficiary of the Pengli Trust	1,438,703,158	55.67%
XUE Peng [(3)]	Beneficiary of the Watercrest Trust	12,866,176	0.50%
LI Xuexia [(3)*]	Beneficiary of the Watercrest Trust	12,707,334	0.49%
LIU Kecheng	Beneficiary	300,000	0.01%
YEUNG Kwok On	Beneficiary	1,649,000	0.06%

* resigned on 11 March 2013

Notes:

(1) Out of the 1,438,703,158 Shares, 1,431,898,158 Shares are held by Resourceful Link and 6,805,000 Shares are held by Better Master. The issued share capital of Resourceful Link is owned as to 76.67% by Better Master. Better Master is owned as to 100% by Pengli Holdings Limited, a company wholly-owned by Barclays Wealth Nominees (Hong Kong) Limited. Barclays Wealth Trustees (Singapore) Limited as the trustee holding such interests for the beneficiaries of the Pengli Trust, namely YANG Shaopeng and his family. The Pengli Trust is a revocable discretionary trust established under the laws and regulations of the Cayman Islands. YANG Shaopeng is the settlor and a beneficiary of the Pengli Trust.

(2) LIU Rongli is the spouse of YANG Shaopeng and is deemed to be interested in all the shares of YANG Shaopeng by virtue of the SFO.

(3) The Shares are the interests held by Watercrest Profits Limited attributable to the Director. The sole shareholder of Watercrest Profits Limited is Xue Peng, as nominee and trustee for the Watercrest Trust, a trust established to hold the interests of certain employees in the Company.

(ii) Interest in underlying Shares

Name of Director	Nature of Interest	Number of Shares in the Company subject to options under the Pre-IPO Share Option Scheme	Number of Shares in the Company subject to options under the Post-IPO Share Option Scheme	Approximate percentage of shareholding attributable to the options under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme (Note)
YANG Shaopeng	Beneficial owner	7,200,000	1,000,000	0.32%
YANG Xianxiang	Beneficial owner	5,220,000	1,000,000	0.24%
LIU Kecheng	Beneficial owner	800,000	300,000	0.04%
LI Xuexia*	Beneficial owner	800,000	300,000	0.04%
XUE Peng	Beneficial owner	800,000	300,000	0.04%
TSUI Yung Kwok	Beneficial owner	—	400,000	0.02%
YEUNG Kwok On	Beneficial owner	—	200,000	0.01%
LO Wing Yau, William	Beneficial owner	—	400,000	0.02%
NGAI Wai Fung	Beneficial owner	—	400,000	0.02%

* resigned on 11 March 2013

Note: Assuming full exercise of the options under both the Pre-IPO Share Option and the Post-IPO Share Option Scheme

(iii) Interest in associated corporations

Name of Director	Name of associated corporation	Number of shares	Percentage of Shareholding
YANG Shaopeng (1)	Resourceful Link	55,290	76.67%
YANG Xianxiang (2)	Resourceful Link	11,776	16.33%
LIU Kecheng (3)	Resourceful Link	2,205	3.05%
LIU Rongli (4)*	Resourceful Link	55,290	76.67%

* resigned on 11 March 2013

Notes:

(1) Resourceful Link is interested in approximately 55.40% of the issued share capital of the Company. Resourceful Link is owned as to 76.67% by Better Master, which is owned as to 100% by Pengli Holdings Limited, a company wholly-owned by Barclays Wealth Nominees (Hong Kong) Limited. Barclays Wealth Trustees (Singapore) Limited as the trustee holding such interests for the beneficiaries of the Pengli Trust, namely YANG Shaopeng and his family. The Pengli Trust is a revocable discretionary trust established under the laws and regulations of the Cayman Islands. YANG Shaopeng is the settlor and a beneficiary of the Pengli Trust.

(2) Resourceful Link is interested in approximately 55.40% of the issued share capital of the Company. Jixiang Investments Limited is interested in 16.33% of the issued share capital of Resourceful Link. Jixiang Investments Limited is in turn owned as to 100% by Jixiang Holdings Limited, a company wholly-owned by Barclays Wealth Nominees (Hong Kong) Limited. Barclays Wealth Trustees (Singapore) Limited as the trustee holding such interests for the beneficiaries of the Jixiang Trust, namely YANG Xianxiang and his family. The Jixiang Trust is a revocable discretionary trust established under the laws and regulations of the Cayman Islands. YANG Xianxiang is the settlor and a beneficiary of the Jixiang Trust.

(3) Resourceful Link is interested in approximately 55.40% of the issued share capital of the Company. Yicheng Investments Limited is interested in 3.05% of the issued share capital of Resourceful Link. Yicheng Investments Limited is in turn owned as to 100% by Yicheng Holdings Limited, a company wholly-owned by Barclays Wealth Nominees (Hong Kong) Limited. Barclays Wealth Trustees (Singapore) Limited as the trustee holding such interests for the beneficiaries of the Yicheng Trust, namely LIU Kecheng and his family. The Yicheng Trust is a revocable discretionary trust established under the laws and regulations of the Cayman Islands. LIU Kecheng is the settlor and a beneficiary of the Yicheng Trust.

(4) LIU Rongli is the spouse of YANG Shaopeng and is deemed to be interested in all the shares of YANG Shaopeng by virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at the date 31 December 2012, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of Shares	Percentage of Shareholding
Resourceful Link [(1)]	Beneficial owner	1,431,898,158	55.40%
Better Master [(1)]	Interest in controlled corporation	1,431,898,158	55.40%
	Beneficial owner	6,805,000	0.27%
Pengli Holdings Limited [(1)]	Interest in controlled corporation	1,438,703,158	55.67%
Barclays Wealth Trustees (Singapore) Limited [(1)]	Trustee	1,438,703,158	55.67%

Note:

(1) Resourceful Link is owned as to 76.67%, 16.33%, 3.95% and 3.05% by Better Master, Jixiang Investments Limited, Xiangtai Investments Limited and Yicheng Investments Limited. Better Master is owned as to 100% by Pengli Holdings Limited, a company wholly-owned by Barclays Wealth Nominees (Hong Kong) Limited. Barclays Wealth Trustees (Singapore) Limited as the trustee holding such interests for the beneficiaries of the Pengli Trust. Jixiang Investments Limited is owned as to 100% by Jixiang Holdings Limited, a company wholly-owned by Barclays Wealth Nominees (Hong Kong) Limited. Barclays Wealth Trustees (Singapore) Limited as the trustee holding such interests for the beneficiaries of the Jixiang Trust. Xiangtai Investments Limited is owned as to 100% by Xiangtai Holdings Limited, a company wholly-owned by Barclays Wealth Nominees (Hong Kong) Limited. Barclays Weather Trustees (Singapore) Limited as the trustee holding such interests for the beneficiaries of the Xiangtai Trust. Yicheng Investments Limited is owned as to 100% by Yicheng Holdings Limited, a company wholly-owned by Barclays Wealth Nominees (Hong Kong) Limited. Barclays Wealth Trustees (Singapore) Limited as the trustee holding such interests for the beneficiaries of the Yicheng Trust. Each of the Pengli Trust, the Jixiang Trust and the Yicheng Trust is a revocable discretionary trust established under the laws and regulations of the Cayman Islands by certain of the Directors to hold their family interests in the Company.

SUBSIDIARIES

Details of the major subsidiaries of the Company as of 31 December 2012 are set out in Note 16 to the Financial Statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

CONNECTED TRANSACTIONS

During the year ended 31 December 2012, the Group entered into the following continuing connected transactions with its connected persons. Details of the continuing connected transactions of the Company are as follows:

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Licensing of Trademarks by Qingdao SITC Shipping to the Company

On 9 November 2011, the Company and Qingdao SITC Shipping entered into a trademark license agreement pursuant to which, Qingdao SITC Shipping has granted to the Company a nonexclusive license in relation to the right to use of the "SITC", "新海豐", "海之豐" and "*SITC*" logos (collectively, the "**Trademarks**") for the Company's sea freight logistics and land-based logistics businesses. Qingdao SITC Shipping is an investment holding company, in which 62.5% interests is owned by Mr. YANG Shaopeng, our chairman and controlling shareholder. Transactions between the Company and Qingdao SITC Shipping constitute connected transactions for the Company under the Listing Rules.

The Company has been using the Trademarks for its sea freight logistics and land-based logistics businesses. The right to use the Trademarks granted to the Company by Qingdao SITC Shipping would enable the Company to continue to use the Trademarks for the businesses of the Company. The right to use the Trademarks is granted on a royalty-free basis within the valid registration period of such Trademarks and is valid for a term commencing from the 9 November 2011 and ending on 31 December 2014. The Company has an option to renew the trademark license agreement on one month's notice before the initial (or renewed) expiring date of the trademark license agreement, for a period of three years. Upon each exercise of a renewal option by the Company, Qingdao SITC Shipping will be deemed to have granted a new option to the Company for a further extension of three years on terms to be negotiated between the parties on a fair and reasonable basis and on the condition that all applicable disclosure and/or independent shareholders' approval requirements under the Listing Rules shall have been complied with by the Company.

Leases of Properties by Qingdao Logistics to the Company

Prior to the Listing Date, Shandong SITC had leased a property to each of Smart Logistics Co., Ltd. (山東捷豐國際儲運有限公司) ("**Smart Logistics**"), a 51% owned jointly-controlled entity of the Company, and SITC Transportation (Qingdao) Co., Ltd. ("Qingdao Transportation"), an indirect wholly-owned subsidiary of the Company, for a term of 20 years and 10 years, respectively. The leased properties have been used by us as warehouses and depots. Pursuant to the Internal Reorganisation, these long-term leases have been terminated and replaced by the new lease agreements entered into by and between SITC Logistics Park Management (Qingdao) Co., Ltd ("**Qingdao Logistics**"), a wholly-owned subsidiary of

Qingdao SITC Shipping and each of Smart Logistics and Qingdao Transportation, respectively on 29 February 2012, and the terms of such lease agreements are set forth below:

Location	Connected party	Subsidiary of the Company involved	Term	Approximate floor area	2012 annual cap
			(year)	*(square meter)*	*(US$)*
Qingdao	Qingdao Logistics	Smart Logistics	3	149,230	715,320
Qingdao	Qingdao Logistics	Qingdao Transportation	3	5,000	17,850

The rent payable by our Company to Qingdao Logistics under the above leases is based on comparable market rates. For the year ended 31 December 2012, the rent paid by the Company for the two properties listed above were US$116,851 and US$5,189, respectively.

Subsequent to the entering of the above lease agreements, on 5 April 2012, SITC Logistics Development (Qingdao) Company Limited, a wholly-owned subsidiary of the Company, acquired the entire equity interest in Qingdao Logistics, pursuant to which Qingdao Logistics become a wholly-owned subsidiary of the Company and the transactions entered into by Qingdao Logistics and each of Smart Logistics and Qingdao Transportation cease to constitute as a continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

Property Management Services

On 9 November 2011, the Company has also entered into a property management services agreement with Qingdao SITC Shipping, pursuant to which Qingdao SITC Shipping provides property management services, including security, cleaning and maintenance services for the leased properties of the Group.

The property management services fees charged by Qingdao SITC Shipping on the relevant leased properties will be determined with reference to the historical transaction amount under the original property management services agreement signed with Shandong SITC and based on costs of providing the services, and for the year ended 31 December 2012, should not exceed the annual cap of US$27,500. For the year ended 31 December 2012, the actual property management fees charged by Qingdao SITC Shipping were US$23,304.

Bonded Warehousing Services

On 1 September 2010, Qingdao BLP Reko International Warehousing Co., Ltd. (青島保稅物流園區捷奧國際倉儲有限公司) ("**Qingdao BLP**"), a wholly-owned subsidiary of Smart Logistics, and the Qingdao branch of Damco Global Logistics (Shanghai) Co., Ltd. (丹馬士環球物流(上海)有限公司) ("**Damco Logistics**") entered into an agreement for the provision of bonded warehousing services to Qingdao branch of Damco Logistics for a term of three years ending on 31 December 2012. As Damco Logistics is a connected person of the Company, the provision of the bonded warehousing services to Damco Logistics constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The services were being provided in the normal and ordinary course of business of Qingdao BLP and the service fees were determined with reference to prices of the expected trading volume of the bonded warehousing services.

Due to better-than-expected demand of bonded warehousing services and the expected continuation of the demand in the upcoming years, subsequently on 21 June 2011, Qingdao BLP and Qingdao branch of Damco Logistics entered into a supplemental agreement to increase the annual caps of the service fees to be received by Qingdao BLP under the agreement for the year ended 31 December 2011 and the year ending 31 December 2012, respectively. Pursuant to the supplemental agreement, the annual cap for the year 2012 of the bonded warehousing services should not exceed US$510,000. For further details about the increases in the annual caps, please refer to the announcement of Company dated 29 June 2011. For the year ended 31 December 2012, the actual bonded warehousing services fees was US$164,093.

Containers Repair Services

On 1 September 2010, Sinokor Engineering Co., Ltd. ("**Sinokor Engineering**") and SITC Container Lines, a wholly-owned subsidiary of the Company, entered into an agreement for the provision of containers repair services by Sinokor Engineering to SITC Container Lines for a term of three years ending 31 December 2012.

Sinokor Merchant Marine Co., Ltd. (and its affiliates) ("**Sinokor**") is a substantial shareholder of SITC Container Lines (Korea) Co., Ltd. ("New SITC Korea"), a non-wholly-owned subsidiary of the Company, transactions between the Company and Sinokor Engineering constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

The agreement was entered into in the ordinary course of business of SITC Container Lines and the service fee was based on market prices. Pursuant to the term of the agreement, the annual cap for 2012 in respect of the container repair services should not exceed US$88,052. For the year ended 31 December 2012, container repair services fee paid by the Company amounted to US$74,223.

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT BUT ARE SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS

Agency Services

On 9 November 2011, the Company entered into a master agency agreement with Qingdao SITC Shipping, in relation to the agency services to be provided by Qingdao SITC Shipping to the Company and the container shipping services to be provided by SITC Container Lines to the shipping agency companies of Qingdao SITC Shipping.

The master agency agreement has a term of two financial years expiring on 31 December 2012. Subsequently on 27 December 2012, the parties entered into a renewed master agency agreement with a fixed term of three years expiring on 31 December 2015. The following table sets forth the annual caps for the year ended

31 December 2012 and the actual amount of annual services fees incurred in relation to the master agency agreement for the year ended 31 December 2012:

	Service fees received by the Company *(US$)*	**Service fees to be paid by the Company** *(US$)*
Annual fee expected	30,000,000	1,500,000
Actual service fees involved	15,674,315	658,707

The service fees were determined with reference to the historical transaction amounts under the original master agency agreement previously entered with Shandong SITC and the anticipated business volume of the Company for the two years ended 31 December 2012.

Chartering of Vessels

On 1 January 2008, SITC Container Lines, our wholly-owned subsidiary, entered into an agreement with Shandong Steamship, a subsidiary of Shandong SITC, to charter a PRC flag vessel, Hai Feng Lian Fan, for a term of one year, which was later amended for a term of another three years up till 31 December 2011. On 14 November 2011, such term was amended again for a term of another one year to 1 January 2013.

On 13 December 2011, SITC Shipping Company Limited, our wholly owned subsidiary, entered into an agreement with Qingdao SITC Shipping, a subsidiary of Shandong SITC, to charter a PRC flag vessel, Hai Feng Lian Jie, for a term of one year on a time charter basis. On 12 December 2012, the lease was renewed until 30 December 2014.

The chartering of both *Hai Feng Lian Fa* and *Hai Feng Lian Jie* was conducted in the ordinary and usual course of business of the Company, after arm's length negotiations between the parties, with the charter fee being determined based on the relevant prevailing market rate of time charter of vessels and a similar class. The annual cap for the chartering of the vessels both *Hai Feng Lian Fa* and *Hai Feng Lian Jie* should not exceed US$1,650,000 and US$2,200,000, respectively. For the year ended 31 December 2012, the chartering fee for the chartering of the vessels Hai Feng Lian Fa and Hai Feng Lian Jie was a sum of US$361,034 and US$2,099,380, respectively.

Mutual Container Shipping Services with Sinokor

Prior to the Listing Date, New SITC Korea and SITC Container Lines have been providing container shipping services to Sinokor and Sinokor has also been providing container-shipping services to the Company, in each case, as part of Sinokor and our normal and ordinary course of business. As Sinokor is a substantial shareholder of New SITC Korea, a non-wholly-owned subsidiary of the Company, transactions between the Company and Sinokor constitute connected transactions for the Company under Chapter 14A of the Listing Rules upon Listing.

On 1 September 2010, New SITC Korea and SITC Container Lines entered into an agreement with Sinokor for the provision of mutual container marine transportation services to Sinokor for a term of three years ending on 31 December 2012. Subsequently on 27 December 2012, SITC Container Lines and Sinokor entered into a renewed mutual service agreement to renew the term for a fixed term of three years ending on 31 December 2015.

The following table sets forth the annual caps for 2012 and the actual amount of annual services fees incurred in relation to the mutual container marine transportation services for the year ended 31 December 2012:

	Service fees received from Sinokor *(US$)*	Service fees paid to Sinokor *(US$)*
Annual fee expected	3,000,000	3,000,000
Actual service fees involved	1,834,300	2,225,103

The service fees were determined with reference to signed contracts and were based on market prices and anticipated trading volume.

Provision of Depot Services

On 1 September 2010, Smart Logistics and the Qingdao branch of Damco Logistics entered into an agreement for the provision of depot services by Smart Logistics to Qingdao branch of Damco Logistics for a term of three years ending on 31 December 2012. Subsequently on 27 December 2012, Smart Logistics and Damco Logistics entered into a renewed service agreement renewing the terms for a fixed term of three years ending on 31 December 2015.

The depot services were being provided by Smart Logistics in its normal and ordinary course of business. As Smart Logistics is 51% owned by the Company and 49% owned by Maersk Logistics Warehousing (China) Co., Ltd. (馬士基物流倉儲 (中國) 有限公司), another subsidiary of the A.P. Moller-Maersk Group and its affiliates ("**Maersk**"), Damco Logistics is therefore a connected person of the Company and transactions between the Company and Damco Logistics will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Pursuant to the agreement between the parties, the annual cap for the year 2012 of the depot services should not exceed US$2,770,000. For the year ended 31 December 2012, the actual depot services fees was US$1,499,941.

Service fees received by our Company in respect of the services provided to Damco Logistics were determined with reference to the historical transaction amounts and the expected recovery and increases in trade.

CONTINUING CONNECTED TRANSACTIONS WHICH ARE SUBJECT TO THE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Mutual Services Agreement with the Maersk Shipping

Prior to the Listing Date, Smart Logistics has been providing logistics services to Maersk (China) Shipping Co., Ltd. (馬士基中國航運有限公司) ("**Maersk Shipping**") and receiving container shipping services from Maersk Shipping, in each case, as part of the normal and ordinary course of business of Smart Logistics and Maersk Shipping. Maersk Shipping is a subsidiary of Maersk. Transactions between the Company and Maersk Shipping constitute connected transactions for the Company under Chapter 14A of the Listing Rules upon Listing.

On 1 September 2010, Smart Logistics and Maersk Shipping entered into a mutual services agreement for the provision of logistics services by the Company to Maersk Shipping and the provision of container shipping services by Maersk Shipping to the Company for a term of three financial years ending 31 December 2012. Subsequently on 27 December 2012, Smart Logistics and Maersk Shipping entered into a renewed mutual services agreement renewing the term for a fixed term of three years enduing on 31 December 2015.

The service fees were determined with reference to the historical transaction amounts between Smart Logistics and Maersk Shipping and the anticipated business volume.

The following table sets forth the annual caps for 2012 and the actual amount of annual services fees incurred in relation to the mutual services for the year ended 31 December 2012:

	Logistics Service fees received by the Company *(US$)*	**Container shipping service fee paid to Maersk Shipping** *(US$)*
Annual fee expected	3,075,481	22,699,979
Actual service fees involved	503,773	0

Shipping Management and Crew Management with Qingdao SITC Shipping

Prior to the Listing Date, certain members of the Company entered into management agreements with Shandong Shipping Management, a subsidiary of Shandong SITC, each in relation to the provision of management services by Shandong Shipping Management to a self-owned vessel of the Company.

The management services include: (a) crew management; (b) technical management; (c) surveys and dry-docking services; (d) import maintenance and repairs; and (e) supply of provisions for the vessels and the provision of lubricants, which were being provided to the Company in the ordinary course of the Company's business.

Subsequently on 28 February 2012, an equity transfer agreement was entered into by and between SITC Shipping Management (Shanghai) Co., Ltd. ("**Shanghai SITC Shipping Management**") and Qingdao SITC Investment, pursuant to which Qingdao SITC Investment transferred the entire equity interest in Shandong Shipping Management to Shanghai SITC Shipping Management. Upon which, Shandong Shipping Management become a wholly-owned subsidiary of Shanghai SITC Shipping Management and an indirect wholly-owned subsidiary of the Company. As a result, the original management agreements with Shandong Shipping Management ceased to be a connected transaction of the Company under Chapter 14A of the Listing Rules. For further details, please refer to the announcement of the Company dated 28 February 2012.

As a result, on 28 February 2012, Shanghai SITC Shipping Management and Qingdao SITC Shipping entered into a shipping management and crew management agreement, pursuant to which Shanghai SITC Shipping Management will provide shipping management and crew management services to Qingdao SITC Shipping.

The shipping management and crew management agreement has a term of three financial years ending on 31 December 2014. The following table sets forth the annual caps for the year ended 31 December 2012 and the actual amount of management fees charged by Shanghai SITC Shipping Management for the year ended 31 December 2012:

	Management fees to be charged by Shanghai SITC Shipping Management *(US$)*
Annual fee expected	4,200,000
Actual fees involved	181,395

SPECIAL CASE

On 1 October 2009, SITC Container Lines, a wholly-owned subsidiary of the Company, and Shandong Steamship, an indirect wholly-owned subsidiary of Shandong SITC, entered into a vessels charter agreement, pursuant to which the Company chartered two container vessels, "SITC Shanghai" and "SITC Kaohsiung", with capacities of 847 and 938 TEU, respectively, to Shandong SITC for the operation of the mainland China-Taiwan route. Shandong Steamship has been operating the mainland China-Taiwan route since 2003.

Pursuant to the vessels charter agreement, Shandong Steamship has appointed the Company as its representative for the route, and the charter fee of the vessels shall be the equivalence of the freight charges and service fees income for operating the route. Pursuant to such arrangement, SITC Container Lines shall be responsible for all costs in relation to the operation of the two vessels. Given that: (i) we, as the representative for Shandong Steamship, will be responsible for the business dealings with the qualified shipping agencies and freight forwarders and; and (ii) we would collect freight charges for Shandong Steamship, the economic interests and risks from such operation are passed upon us, and Shandong Steamship will not receive any benefit under the vessels charter agreement.

Due to operational reasons in our normal course of business, and the expiry of the sailing permits of the vessels under the agreement, we have replaced the charters of "SITC Shanghai" and "SITC Kaohsiung" by two other vessels, "SITC Keelung" and "SITC Pyeongtaek", in mid-2010, and have assigned "SITC Shanghai" and "SITC Kaohsiung" to the operation of our other routes. The sailing permits of "SITC Keelung" and "SITC Pyeongtaek" were valid until 30 June 2015.

Although we are not the operator of the mainland China-Taiwan route under the vessels charter agreement, we are able to derive the entire economic interests and risks of the operation of the mainland China-Taiwan route under the present arrangement. In light of the recent normalization of the relationship across the Taiwan Strait, we believe that the trade volume across the Taiwan Strait may increase in the future. Therefore, our Directors believe that the arrangement under the vessel charter agreement is important to our container shipping business, and thus it is in the best interest of the Company to enter into the long-term vessels charter agreement. Given that: (i) Shandong Steamship does not derive any economic benefits from the mainland China-Taiwan route; (ii) Shandong SITC has undertaken not to engage in the mainland China-Taiwan route if we receive approval to operate the route directly; and (iii) the seeking of independent shareholders' approval once every three years would result in unnecessary expenses and inconvenience placed on the Company, our Directors consider the transactions under the vessels charter agreement occupy a special position on the related provisions under the Listing Rules on connected transactions and should not be subject to the usual term of three years or be limited by a fixed term. In this connection, our Directors consider that it would not be appropriate to subject the vessels charter agreement to the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and thus we have applied to the Stock Exchange for and the Stock Exchange has granted a perpetual waiver from the strict compliance with the requirements of (i) the announcement and independent shareholders' approval, (ii) setting an annual cap for the transactions and (iii) fixing the term of the vessels charter agreement to three years or less.

All independent non-executive Directors have reviewed the above continuous connected transaction, and confirmed that the transactions were entered into:

1. in the ordinary and usual course of business of the Group;

2. under normal commercial terms or not less favourable terms that the Group receives or provides services from an independent third party or obtains from an independent third party; and

3. in accordance with the agreements related to the above continuous connected transaction, the terms of which are fair and reasonable and for the overall benefit of the shareholders of the Company.

Based on the work performed, the Auditors of the Company confirmed to the Board that the aforesaid continuing connected transactions:

1. have been approved by the Board;

2. are in accordance with the pricing policy of the Group;

3. have been entered into under the terms of the related agreements governing the transactions; and

4. save as otherwise disclosed, have not exceeded the relevant cap allowed by the Stock Exchange in the previous waiver.

EMPLOYEE AND REMUNERATION POLICIES

As of 31 December 2012 the Group had an aggregate of 1,199 full-time employees. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees (including the directors) with reference to corporate performance, individual performance and current market salary scale.

CONFIRMATION OF INDEPENDENT STATUS

The Company received the letters of confirmation of independency issued by all the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board was satisfied with the independent status of all the independent non-executive Directors.

CORPORATE GOVERNANCE

The Company strived to maintain high corporate governance standard and complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules. To the knowledge of the Board, the Company had fully complied with the code provisions in the Code on Corporate Governance Practices as in effective from time to time as set out in Appendix 14 to the Listing Rules and save as disclosed herein this report, there being no derivation from the code provisions since the date of the Listing of the Company on the Main Board of the Stock Exchange during the year under review. Further information of the corporate governance practice of the Company is set out in the Corporate Governance Report.

PURCHASE, SALE AND RE-PURCHASE OF SHARES

During the year 2012, pursuant to the mandate to purchase shares of the Company obtained from the Company's shareholders at the annual general meeting held on 4 May 2012, the Company repurchased an aggregate of 5,400,000 shares on the Stock Exchange, detailed below, for an aggregate consideration of approximately HK$10,352,069.29 before expenses and all these shares were subsequently cancelled by the Company on 30 July 2012 and 30 October 2012 and accounted for approximately 0.21% of its total issued share capital as at 31 December 2012:

Month of repurchase	Price per share Highest	Lowest	Number of ordinary shares of HK$0.10 each	Aggregate Consideration
	(HK$)	*(HK$)*		*(HK$)*
June 2012	2.00	1.84	3,780,000	7,243,362.94
September 2012	1.97	1.86	1,620,000	3,108,706.35
Total			5,400,000	10,352,069.29

Except as disclosed above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

FIVE YEAR FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group in the past five years is set out on page 158 of this report.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the Articles of Association of the Company or the ordinance of Cayman Islands. It is stipulated that any new shares shall be offered according to the respective shareholding of the existing shareholders of the Company when new shares are issued by the Company.

ADEQUATE PUBLIC FLOAT

Based on information that is publicly available to our Company and within the knowledge of our Directors, the Company has maintained the prescribed minimum percentage of public float under the Listing Rules throughout the year ended 31 December 2012.

AUDITOR

The Company appointed Ernst & Young as the Auditor of the Company for the year ended 31 December 2012. The Company will submit a resolution in the coming annual general meeting to re-appoint Ernst & Young as the Auditor of the Company.

For and on behalf of the Board
YANG Shaopeng
Chairman

11 March 2013

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Annual Report of the Group for the year ended 31 December 2012.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company believes that high corporate governance standards are essential in providing a framework for the Group to formulate its business strategies and policies, and to enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles code provisions as set out in the Corporate Governance Code as in effect from time to time, (the "CG Code") contained in Appendix 14 of Listing Rules.

The Board is of the view that, throughout the year under view ended 31 December 2012, the Company has complied with all the code provisions as set out in the CG Code, save for the deviation of code provision A.6.7, details will be set out below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Code of Conduct") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2012.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Board of the Company currently comprises ten members, consisting of six Executive Directors and four Independent Non-executive Directors.

The composition of the Board is set out below:

Executive Directors

Mr YANG Shaopeng	Chairman
Mr YANG Xianxiang	Vice Chairman and Chief Executive Officer
Mr LIU Kecheng	Joint Company Secretary
Mr XUE Peng	
Mr XUE Mingyuan*	
Mr LAI Zhiyong*	

Independent Non-executive Directors

Mr TSUI Yung Kwok
Mr YEUNG Kwok On
Dr LO Wing Yan, William
Dr NGAI Wai Fung

* Mr. XUE Mingyuan and Mr. LAI Zhiyong were appointed by the Board as executive Directors on 11 March 2013 while Ms. LI Xuexia and Ms. LIU Rongli resigned as executive Director and non-executive Director, respectively on 11 March 2013.

The biographical information of the directors and the relationships between the members of the Board are set out and disclosed in the section headed "Directors and Senior Management" on pages 23 to 27 of this annual report.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr YANG Shaopeng and Mr YANG Xianxiang, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with two of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

Non-executive Director and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Executive Directors and Non-executive Director of the Company is appointed for a specific term of three years while each of the Independent Non-executive Directors is appointed for a specific term of one year, all the Directors are subject to retirement by rotation once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2012, the Company organized two training sessions for all directors including the update on Listing Rule amendments. The Company has been encouraging the directors to participate continuous professional development courses and seminars organized by professional institutions or professional firms and reading materials on relevant topics so that they can continuously update and further improve their relevant knowledge and skills. According to the records maintained by the Company, a summary of continuous professional development received by the directors for the year ended 31 December 2012 is as follows:

	Type of Continuous Professional Development	
Name of Directors	**Training coordinated by the Company**	**Attending seminars/briefings/ conferences**
Executive Directors		
Mr YANG Shaopeng	✓	✓
Mr YANG Xianxiang	✓	✓
Mr LIU Kecheng	✓	✓
Ms LI Xuexia*	✓	✓
Mr XUE Peng	✓	✓
Non-Executive Director		
Ms LIU Rongli*	✓	✓
Independent Non-Executive Directors		
Mr TSUI Yung Kwok	✓	✓
Mr YEUNG Kwok On	✓	✓
Dr LO Wing Yan, William	✓	✓
Dr NGAI Wai Fung	✓	✓

* resigned on 11 March 2013

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Disclosure Committee which was established on 11 March 2013, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees (except the Disclosure Committee) are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

Except the Disclosure Committee, the majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 3.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about the Company's financial reporting, internal control or other matters of possible improprieties.

During the year ended 31 December 2012, the Audit Committee held five meetings to review the annual and quarterly financial results and reports in respect of the year ended 31 December 2011 and for the year 2012 respectively and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

During the year ended 31 December 2012, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of Independent Non-executive Directors.

The Nomination Committee has reviewed the nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. External recruitment professionals might be engaged to carry out selection process where necessary.

During the year ended 31 December 2012, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2012 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**	**Annual General Meeting**
YANG Shaopeng	5/5	1/1	1/1	N/A	1/1
YANG Xianxiang	5/5	1/1	1/1	N/A	1/1
LIU Kecheng	5/5	N/A	N/A	N/A	1/1
LI Xuexia*	5/5	N/A	N/A	N/A	0/1
XUE Peng	5/5	N/A	N/A	N/A	1/1
LIU Rongli*	5/5	N/A	N/A	N/A	0/1
TSUI Yung Kwok	5/5	N/A	1/1	5/5	1/1
YEUNG Kwon On	5/5	1/1	1/1	N/A	1/1
LO Wing Yan, William	5/5	1/1	N/A	5/5	0/1
NGAI Wai Fung	5/5	1/1	1/1	5/5	0/1

* resigned on 11 March 2013

Apart from regular Board meetings, the Chairman also held a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

DIRECTORS' RESPONSIBILTY IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 55 to 56.

An analysis of the remuneration paid by the Company to the external auditors, Messrs Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2012 is set out below:

Service Category	Fees Paid/Payable (HK$)
Audit Services	2,780,000
Non-audit Services	
– Tax advisory services	192,160
– Others	596,230
Total:	3,568,390

INTERNAL CONTROLS

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

COMPANY SECRETARY

Mr. LIU Kecheng, the Executive Director and joint company secretary, reports to the Company's Chairman, Mr. YANG Shaopeng, and/or the Vice-Chairman and Chief Executive Officer, Mr. YANG Xianxiang, depends on various matters, respectively.

Ms. HO Siu Pik of Tricor Services Limited, external service provider, has been engaged by the Company as its joint company secretary. Its primary contact person at the Company is Mr. LIU Kecheng, the Executive Director and joint company secretary, and Ms. Elaine Xu, Investment and Management Centre, of the Company.

Both Mr. LIU and Ms. HO have taken not less than 15 hours of relevant professional training during the year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETING

The Board may whenever it thinks fit call extraordinary general meetings. Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Room 2202, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
(For the attention of the Company Secretary)

Fax: 852-28243748

Tel: 852-28500302

Email: ir@sitc.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings.

The Chairman of the Board, the chairmen of Audit Committee, Remuneration Committee and Nomination Committee, or, in their absence, other members of the respective committees, will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

Code Provision A.6.7 of the CG Code provides that the Independent Non-Executive Directors and Non-Executive Directors should attend general meetings of the Company. Due to prior business engagements external to the Company, one Executive Director of the Company, Ms LI Xuexia, one Non-Executive Director of the Company, Ms LIU Rongli and two Independent Non-executive Directors, Dr LO Wing Yan, William and Dr NGAI Wai Fung were unable to attend the annual general meeting of the Company held on 4 May 2012.

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Independent Auditors' Report

To the shareholders of SITC International Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of SITC International Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 57 to 157, which comprise the consolidated and company statements of financial position as at 31 December 2012, and 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, 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 auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

To the shareholders of SITC International Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

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 31 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.

EMPHASIS OF MATTER

We draw attention to note 2.1 to the consolidated financial statements which describes, inter alia, the early adoption of the new Hong Kong Financial Reporting Standards, impacting on the accounting policy and disclosures, for the Group's joint arrangements. Our opinion is not qualified in respect of this matter.

Ernst & Young

Certified Public Accountants

22/F CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

11 March 2013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 US$' 000	2011 US$' 000 (Restated)
REVENUE	5	**1,204,615**	1,060,004
Cost of sales		**(1,066,258)**	(945,304)
Gross profit		**138,357**	114,700
Other income and gains	5	**14,205**	34,478
Administrative expenses		**(60,674)**	(52,089)
Other expenses and losses		**(842)**	(4,509)
Finance costs	7	**(2,141)**	(1,622)
Share of profits and losses of:			
Joint ventures		**6,640**	5,145
Associates		**548**	258
PROFIT BEFORE TAX	6	**96,093**	96,361
Income tax expense	10	**(2,293)**	(2,004)
PROFIT FOR THE YEAR		**93,800**	94,357
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Changes in fair value		**121**	—
Cash flow hedges:	26		
Effective portion of changes in fair value of hedging instruments arising during the year		**5,476**	(2,360)
Reclassification adjustments for losses/(gains) included in profit or loss		**(835)**	4,207
		4,641	1,847
Exchange differences on translation of foreign operations		**2,394**	2,025
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**7,156**	3,872
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**100,956**	98,229

Consolidated Statement of Comprehensive Income (continued)

Year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000 (Restated)
Profit for the year attributable to:			
Owners of the parent	11	**93,488**	93,558
Non-controlling interests		**312**	799
		93,800	94,357
Total comprehensive income attributable to:			
Owners of the parent	11	**100,985**	97,407
Non-controlling interests		**(29)**	822
		100,956	98,229
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic (US cents per share)		**3.61**	3.60
Diluted (US cents per share)		**3.61**	3.60

Details of the dividends proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

31 December 2012

	Notes	31 December 2012 US$'000	31 December 2011 US$'000 (Restated)	1 January 2011 US$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	14	**443,961**	264,178	188,843
Prepaid land lease payments	15	**12,627**	—	—
Investments in joint ventures	17	**22,690**	18,084	14,335
Investments in associates	18	**9,874**	9,187	2,402
Available-for-sale investments	19	**1,207**	782	394
Total non-current assets		**490,359**	292,231	205,974
CURRENT ASSETS				
Bunkers		**18,657**	15,796	11,531
Trade receivables	20	**72,789**	78,511	49,337
Prepayments, deposits and other receivables	21	**35,430**	26,723	13,847
Due from related companies	22	**614**	1,470	2,228
Derivative financial instruments	26	**3,928**	—	—
Pledged deposits	23	**80**	79	75
Cash and cash equivalents	23	**378,781**	436,896	504,418
Total current assets		**510,279**	559,475	581,436
CURRENT LIABILITIES				
Trade payables	24	**138,065**	141,103	85,640
Other payables and accruals	25	**22,904**	15,719	21,960
Due to related companies	22	**59**	1,918	751
Derivative financial instruments	26	**136**	775	2,693
Interest-bearing bank borrowings	27	**17,379**	31,205	12,772
Tax payable		**1,181**	1,302	825
Total current liabilities		**179,724**	192,022	124,641
NET CURRENT ASSETS		**330,555**	367,453	456,795
TOTAL ASSETS LESS CURRENT LIABILITIES		**820,914**	659,684	662,769

Consolidated Statement of Financial Position (continued)

31 December 2012

	Notes	31 December 2012 US$'000	31 December 2011 US$'000 (Restated)	1 January 2011 US$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**820,914**	659,684	662,769
NON-CURRENT LIABILITIES				
Derivative financial instruments	26	**599**	239	430
Interest-bearing bank borrowings	27	**115,488**	5,948	65,644
Deferred tax liabilities	28	**—**	49	205
Total non-current liabilities		**116,087**	6,236	66,279
Net assets		**704,827**	653,448	596,490
EQUITY				
Equity attributable to owners of the parent				
Issued capital	29	**33,323**	33,446	33,522
Reserves	31	**629,523**	576,527	520,349
Proposed final dividend	12	**40,010**	39,997	40,088
		702,856	649,970	593,959
Non-controlling interests		**1,971**	3,478	2,531
Total equity		**704,827**	653,448	596,490

YANG Shaopeng
Director

YANG Xianxiang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the parent																
	Issued capital US$'000 (note 29)	Share premium account US$'000 (note 29)	Treasury shares US$'000 (note 29)	Capital redemption reserve US$'000 (note 31(a))	Merger reserve US$'000 (note 31(b))	PRC reserve funds US$'000 (note 31(c))	Capital reserve US$'000 (note 31(d))	Share-based compensation reserve US$'000 (note 31(e))	Share option reserve US$'000 (note 31 (f))	Hedging reserve US$'000 (note 31(g))	Available-for-sale investment revaluation reserve US$'000 (note 31(h))	Exchange fluctuation reserve US$'000 (note 31(i))	Retained profits US$'000	Proposed final dividend US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2011																	
As previously reported	33,522	351,903	—	—	(3,276)	1,827	(463)	4,597	838	(2,560)	—	4,857	162,303	40,088	593,636	2,337	595,973
Effects of business combination	—	—	—	—	298	62	—	—	—	—	—	(5)	(32)	—	323	194	517
As restated	33,522	351,903	—	—	(2,978)	1,889	(463)	4,597	838	(2,560)	—	4,852	162,271	40,088	593,959	2,531	596,490
Profit for the year (restated)	—	—	—	—	—	—	—	—	—	—	—	—	93,558	—	93,558	799	94,357
Other comprehensive income for the year:																	
Changes in fair value of hedging instruments, net of tax	—	—	—	—	—	—	—	—	—	1,847	—	—	—	—	1,847	—	1,847
Exchange differences on translation of foreign operations (restated)	—	—	—	—	—	—	—	—	—	—	—	2,002	—	—	2,002	23	2,025
Total comprehensive income for the year (restated)	—	—	—	—	—	—	—	—	—	1,847	—	2,002	93,558	—	97,407	822	98,229
Final 2010 dividend declared	—	—	—	—	—	—	—	—	—	—	—	—	—	(40,088)	(40,088)	—	(40,088)
Repurchase of shares (note 29)	(76)	(2,251)	(56)	132	—	—	—	—	—	—	—	—	(132)	—	(2,383)	—	(2,383)
Capital contribution from the then holding company of the Group's subsidiaries (restated)	—	—	—	—	208	—	—	—	—	—	—	—	—	—	208	125	333
Transfer to PRC reserve funds	—	—	—	—	—	1,011	—	—	—	—	—	—	(1,011)	—	—	—	—
Transfer of share option reserve upon the forfeiture or expiry of share options	—	—	—	—	—	—	—	—	(91)	—	—	—	91	—	—	—	—
Proposed final 2011 dividend (note 12)	—	—	—	—	—	—	—	—	—	—	—	—	(39,997)	39,997	—	—	—
Share option expense (note 30) (restated)	—	—	—	—	—	—	—	—	867	—	—	—	—	—	867	—	867
At 31 December 2011 (restated)	33,446	349,652*	(56)*	132*	(2,770)*	2,900*	(463)*	4,597*	1,614*	(713)*	—*	6,854*	214,780*	39,997	649,970	3,478	653,448

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2012

	Attributable to owners of the parent																
	Issued capital US$'000 (note 29)	Share premium account US$'000 (note 29)	Treasury shares US$'000 (note 29)	Capital redemption reserve US$'000 (note 31(a))	Merger reserve US$'000 (note 31(b))	PRC reserve funds US$'000 (note 31(c))	Capital reserve US$'000 (note 31(d))	Share-based compensation reserve US$'000 (note 31(e))	Share option reserve US$'000 (note 31(f))	Hedging reserve US$'000 (note 31(g))	Available-for-sale investment revaluation reserve US$'000 (note 31(h))	Exchange fluctuation reserve US$'000 (note 31(i))	Retained profits US$'000	Proposed final dividend US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2012																	
As previously reported	33,446	349,652	(56)	132	(3,276)	2,838	(463)	4,597	1,614	(713)	–	6,844	214,862	39,997	649,474	3,180	652,654
Effects of business combination	–	–	–	–	506	62	–	–	–	–	–	10	(82)	–	496	298	794
As restated	33,446	349,652*	(56)*	132*	(2,770)*	2,900*	(463)*	4,597*	1,614*	(713)*	–*	6,854*	214,780*	39,997	649,970	3,478	653,448
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	93,488	–	93,488	312	93,800
Other comprehensive income for the year:																	
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	–	–	–	–	121	–	–	–	121	–	121
hedging instruments, net of tax	–	–	–	–	–	–	–	–	–	4,641	–	–	–	–	4,641	–	4,641
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	–	–	2,735	–	–	2,735	(341)	2,394
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	4,641	121	2,735	93,488	–	100,985	(29)	100,956
Final 2011 dividend declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(39,997)	(39,997)	–	(39,997)
Cancellation of 2011 purchased shares (note 29)	(56)	–	56	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Repurchase of shares (note 29)	(70)	(1,263)	–	70	–	–	–	–	–	–	–	–	(70)		(1,333)	–	(1,333)
Capital contribution from the then holding company of the Group's subsidiaries	–	–	–	–	11,950	–	–	–	–	–	–	–	–	–	11,950	7,189	19,139
Deemed distributions to a company controlled by the controlling shareholder of the company's ultimate holding company	–	–	–	–	(20,022)	–	–	–	–	–	–	–	–	–	(20,022)	(7,453)	(27,475)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(716)	(716)
Transfer to PRC reserve funds	–	–	–	–	–	822	–	–	–	–	–	–	(822)	–	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(498)	(498)
Issue of shares (note 29)	3	71	–	–	–	–	–	–	(23)	–	–	–	–	–	51	–	51
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	–	–	–	–	(64)	–	–	–	64	–	–	–	–
Proposed final 2012 dividend (note 12)	–	–	–	–	–	–	–	–	–	–	–	–	(40,010)	40,010	–	–	–
Share option expense (note 30)	–	–	–	–	–	–	–	–	1,252	–	–	–	–	–	1,252	–	1,252
At 31 December 2012	33,323	348,460*	–*	202*	(10,842)*	3,722*	(463)*	4,597*	2,779*	3,928*	121*	9,589*	267,430*	40,010	702,856	1,971	704,827

* These reserve accounts comprise the consolidated reserves of US$629,523,000 (2011: US$576,527,000 (restated)) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**96,093**	96,361
Adjustments for:			
Finance costs	7	**2,141**	1,622
Share of profits and losses of joint ventures		**(6,640)**	(5,145)
Share of profits and losses of associates		**(548)**	(258)
Interest income	5	**(6,911)**	(10,755)
Gain on disposal/write-off of items of property, plant and equipment, net	5	**(71)**	(872)
Fair value losses/(gains), net			
Derivative instruments – transactions not qualifying as hedges	6	**439**	302
Cash flow hedges (transfer from equity)	6	**(835)**	4,207
Depreciation	14	**16,167**	11,331
Recognition of prepaid land lease payments	15	**257**	—
Reversal of impairment of trade receivables	6	**(15)**	—
Equity-settled share option expenses	30	**1,252**	867
		101,329	97,660
Increase in bunkers		**(2,861)**	(4,265)
Decrease/(increase) in trade receivables		**5,737**	(29,174)
Increase in prepayments, deposits and other receivables		**(8,378)**	(10,416)
Decrease in amounts due from related companies		**856**	758
Increase in derivative financial assets		**(3,928)**	—
Increase/(decrease) in trade payables		**(3,038)**	55,463
Increase/(decrease) in other payables and accruals		**7,185**	(8,701)
Increase/(decrease) in amounts due to related companies		**(1,859)**	1,167
Increase/(decrease) in derivative financial liabilities		**4,758**	(4,771)
Effect of foreign exchange rate changes, net		**1,730**	(11,082)
Cash generated from operations		**101,531**	86,639
Interest income received		**6,911**	10,755
Interest paid		**(2,141)**	(1,622)
Profits tax paid		**(2,463)**	(1,683)
Net cash flows from operating activities		**103,838**	94,089

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000 (Restated)
Net cash flows from operating activities		**103,838**	94,089
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(196,013)**	(94,736)
Proceeds from disposal of items of property, plant and equipment		**713**	10,261
Investment in a joint venture		**(1,975)**	(2,254)
Investment in an associate		**—**	(6,520)
Purchases of available-for-sale investments		**(304)**	(376)
Prepayments of land lease payments		**(13,058)**	—
Increase in non-pledged time deposits with original maturity of over three months but less than one year when acquired		**(21,483)**	(1,118)
Increase in pledged time deposits		**(1)**	(4)
Dividend received from joint ventures		**4,368**	3,550
Dividend received from associates		**154**	69
Net cash flows used in investing activities		**(227,599)**	(91,128)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares		**(1,333)**	(2,383)
Proceeds from issue of shares		**51**	—
New bank borrowings		**132,059**	80,622
Repayment of bank borrowings		**(36,345)**	(122,347)
Capital contribution from the then holding company of the Group's subsidiaries		**19,139**	208
Deemed distributions to a company controlled by the controlling shareholder of the Company's ultimate holding company		**(27,475)**	—
Acquisition of non-controlling interests		**(716)**	—
Dividend paid	12	**(39,997)**	(40,088)
Dividend paid to non-controlling shareholders		**(498)**	—
Net cash flows from/(used in) financing activities		**44,885**	(83,988)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(78,876)**	(81,027)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000 (Restated)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(78,876)**	(81,027)
Cash and cash equivalents at beginning of year		**435,778**	504,418
Effect of foreign exchange rate changes, net		**(722)**	12,387
CASH AND CASH EQUIVALENTS AT END OF YEAR		**356,180**	435,778
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**333,400**	251,857
Non-pledged time deposits with original maturity of less than three months when acquired		**22,780**	183,921
Cash and cash equivalents as stated in the consolidated statement of cash flows		**356,180**	435,778
Non-pledged time deposits with original maturity of over three months but less than one year when acquired		**22,601**	1,118
Cash and cash equivalents as stated in the consolidated statement of financial position		**378,781**	436,896

Statement of Financial Position

31 December 2012

	Notes	2012 US$'000	2011 US$'000
NON-CURRENT ASSETS			
Investment in a subsidiary	16	**59,413**	59,413
Total non-current assets		**59,413**	59,413
CURRENT ASSETS			
Due from a subsidiary	16	**385,658**	386,435
Dividend receivable		**40,010**	39,997
Cash and cash equivalents	23	**1,253**	2,299
Total current assets		**426,921**	428,731
CURRENT LIABILITIES			
Other payables and accruals	25	**—**	293
Total current liabilities		**—**	293
NET CURRENT ASSETS		**426,921**	428,438
TOTAL ASSETS LESS CURRENT LIABILITIES		**486,334**	487,851
Net assets		**486,334**	487,851
EQUITY			
Issued capital	29	**33,323**	33,446
Reserves	31	**413,001**	414,408
Proposed final dividend	12	**40,010**	39,997
Total equity		**486,334**	487,851

YANG Shaopeng
Director

YANG Xianxiang
Director

1. CORPORATE INFORMATION

SITC International Holdings Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal place of business in Hong Kong is located at Room 2203, 22/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the provision of marine transportation services, freight forwarding services for marine transportation, depot and warehouse services and related business.

In the opinion of the directors, the immediate holding company of the Company is Resourceful Link Management Limited, which is incorporated in the British Virgin Islands (the "BVI"), and the ultimate holding company of the Company is Better Master Investments Limited, which is incorporated in the BVI.

During the year, the Group acquired the entire 100% interests in SITC Ship Management (Shandong) Co., Ltd. ("Shandong Shipping Management") and Qingdao SITC Logistics Park Management Company Limited ("Qingdao Logistics") for an aggregate consideration of RMB5,522,000 (equivalent to US$877,000) and RMB169,000,000 (equivalent to US$26,598,000), respectively. These acquired entities were wholly-owned subsidiaries of SITC Maritime Group Company Limited (formerly known as SITC Investment Holdings (Qingdao) Company Limited) ("Qingdao SITC"), in which 62.5% interests are owned by Mr. Yang Shaopeng, the controlling shareholder of the Company's ultimate holding company (the "Controlling Shareholder").

These transactions are collectively referred to as the "Acquisition Transactions" and the entities acquired in the Acquisition Transactions are collectively referred to as the "Acquired Entities".

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain derivative financial instruments and financial assets, which have been measured at fair value. These financial statements are presented in United States Dollars ("US$" or "US dollars") and all values are rounded to the nearest thousand except when otherwise indicated.

Merger accounting for business combinations under common control

Pursuant to the Acquisition Transactions, the Company became a holding company of the Acquired Entities. Since the Company and the Acquired Entities were ultimately controlled by the Controlling Shareholder both before and after the completion of the Acquisition Transactions, the Acquisition Transactions were accounted for using the principles of merger accounting.

2.1 BASIS OF PREPARATION (continued)

Merger accounting for business combinations under common control (continued)

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the years ended 31 December 2012 and 2011 include the results, changes in equity and cash flows of all companies comprising the Group and the Acquired Entities, as if the corporate structure of the Group immediately after the completion of the Acquisition Transactions had been in existence throughout the years ended 31 December 2012 and 2011, or since their respective dates of acquisition, incorporation or registration, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2011 was prepared to present the state of affairs of the Group and the Acquired Entities as if the corporate structure of the Group immediately after the completion of the Acquisition Transactions had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at 31 December 2011.

Early adoption of HKFRSs

The following five new or revised standards are mandatorily effective for annual periods beginning on or after 1 January 2013 and should be applied in accordance with respective transition requirements. Early application is permitted so long as all of the five new or revised standards are applied early. The Group has early adopted these five new or revised standards on 1 January 2012.

(a) HKFRS 10 *Consolidated Financial Statements*

HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements. It establishes a single control model that applies to all entities. It requires management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent.

The standard introduces a new definition on control under which control of investee requires an investor to possess all the following three elements: (1) the power over the investee; (2) the exposure or rights to variable returns from its involvement with the investee; and (3) the ability to use its power over the investee to affect the amount of the investor's returns.

(b) HKFRS 11 *Joint Arrangements*

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and Hong Kong (SIC) ("HK (SIC)") – Int 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. HKFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. In determining the type of arrangements, HKFRS 11 requires parties to the arrangement to assess: (1) the legal form of the separate vehicle; (2) the terms of the contractual arrangement; and (3) other facts and circumstances that give them rights to the assets and obligations for the liabilities or rights to the net assets of the vehicle. A joint arrangement that meets the definition of a joint venture must be accounted for using the equity method. For a joint operation, an entity recognises its assets, liabilities, revenues and expenses relating to its relative shares thereof.

2.1 BASIS OF PREPARATION (continued)

Early adoption of HKFRSs (continued)

(c) HKFRS 12 *Disclosure of Interests in Other Entities*

HKFRS 12 establishes the disclosure objectives for an entity to disclose information concerning its interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It also requires an entity to disclose the significant judgements and assumptions it has made in determining the nature of its interest in another entity or arrangement, also in determining the type of joint arrangement in which it has an interest.

(d) HKAS 27 (2011) *Separate Financial Statements*

Revisions are made resulting from the issuance of HKFRS 10 and consolidated financial statements are now addressed by HKFRS 10. Therefore, HKAS 27 is revised to only address separate financial statements, including how to prepare separate financial statements of an investor and what disclosures should be made in the separate financial statements.

(e) HKAS 28 (2011) *Investments in Associates and Joint Ventures*

Revisions are made resulting from the issuance of HKFRS 11. An entity applies HKFRS 11 to determine the type of a joint arrangement in which it is involved. Once it has determined that it has an interest in a joint venture, the entity recognises an investment and accounts for it using the equity method.

Impacts of early adopting new accounting standard

The adoption of HKFRS 10 and HKAS 27 (2011) has no material impact on the accounting policies of the Group and has no material financial impacts on the Group's consolidated financial statements.

Summarised below are the significant assumptions and judgements adopted by the Company in determining the nature of its interest in another entity or arrangement and the type of joint arrangement in which it has an interest:

Subsidiaries

The Company directly or indirectly controls the financial and operating policies of its subsidiaries so as to obtain benefits from their activities. Therefore, the Company controls the subsidiaries for the purpose of consolidation.

Associates

Based on the Group's ownership percentage (considering its direct ownership as well as potentially exercisable or convertible shares) and other contractual rights, the Group has significant influence over its associates, rather than the power to control.

2.1 BASIS OF PREPARATION (continued)

Early adoption of HKFRSs (continued)

Impacts of early adopting new accounting standard (continued)

Joint arrangements

Certain of the Group's activities are conducted through joint arrangements.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. All jointly-controlled entities ("JCEs") were separate legal entities that control their own assets, earn their own income and incur their own expenses and liabilities. The Group's rights as a shareholder of these entities are limited to dividends or distributions of the net assets of JCEs, rather than having direct rights to any operating assets, liabilities or production output. Accordingly, the Group has evaluated its investments in JCEs as investments in joint ventures under HKFRS 11.

Prior to 2012, the Group's investments in JCEs were included in the consolidated financial statements in proportion to the Group's interests in their assets, liabilities, income and expenses since the date of acquisition, incorporation or registration of JCEs in accordance with HKAS 31. Upon the adoption of HKFRS 11, the Company changed the accounting for its investments in JCEs from proportionate consolidation to the equity accounting method from the date of acquisition, incorporation or registration of JCEs. The comparative amount has been restated with the investments in JCEs being equity accounted for since the date of acquisition, incorporation or registration of JCEs.

The effect arising from the adoption of HKFRS 11 on the Group's operating results for the current year is to increase the share of profits and losses of joint ventures by US$6,640,000, as well as to decrease the revenue by US$80,748,000, decrease the cost of sales by US$65,603,000, decrease in the other income and gains by US$506,000, decrease the administrative expenses by US$6,953,000, decrease the other expenses and losses by US$14,000 and decrease the income tax expenses by US$2,044,000.

The effect arising from the adoption of HKFRS 11 on the Group's financial position at 31 December 2012 is to increase the investments in joint ventures by US$22,690,000, as well as to decrease the property, plant and equipment by US$7,972,000, decrease other non-current assets by US$4,262,000, decrease the trade receivables by US$9,302,000, decrease the cash and cash equivalents by US$13,157,000, decrease other current assets by US$4,517,000, decrease the trade payables by US$9,497,000 and decrease other current liabilities by US$7,023,000.

2.1 BASIS OF PREPARATION (continued)

Restatement of comparative amounts

The operating results previously reported by the Group for the year ended 31 December 2011 have been restated to include the operating results of the Acquired Entities and to equity account for the Group's JCEs as set out below:

	The Group (as previously reported) US$'000	Acquired Entities US$'000	JCEs US$'000	Elimination US$'000	The Group (combined) US$'000 (Restated)
Revenue	1,087,241	528	(27,349)	(416)	1,060,004
Cost of sales	(960,332)	—	14,612	416	(945,304)
Other income and gains	34,603	—	(125)	—	34,478
Administrative expenses	(57,434)	(606)	5,951	—	(52,089)
Other expenses and losses	(4,524)	—	15	—	(4,509)
Finance costs	(1,625)	—	3	—	(1,622)
Share of profits and losses of:					
Joint ventures	—	—	5,145	—	5,145
Associates	258	—	—	—	258
Income tax expenses	(3,752)	—	1,748	—	(2,004)
	94,435	(78)	—	—	94,357

2.1 BASIS OF PREPARATION (continued)

Restatement of comparative amounts (continued)

The financial position previously reported by the Group at 31 December 2011 has been restated to include assets and liabilities of the Acquired Entities and to equity account for the Group's JCEs as set out below:

	The Group (as previously reported) US$'000	Acquired Entities US$'000	JCEs US$'000	Elimination US$'000	The Group (combined) US$'000 (Restated)
Assets					
Property, plant and equipment	271,081	25	(6,928)	—	264,178
Investments in joint ventures	—	—	18,084	—	18,084
Other non-current assets	13,752	—	(3,783)	—	9,969
Trade receivables	84,290	—	(5,779)	—	78,511
Cash and cash equivalents	449,018	944	(13,066)	—	436,896
Other current assets	46,563	1,215	(3,710)	—	44,068
Total assets	864,704	2,184	(15,182)	—	851,706
Liabilities					
Trade payables	151,355	—	(10,252)	—	141,103
Other current liabilities	54,459	1,390	(4,930)	—	50,919
Non-current liabilities	6,236	—	—	—	6,236
Total liabilities	212,050	1,390	(15,182)	—	198,258

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK (IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009 – 2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are all those entities over which the Group has power over the investee such that the Group is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

Joint arrangements

Certain of the Group's activities are conducted through joint arrangements. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual arrangements between the parties to the arrangement.

Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post acquisition results and reserves of joint ventures is included in profit or loss and consolidated reserves, respectively. Where the profit sharing ratios is different to the Group's equity interest, the share of post-acquisition results of the joint ventures is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

Based on the Group's ownership percentage (considering its direct ownership as well as potentially exercisable or convertible shares) and other contractual rights, the Group has significant influence over its associates, rather than the power to control.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Business combinations and goodwill

As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition method of accounting is used to account for the acquisition of subsidiaries not under common control.

Under the merger method of accounting, the net assets of the combining entities of businesses are combined using their existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of the acquirer's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

Under the acquisition method of accounting, the consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination not under common control, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than bunkers and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for major inspection and drydocking costs are capitalised in the carrying amounts of the assets as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3% to 7%
Container vessels	4% to 6%
Containers	9% to 20%
Computers, furniture and equipment	10% to $33^1/_3$%
Motor vehicles	12% to 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building or vessel under construction or equipment under installation or testing, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction/equipment and capitalised borrowing costs on related borrowing funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses and losses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in other expenses and losses in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in other expenses and losses in profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other income and gains in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the other expenses and losses in profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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 deemed to be impaired if, and 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 (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses and losses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of other income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related companies, derivative financial instruments and interest-bearing bank loans.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of hedging derivative is recognised in profit or loss as other expenses and losses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss as other expenses and losses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss as other expenses and losses.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Bunkers

Bunkers represent fuels and are stated at the lower of the cost and net realisable value. Cost is determined on the weighted average basis.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the rendering of container shipping services, on a percentage of completion basis, which is determined using the time proportion method for each individual voyage;

(b) from the rendering of shipping agency services, freight forwarding services for marine transportation and logistics management services, when the services have been rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair values are determined by external valuers using a binomial model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in US dollars, which is the Group's presentation currency. The functional currency of the Company is the Hong Kong dollar while the US dollar is used as the presentation currency of the financial statements of the Company for the purpose of aligning with the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designed as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries, joint ventures and associates are currencies other than the US dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into US dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of subsidiaries are translated into US dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into US dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Income taxes

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Recognition of a deferred tax liability for withholding taxes

The Corporate Income Tax Law of the People's Republic of China (the "PRC"), which became effective on 1 January 2008, states that the distribution of dividends by a foreign invested enterprise established in Mainland China to its foreign investors, from its earnings in 2008 and thereafter, shall be subject to withholding corporate income tax at a rate of 10%. The Group carefully evaluates the necessity of dividend distribution of its PRC subsidiaries out of profits earned after 1 January 2008 based on the senior management's judgement.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives and residual values of property, plant and equipment

Management determines the residual values, useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where residual values or useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

Impairment of trade receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the aging of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. The carrying amount of trade receivables at 31 December 2012 was US$72,789,000 (2011: US$78,511,000 (restated); 1 January 2011: US$49,337,000 (restated)). Further details are included note 20 to the financial statements.

Fair value of derivative instruments

The fair value of derivative financial instruments is the estimated amount that the Group would receive or pay to terminate these derivative instruments at the end of the reporting period, taking into account current market conditions. The carrying amount of derivative financial assets at 31 December 2012 was US$3,928,000 (2011: Nil; 1 January 2011: Nil). The carrying amount of derivative financial liabilities at 31 December 2012 was US$735,000 (2011: US$1,014,000; 1 January 2011: US$3,123,000). Further details are included in note 26 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Group did not recognise any deferred tax assets as at 31 December 2012 (2011: Nil; 1 January 2011: Nil). Further details are included in note 28 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Recognition of equity-settled share option expenses

As further disclosed in note 30, the Company has granted pre-IPO and post-IPO share options to its employees. The directors have used a binomial model to determine the total fair value of the options granted, which is expensed over the vesting period. Significant estimates, such as the risk-free rate, dividend yield and expected volatility, were required to be made by the directors as the parameters for applying a binomial model. The Company has engaged Jones Lang & LaSalle Sallmanns Limited and BMI Appraisals Limited, independent and qualified valuers, to perform appraisals of the fair values of the Company's shares at the grant dates of pre-IPO and post-IPO share options, respectively. The grants of equity instruments might be conditional upon satisfying specified conditions. Significant management judgement was required to take into account the conditions and adjust the number of equity instruments included in the measurement of equity-settled share option expenses.

For the pre-IPO share option scheme, determining the number of equity instruments that eventually vest required management to make assumptions regarding the profit forecast and likelihood of a successful initial public offering, and hence they were subject to uncertainty.

For the post-IPO share option scheme, determining the number of equity instruments that eventually vest required management to make assumptions regarding the dividend yield, exercise behaviour of share options and employee exit rate, and hence they were subject to uncertainty.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

(a) the sea freight logistics segment is engaged in the provision of marine transportation services and related businesses; and

(b) the land-based logistics segment is engaged in the provision of integrated freight forwarding, marine transportation, shipping agency, depot and warehousing, trucking and ship brokerage services and related businesses mainly through the Group's branch offices operating in Mainland China.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, other investment income and finance costs are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, derivative financial instruments and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, derivative financial instruments, tax payable, deferred tax liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted in accordance with the terms and conditions mutually agreed by the parties involved.

During the year, there was no customer which individually accounted for 10% or more of the Group's revenue (2011: Nil).

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2012

	Sea freight logistics US$'000	Land-based logistics US$'000	Total US$'000
Segment revenue:			
Sales to external customers	488,163	716,452	1,204,615
Intersegment sales	467,961	23,109	491,070
	956,124	739,561	1,695,685
Reconciliation:			
Elimination of intersegment sales			(491,070)
Revenue			1,204,615
Segment results	32,033	53,234	85,267
Reconciliation:			
Bank interest income			6,911
Other investment income			6,056
Finance costs			(2,141)
Profit before tax			96,093
Segment assets	443,112	330,516	773,628
Reconciliation:			
Elimination of intersegment receivables			(189,936)
Corporate and other unallocated assets			416,946
Total assets			1,000,638
Segment liabilities	333,968	13,045	347,013
Reconciliation:			
Elimination of intersegment payables			(189,936)
Corporate and other unallocated liabilities			138,734
Total liabilities			295,811

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2012 (continued)

	Sea freight logistics US$'000	Land-based logistics US$'000	Total US$'000
Other segment information:			
Share of profits and losses of:			
Joint ventures	—	6,640	6,640
Associates	—	548	548
Depreciation	11,217	4,950	16,167
Recognition of prepaid land lease payments	—	257	257
Gain on disposal of items of property, plant and equipment, net	32	39	71
Reversal of impairment of trade receivables	—	(15)	(15)
Investments in joint ventures	—	22,690	22,690
Investments in associates	—	9,874	9,874
Capital expenditure*	177,625	31,446	209,071

* Capital expenditure consists of additions to property, plant and equipment and prepaid land lease payments.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011

	Sea freight logistics US$'000 (Restated)	Land-based logistics US$'000 (Restated)	Total US$'000 (Restated)
Segment revenue:			
Sales to external customers	407,158	652,846	1,060,004
Intersegment sales	432,441	20,739	453,180
	839,599	673,585	1,513,184
Reconciliation:			
Elimination of intersegment sales			(453,180)
Revenue			1,060,004
Segment results	45,214	40,397	85,611
Reconciliation:			
Bank interest income			10,755
Other investment income			1,617
Finance costs			(1,622)
Profit before tax			96,361
Segment assets	274,986	392,624	667,610
Reconciliation:			
Elimination of intersegment receivables			(281,113)
Corporate and other unallocated assets			465,209
Total assets			851,706
Segment liabilities	99,597	334,866	434,463
Reconciliation:			
Elimination of intersegment payables			(281,113)
Corporate and other unallocated liabilities			44,908
Total liabilities			198,258

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011 (continued)

	Sea freight logistics US$'000 (Restated)	Land-based logistics US$'000 (Restated)	Total US$'000 (Restated)
Other segment information:			
Share of profits and losses of:			
Joint ventures	—	5,145	5,145
Associates	—	258	258
Depreciation	7,945	3,386	11,331
Gain on disposal of items of property, plant and equipment, net	817	55	872
Reversal of impairment of trade receivables	—	—	—
Investments in joint ventures	—	18,084	18,084
Investments in associates	—	9,187	9,187
Capital expenditure*	71,276	23,460	94,736

* Capital expenditure consists of additions to property, plant and equipment and prepaid land lease payments.

Geographical information

The Group's non-current assets are primarily dominated by its container vessels. The directors consider that the nature of the Group's business and the way in which costs are allocated preclude a meaningful allocation of container vessels and their operating profits and related capital expenditure to specific geographical segments as defined under HKFRS 8 *Operating Segments* issued by the HKICPA. These container vessels are primarily utilised across the geographical markets for the shipment of cargoes throughout Asia. Accordingly, only geographical segment information on revenue is presented.

The revenue information is based on the locations of customers.

	2012 US$'000	2011 US$'000 (Restated)
Mainland China	**458,985**	489,455
Japan	**427,873**	419,026
Korea	**131,040**	61,040
Others	**186,717**	90,483
	1,204,615	1,060,004

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of the rendering of service.

An analysis of the Group's other income and gains is as follows:

	Note	2012 US$'000	2011 US$'000 (Restated)
Other income			
Bank interest income		**6,911**	10,755
Other investment income		**6,056**	1,617
Terminal compensation income		—	2,363
Government subsidies*		**332**	74
		13,299	14,809
Gains			
Gain on disposal of items of property, plant and equipment, net		**71**	872
Fair value gains on cash flow hedges (transfer from equity), net	26	**835**	—
Foreign exchange differences, net		—	18,797
		906	19,669
		14,205	34,478

* The amount received represented subsidies received from the relevant authorities in the PRC and Japan for the Group's operation of container lines and logistics business. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2012 US$'000	2011 US$'000 (Restated)
Cost of bunkers consumed		**240,468**	206,454
Depreciation	14	**16,167**	11,331
Recognition of prepaid land lease payments	15	**257**	—
Auditors' remuneration		**413**	372
Minimum lease payments under operating leases in respect of:			
Land and buildings		**4,652**	4,154
Vessels		**89,380**	94,252
Containers		**58,814**	49,740
		152,846	148,146
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**40,763**	33,097
Equity-settled share option expense	30	**1,252**	867
Pension scheme contributions (defined contribution scheme)		**6,207**	5,088
		48,222	39,052
Foreign exchange differences, net*		**418**	(18,797)
Reversal of impairment of trade receivables*		**(15)**	—
Fair value losses on cash flow hedges (transfer from equity), net*	26	—	4,207
Fair value losses on derivative instruments – transactions not qualifying as hedges, net*		**439**	302

* These loss items and the reversal of impairment of trade receivables are included in "Other expenses and losses" on the face of the consolidated statement of comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group 2012 US$'000	Group 2011 US$'000 (Restated)
Interest on bank loans	**2,141**	1,622

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012	2011
	US$'000	US$'000
Fees	**262**	262
Other emoluments:		
Salaries, allowances and benefits in kind	**1,333**	1,276
Performance related bonuses	**568**	571
Equity-settled share option expense	**103**	157
Pension scheme contributions	**36**	36
	2,040	2,040
	2,302	2,302

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 3 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

	Fees US$'000	Equity-settled share option expense US$'000	Total remuneration US$'000
2012			
Mr. Tsui Yung Kwok	**26**	**3**	**29**
Mr. Yeung Kwok On	**26**	**3**	**29**
Mr. Lo Wing Yan, William, JP	**26**	**3**	**29**
Mr. Ngai Wai Fung	**28**	**3**	**31**
	106	**12**	**118**
2011			
Mr. Tsui Yung Kwok	26	3	29
Mr. Yeung Kwok On	26	3	29
Mr. Lo Wing Yan, William, JP	26	3	29
Mr. Ngai Wai Fung	28	3	31
	106	12	118

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, a non-executive director and the chief executive:

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Equity-settled share option expense US$'000	Pension scheme contributions US$'000	Total remuneration US$'000
2012						
Executive directors:						
Mr. Yang Shaopeng	**26**	**589**	**241**	**41**	—	**897**
Mr. Yang Xianxiang*	**26**	**453**	**179**	**32**	**9**	**699**
Mr. Liu Kecheng	**26**	**97**	**51**	**6**	**9**	**189**
Ms. Li Xuexia	**26**	**97**	**46**	**6**	**9**	**184**
Mr. Xue Peng	**26**	**97**	**51**	**6**	**9**	**189**
	130	**1,333**	**568**	**91**	**36**	**2,158**
Non-executive director:						
Ms. Liu Rongli	**26**	—	—	—	—	**26**
	156	**1,333**	**568**	**91**	**36**	**2,184**
2011						
Executive directors:						
Mr. Yang Shaopeng	26	569	188	64	—	847
Mr. Yang Xianxiang*	26	434	265	54	9	788
Mr. Liu Kecheng	26	91	40	9	9	175
Ms. Li Xuexia	26	91	37	9	9	172
Mr. Xue Peng	26	91	41	9	9	176
	130	1,276	571	145	36	2,158
Non-executive director:						
Ms. Liu Rongli	26	—	—	—	—	26
	156	1,276	571	145	36	2,184

* Mr. Yang Xianxiang is also the chief executive officer of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2011: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors which included the chief executive (2011: three directors which included the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2011: two) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	Group	
	2012	2011
	US$'000	US$'000
Salaries, allowances and benefits in kind	**113**	200
Performance related bonuses	**124**	170
Equity-settled share option expense	**4**	14
Pension scheme contributions	**9**	19
	250	403

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012	2011
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	**1**	1
	1	2

In prior years, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSE

	Group	
	2012	2011
	US$'000	US$'000
		(Restated)
Current:		
Mainland China	**1,415**	839
Hong Kong	**821**	1,005
Elsewhere	**106**	316
Deferred (note 28)	**(49)**	(156)
Total tax charge for the year	**2,293**	2,004

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits during the year, based on the existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2012

	Mainland China		Hong Kong		Elsewhere		Total	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%
Profit before tax	11,617		72,367		12,109		96,093	
Tax at the statutory tax rate	2,904	25.0	11,941	16.5	3,244	26.8	18,089	18.8
Income not subject to tax	(4,523)	(38.9)	(12,017)	(16.6)	(3,353)	(27.7)	(19,893)	(20.7)
Expenses not deductible for tax	2,077	17.9	897	1.2	57	0.5	3,031	3.2
Tax losses not recognised	908	7.8	—	—	158	1.3	1,066	1.1
Tax charge at the Group's effective rate	1,366	11.8	821	1.1	106	0.9	2,293	2.4

10. INCOME TAX EXPENSE (continued)

Group – 2011

	Mainland China		Hong Kong		Elsewhere		Total	
	US$'000 (Restated)	%	US$'000	%	US$'000 (Restated)	%	US$'000 (Restated)	%
Profit before tax	7,207		74,199		14,955		96,361	
Tax at the statutory tax rate	1,802	25.0	12,243	16.5	4,731	31.6	18,776	19.5
Income not subject to tax	(3,597)	(49.9)	(12,863)	(17.3)	(4,749)	(31.8)	(21,209)	(22.0)
Expenses not deductible for tax	1,303	18.1	1,625	2.2	202	1.4	3,130	3.2
Tax losses not recognised	1,175	16.3	—	—	132	0.9	1,307	1.4
Tax charge at the Group's effective rate	683	9.5	1,005	1.4	316	2.1	2,004	2.1

11. PROFIT/LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of US$1,500,000 (2011: profit of US$2,207,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

	2012		2011	
	HK$'000	**US$'000 equivalent**	HK$'000	US$'000 equivalent
Proposed final – HK12 cents (equivalent to US1.55 cents) per ordinary share (2011: HK12 cents (equivalent to US1.54 cents))	**310,140**	**40,010**	310,764	39,997

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,587,278,337 (2011: 2,599,662,866) in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

The calculations of basic earnings per share are based on:

	2012 US$'000	2011 US$'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**93,488**	93,558

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**2,587,278,337**	2,599,662,866

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings US$'000	Container vessels US$'000	Containers US$'000	Computers, furniture and equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
31 December 2012							
At 1 January 2012 (as restated):							
Cost	13,678	183,042	17,123	9,116	3,242	96,416	322,617
Accumulated depreciation	(979)	(40,287)	(11,749)	(3,887)	(1,537)	—	(58,439)
Net carrying value	12,699	142,755	5,374	5,229	1,705	96,416	264,178
At 1 January 2012, net of accumulated depreciation (as restated)	12,699	142,755	5,374	5,229	1,705	96,416	264,178
Additions	3,778	13,094	—	6,087	418	172,636	196,013
Transfers	22,917	226,383	—	4,673	—	(253,973)	—
Depreciation provided during the year	(770)	(9,572)	(1,502)	(3,664)	(659)	—	(16,167)
Disposals/write-off	(101)	(89)	(4)	(302)	(146)	—	(642)
Exchange realignment	438	—	—	112	22	7	579
At 31 December 2012, net of accumulated depreciation	38,961	372,571	3,868	12,135	1,340	15,086	443,961
At 31 December 2012:							
Cost	40,677	422,430	17,115	19,368	3,145	15,086	517,821
Accumulated depreciation	(1,716)	(49,859)	(13,247)	(7,233)	(1,805)	—	(73,860)
Net carrying value	38,961	372,571	3,868	12,135	1,340	15,086	443,961

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings US$'000	Container vessels US$'000	Containers US$'000	Computers, furniture and equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
31 December 2011 (as restated)							
At 1 January 2011:							
Cost	12,699	167,175	17,129	5,189	3,201	34,392	239,785
Accumulated depreciation	(482)	(36,917)	(10,250)	(2,001)	(1,292)	—	(50,942)
Net carrying value	12,217	130,258	6,879	3,188	1,909	34,392	188,843
At 1 January 2011, net of accumulated depreciation	12,217	130,258	6,879	3,188	1,909	34,392	188,843
Additions	714	27,900	2	3,191	554	62,375	94,736
Transfers	—	—	—	806	—	(806)	—
Depreciation provided during the year	(861)	(6,428)	(1,503)	(1,911)	(628)	—	(11,331)
Disposals/write-off	—	(8,975)	(4)	(97)	(313)	—	(9,389)
Exchange realignment	629	—	—	52	183	455	1,319
At 31 December 2011, net of accumulated depreciation	12,699	142,755	5,374	5,229	1,705	96,416	264,178
At 31 December 2011:							
Cost	13,678	183,042	17,123	9,116	3,242	96,416	322,617
Accumulated depreciation	(979)	(40,287)	(11,749)	(3,887)	(1,537)	—	(58,439)
Net carrying value	12,699	142,755	5,374	5,229	1,705	96,416	264,178

The Group's buildings are situated in Mainland China and are held under medium term leases.

At 31 December 2012, certain of the Group's container vessels with a net carrying amount of approximately US$186,089,000 (2011: US$15,379,000; 1 January 2011: US$119,947,000) were pledged to secure bank loans granted to the Group (note 27).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	US$'000	US$'000
		(Restated)
Carrying amount at 1 January	—	—
Additions	13,058	—
Recognised during the year	(257)	—
Exchange realignment	155	—
Carrying amount at 31 December	12,956	—
Current portion included in prepayments, deposits and other receivables	(329)	—
Non-current portion	12,627	—

The Group's leasehold lands are situated in Mainland China and are held under medium term leases.

16. INVESTMENT IN A SUBSIDIARY

	Company	
	2012	2011
	US$'000	US$'000
Unlisted shares, at cost	59,413	59,413

The amount due from a subsidiary included in the Company's current assets of US$385,658,000 (2011: US$386,435,000) is unsecured, interest-free and is repayable on demand.

16. INVESTMENT IN A SUBSIDIARY (continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of registered/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
SITC Group Company Limited	BVI 18 April 2006	US$10,000	100	—	Investment holding
SITC Shipping Group Company Limited	BVI 12 May 2006	US$1	—	100	Investment holding
SITC Shipowning Group Company Limited	BVI 12 May 2006	US$1	—	100	Investment holding
SITC Logistics Company Limited	BVI 12 May 2006	US$4	—	100	Investment holding
SITC Brokers Company Limited	Hong Kong 7 June 2006	HK$1	—	100	Investment holding
SITC Logistics (HK) Limited	Hong Kong 2 June 2006	HK$1	—	100	Investment holding
New SITC Development Company Limited	BVI 14 February 2006	US$10,000	—	100	Investment holding
SITC Development Company Limited	BVI 27 May 2004	US$1	—	100	Investment holding
SITC Logistics Co., Ltd. * #	PRC 8 March 2001	RMB50,000,000	—	100	Investment holding and provision of freight forwarding services for marine transportation
SITC Customs Broker Co., Ltd. ** #	PRC 8 October 1996	RMB10,000,000	—	100	Provision of declaration services
New SITC Logistics (Japan) Co., Ltd. #	Japan 6 December 1995	JPY10,000,000	—	100	Provision of freight forwarding services for marine transportation
SITC Transportation (Qingdao) Co., Ltd. * #	PRC 9 September 2005	RMB10,000,000	—	100	Provision of freight forwarding services for marine transportation

16. INVESTMENT IN A SUBSIDIARY (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of registered/ paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
SITC Container Lines Co., Ltd.	Hong Kong 25 January 1994	HK$1,000,000	—	100	Provision of container marine transportation
SITC Logistics Investment Pte. Ltd.	Singapore 15 December 2011	US$500,000	—	100	Investment holding
SITC Qingdao International Development Co. Ltd. * #	PRC 16 December 2010	US$50,000,000	—	100	Investment holding
SITC Shipping Agency (HK) Company Limited	Hong Kong 13 September 2004	HK$5,000,000	—	70	Provision of shipping agency and freight forwarding services for marine transportation
Ken Link Shipping Enterprises Inc.	Panama 25 June 1991	US$1,000,000	—	100	Vessel chartering
Sheng Lian Shipping Enterprises Inc.	Panama 19 May 1994	US$10,000	—	100	Vessel chartering
Xin Lian Shipping Enterprises Inc.	Panama 13 October 1992	US$10,000	—	100	Vessel chartering
Hai Lian Shipping Enterprises Inc.	Panama 10 August 2003	US$10,000	—	100	Vessel chartering
Jia Lian Shipping Enterprises Inc.	Panama 10 September 2003	US$10,000	—	100	Vessel chartering
SITC Xiamen Shipping Enterprises Inc.	Panama 6 December 2004	US$100	—	100	Vessel chartering
SITC Hong Kong Shipping Enterprises Inc.	Panama 6 December 2004	US$100	—	100	Vessel chartering

16. INVESTMENT IN A SUBSIDIARY (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of registered/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
SITC Kaoshiung Shipping Enterprises Inc.	Panama 12 February 2007	US$10,000	—	100	Vessel chartering
SITC Tianjin Shipping Enterprises Inc.	Panama 17 May 2004	US$10,000	—	100	Vessel chartering
SITC Nagoya Shipping Enterprises Inc.	Panama 17 May 2004	US$10,000	—	100	Vessel chartering
SITC Hakata Shipping Company Limited	Hong Kong 30 November 2009	US$100	—	100	Vessel chartering
SITC Inchon Shipping Enterprise Inc.	Hong Kong 1 March 2011	US$100	—	100	Vessel chartering
SITC Keelung Shipping Company Limited	Hong Kong 30 November 2009	US$100	—	100	Vessel chartering
SITC Pyeongtaek Shipping Company Limited	Hong Kong 30 November 2009	US$100	—	100	Vessel chartering
SITC Haiphong Shipping Company Limited	Hong Kong 11 October 2011	US$100	—	100	Vessel chartering
SITC Kwangyang Shipping Company Limited	Hong Kong 11 October 2011	US$100	—	100	Vessel chartering
SITC Qingdao Shipping Company Limited	Hong Kong 11 October 2011	US$100	—	100	Vessel chartering
SITC Dalian Shipping Company Limited	Hong Kong 1 December 2011	US$100	—	100	Vessel chartering
SITC Busan Shipping Company Limited	Hong Kong 11 October 2011	US$100	—	100	Vessel chartering
SITC Lianyungang Shipping Company Limited	Hong Kong 1 December 2011	US$100	—	100	Vessel chartering
SITC Fangcheng Shipping Company Limited	Hong Kong 1 December 2011	US$100	—	100	Vessel chartering

16. INVESTMENT IN A SUBSIDIARY (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of registered/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
SITC Shenzhen Shipping Company Limited	Hong Kong 1 December 2011	US$100	—	100	Vessel chartering
SITC Osaka Shipping Company Limited	Hong Kong 1 December 2011	US$100	—	100	Vessel chartering
SITC Moji Shipping Company Limited	Hong Kong 1 December 2011	US$100	—	100	Vessel chartering
SITC Shimizu Shipping Company Limited	Hong Kong 1 December 2011	US$100	—	100	Vessel chartering
SITC Yokkaichi Shipping Company Limited	Hong Kong 1 December 2011	US$100	—	100	Vessel chartering
SITC Hochiminh Shipping Company Limited	Hong Kong 1 March 2011	US$100	—	100	Vessel chartering
SITC Logi Korea Co., Ltd. #	Korea 18 June 2010	KRW300,000,000	—	100	Provision of freight forwarding services for marine transportation
SITC Brokers (Shandong) Co., Ltd. * #	PRC 25 April 2001	RMB1,500,000	—	100	Provision of vessel broking services
SITC Container Lines (Japan) Co., Ltd. #	Japan 9 September 1999	JPY10,000,000	—	100	Provision of container marine transportation
SITC Container Lines (Shanghai) Co., Ltd. * #	PRC 11 August 2008	RMB23,608,450	—	100	Provision of container marine transportation
SITC Container Lines (Korea) Co., Ltd. #	Korea 7 December 2002	KRW600,000,000	—	80	Provision of container marine transportation
SITC Shipping Agency (Qingdao) Co., Ltd. ** # ∫	PRC 19 October 2004	RMB2,000,000	—	49	Provision of shipping agency and freight forwarding services for marine transportation
SITC Shipping Agency (Tianjin) Co., Ltd. ** # Ω	PRC 27 July 2005	RMB2,000,000	—	49	Provision of shipping agency and freight forwarding services for marine transportation

16. INVESTMENT IN A SUBSIDIARY (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of registered/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
SITC Shipping Agency (Shanghai) Co., Ltd. ** # @	PRC 17 March 2006	RMB2,000,000	—	49	Provision of shipping agency and freight forwarding services for marine transportation
SITC Shipping Asia PTE Limited	Singapore 11 June 2008	US$100,000	—	100	Provision of shipping agency and freight forwarding services for marine transportation
Qingdao SITC Logistics Park Management Company Limited * #	PRC 19 October 2011	RMB121,900,000	—	100	Provision of storage and terminal services

* Registered as wholly-foreign-owned enterprises under PRC law.

** Registered as limited liability companies under PRC law.

The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as they have not registered any official English names.

∫ The joint venture contract and articles of association of SITC Shipping Agency (Qingdao) Co., Ltd. stipulate that the board of directors of SITC Shipping Agency (Qingdao) Co., Ltd. should consist of three directors, two of which should be appointed by the Group and one director should be appointed by the non-controlling shareholder. The Group is able to control the board of SITC Shipping Agency (Qingdao) Co., Ltd. as well as its operating and financial policies and hence has accounted for it as a subsidiary.

Ω The articles of association of SITC Shipping Agency (Tianjin) Co., Ltd. stipulate that it should have one executive director rather than a board of directors. Such executive director has been appointed by the Group since its establishment and the non-controlling shareholder has agreed to continue such arrangement during the term of the joint venture. Accordingly, the Group is able to control SITC Shipping Agency (Tianjin) Co., Ltd. and has accounted for it as a subsidiary.

@ By virtue of the entrustment arrangement entered into between SITC Container Lines Co. Ltd., a subsidiary indirectly held by the Company, and the non-controlling shareholders of SITC Shipping Agency (Shanghai) Co., Ltd., the shareholder of SITC Shipping Agency (Shanghai) Co., Ltd. has the power to govern its financial and operating policies. Therefore, it is accounted for as a subsidiary of the Group.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INVESTMENTS IN JOINT VENTURES

	Group		
	31 December 2012 US$'000	31 December 2011 US$'000	1 January 2011 US$'000
Share of net assets	**22,690**	18,084	14,335

The amounts due from and to joint ventures are disclosed in note 22 to the financial statements.

The Group's trade receivable balances due from the joint ventures and trade payable balances due to the joint ventures are disclosed in notes 20 and 24 to the financial statements, respectively.

Particulars of the joint ventures are as follows:

Name	Particulars of capital	Place of registration and operations	Percentage of Ownership interest	Percentage of Voting power*	Percentage of Profit sharing	Principal activities
SITC Tsingtao Beer Warehouse Co., Ltd.	Paid-up capital	PRC	45%	40%	45%	Warehouse operation
Smart Logistics Co., Ltd.	Paid-up capital	PRC	51%	50%	51%	Provision of storage and terminal services
Singamas Logistics (Qingdao) Co., Ltd.	Paid-up capital	PRC	40%	40%	40%	Provision of storage and terminal services
Shandong Hanjin Logistics Co., Ltd.	Paid-up capital	PRC	30%	40%	30%	Provision of storage and terminal services
Bright Logistics (Shanghai) Co., Ltd.	Paid-up capital	PRC	50%	50%	50%	Warehouse operation
SITC Container Lines Vietnam Co., Ltd.	Paid-up capital	Vietnam	49%	50%	49%	Provision of shipping agency services
SITC Container Lines Thailand Co., Ltd.	Paid-up capital	Thailand	49%	50%	49%	Provision of shipping agency services
SITC-Dinh Logistics Co., Ltd.	Paid-up capital	Vietnam	49%	50%	49%	Provision of depot and warehousing services

* The voting power is determined with reference to the numbers of directors representing the Group in the respective boards of directors of the above joint ventures.

All of the above investments in joint ventures are indirectly held by the Company.

17. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the summarised financial information of the Group's joint ventures:

	31 December 2012 US$' 000	31 December 2011 US$' 000	1 January 2011 US$'000
Share of the joint ventures' assets and liabilities:			
Non-current assets	**12,234**	10,679	8,159
Current assets	**26,976**	25,586	20,828
Current liabilities	**(16,520)**	(18,181)	(14,652)
Net assets	**22,690**	18,084	14,335
Share of the joint ventures' results:			
Revenue	**80,748**	60,181	36,642
Other income	**506**	290	679
	81,254	60,471	37,321
Total expenses	**(72,570)**	(53,578)	(31,472)
Income tax	**(2,044)**	(1,748)	(1,303)
Profit after tax	**6,640**	5,145	4,546

18. INVESTMENTS IN ASSOCIATES

	Group		
	31 December 2012 US$'000	31 December 2011 US$'000	1 January 2011 US$'000
Share of net assets	**9,874**	9,187	2,402

Particulars of the associates are as follows:

Name	Particulars of issued shares held/capital	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
SITC Container Lines Philippines, Inc.	Ordinary shares of Philippine Peso 100 each	Philippines	40%	Provision of shipping agency and freight forwarding services
Shandong i-Logistics Company Limited	Paid-up capital	PRC	25%	Provision of storage and terminal services
APL-SITC Terminal Holdings Pte. Ltd.	Ordinary shares of US$ 1 each	Singapore	20%	Investment holding

All of the above investments in associates are indirectly held by the Company.

The Group's trade receivable balances due from the associates and trade payable balances due to the associates are disclosed in notes 20 and 24 to the financial statements, respectively.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	31 December 2012 US$'000	31 December 2011 US$'000	1 January 2011 US$'000
Assets	**56,157**	46,227	12,217
Liabilities	**9,423**	3,481	2,735
Revenues	**27,920**	21,551	17,575
Profit	**2,557**	635	442

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group		
	31 December 2012 US$'000	31 December 2011 US$'000	1 January 2011 US$'000
Club debenture, at fair value	**527**	406	394
Unlisted equity investments, at cost	**680**	376	—
	1,207	782	394

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to US$121,000 (2011: Nil).

As at 31 December 2012, the Group's unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

20. TRADE RECEIVABLES

	Group		
	31 December 2012 US$'000	31 December 2011 US$'000 (Restated)	1 January 2011 US$'000 (Restated)
Trade receivables	**72,789**	78,526	49,352
Impairment	—	(15)	(15)
	72,789	78,511	49,337

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

20. TRADE RECEIVABLES (continued)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group		
	31 December 2012 US$'000	31 December 2011 US$'000 (Restated)	1 January 2011 US$'000 (Restated)
Within 1 month	**56,645**	70,500	37,962
1 to 2 months	**15,144**	7,298	10,879
2 to 3 months	**615**	544	315
Over 3 months	**385**	169	181
	72,789	78,511	49,337

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2012 US$'000	2011 US$'000 (Restated)
At 1 January	**15**	15
Impairment losses recognised	—	—
Impairment losses reversed	**(15)**	—
At 31 December	—	15

At 31 December 2011, included in the above provision for impairment of trade receivable was a provision for individually impaired trade receivables of US$15,000 (1 January 2011: US$15,000 (restated)) with a carrying amount before provision of US$344,000 (1 January 2011: US$344,000 (restated)). The individually impaired trade receivables related to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables was expected to be recovered.

20. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group		
	31 December 2012 US$' 000	31 December 2011 US$' 000 (Restated)	1 January 2011 US$' 000 (Restated)
Neither past due nor impaired	**72,404**	78,342	49,156
Less than 1 month past due	**385**	169	181
	72,789	78,511	49,337

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the Group's trade receivables are amounts due from the companies controlled by the Controlling Shareholder, the Group's joint ventures and the Group's associates of US$611,000 (2011: US$2,879,000 (restated); 1 January 2011: Nil (restated)), US$4,812,000 (2011: US$5,007,000 (restated); 1 January 2011: US$1,434,000 (restated)) and US$2,693,000 (2011: Nil (restated); 1 January 2011: Nil (restated)), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		
	31 December 2012 US$' 000	31 December 2011 US$' 000 (Restated)	1 January 2011 US$' 000 (Restated)
Prepayments	**26,045**	20,881	10,422
Deposits and other receivables	**9,385**	5,842	3,425
	35,430	26,723	13,847

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. DUE FROM/TO RELATED COMPANIES

An analysis of the balances with related companies is as follows:

	Group		
	31 December 2012 US$'000	31 December 2011 US$'000 (Restated)	1 January 2011 US$'000 (Restated)
Due from related companies			
Companies controlled by the Controlling Shareholder	**315**	53	1,032
Joint ventures	**299**	—	638
Associates	—	1,417	558
	614	1,470	2,228
Due to related companies			
Companies controlled by the Controlling Shareholder	—	630	440
Joint ventures	**59**	—	311
Associates	—	1,288	—
	59	1,918	751

The maximum outstanding amount due from the companies controlled by the Controlling Shareholder during the year was US$327,000 (2011: US$55,000 (restated); 1 January 2011: US$1,042,000 (restated)). The balances with related companies are unsecured, interest-free and are repayable on demand.

None of the amounts due from related companies is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group			Company	
	31 December 2012 US$' 000	31 December 2011 US$' 000 (Restated)	1 January 2011 US$' 000 (Restated)	**31 December 2012 US$' 000**	31 December 2011 US$' 000
Cash and bank balances	**333,400**	251,857	504,418	**1,253**	2,299
Time deposits	**45,461**	185,118	75	**—**	—
	378,861	436,975	504,493	**1,253**	2,299
Less: Pledged time deposits	**(80)**	(79)	(75)	**—**	—
Cash and cash equivalents	**378,781**	436,896	504,418	**1,253**	2,299

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$142,144,000 (2011: US$232,451,000 (restated); 1 January 2011: US$420,283,000 (restated)) . The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods ranging between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		
	31 December 2012 US$'000	31 December 2011 US$'000 (Restated)	1 January 2011 US$'000 (Restated)
Within 1 month	**122,570**	132,440	62,283
1 to 2 months	**7,694**	5,068	17,327
2 to 3 months	**1,958**	2,488	4,118
Over 3 months	**5,843**	1,107	1,912
	138,065	141,103	85,640

Included in the Group's trade payables are amounts due to the companies controlled by the Controlling Shareholder, the Group's joint ventures and the Group's associates of Nil (2011: US$168,000 (restated); 1 January 2011: US$441,000 (restated)), US$1,784,000 (2011: US$1,626,000 (restated); 1 January 2011: US$1,580,000 (restated)) and US$777,000 (2011: Nil; 1 January 2011: Nil), respectively, which are repayable within 30 days, which represents similar credit terms to those offered by those by the major suppliers of the Group.

The trade payables are non-interest-bearing and are normally settled on terms ranging from 15 to 45 days.

25. OTHER PAYABLES AND ACCRUALS

	Group			Company	
	31 December 2012 US$'000	31 December 2011 US$'000 (Restated)	1 January 2011 US$'000 (Restated)	**31 December 2012 US$'000**	31 December 2011 US$'000
Other payables	**14,823**	10,133	17,286	—	293
Accruals	**8,081**	5,586	4,674	—	—
	22,904	15,719	21,960	—	293

Other payables are non-interest-bearing and have an average term of three months.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Group					
	31 December 2012		31 December 2011		1 January 2011	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Forward currency contracts	3,928	—	—	719	—	2,559
Interest rate swaps	—	735	—	295	—	564
	3,928	735	—	1,014	—	3,123
Portion classified as non-current:						
Interest rate swaps	—	(599)	—	(239)	—	(430)
Current portion	3,928	136	—	775	—	2,693

The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values. The above transactions involving derivative financial instruments are conducted with creditworthy banks.

Forward currency contracts – cash flow hedges

Forward currency contracts are designated as hedging instruments in respect of expected future sales in Japanese Yen to which the Group has firm commitments. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

The terms of the forward currency contracts match the terms of the commitments. The cash flow hedges relating to expected future sales in 2013 were assessed to be highly effective and net gains of US$4,641,000 (2011: US$1,847,000) were included in the hedging reserve as follows:

	31 December 2012 US$'000	31 December 2011 US$'000
Total fair value gains/(losses) included in the hedging reserve	5,476	(2,360)
Reclassified from other comprehensive income and recognised in profit or loss	(835)	4,207
Net gains on cash flow hedges	4,641	1,847

Interest rate swaps

The Group has entered into various interest rate swap contracts to manage its interest rate exposures. These interest rate swap contacts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of interest rate swaps amounting to US$439,000 were charged to profit or loss during the year (2011: US$302,000).

27. INTEREST-BEARING BANK BORROWINGS

Group

	31 December 2012			31 December 2011			1 January 2011		
	Effective interest rate (%)	Maturity	US$'000	Effective interest rate (%)	Maturity	US$'000	Effective interest rate (%)	Maturity	US$'000
Current									
Bank loans – secured	—	—	—	LIBOR+1.6	2012	19,832	—	—	—
	—	—	—	LIBOR+1.8	2012	10,000	—	—	—
Current portion of long term bank loans – secured	**LIBOR+0.8 – LIBOR+2.14**	**2013**	**15,858**	LIBOR+0.8	2012	1,373	LIBOR+0.8 – LIBOR+1.2	2011	12,044
	—	—	—	—	—	—	TIBOR+1	2011	728
	2.39	**2013**	**759**	—	—	—	—	—	—
	2.49	**2013**	**762**	—	—	—	—	—	—
			17,379			31,205			12,772
Non-current									
Bank loans – secured	**LIBOR+0.8 – LIBOR+2.14**	**2014-2022**	**101,804**	LIBOR+0.8	2013-2017	5,948	LIBOR+0.8 – LIBOR+1.2	2012-2017	62,461
	—	—	—	—	—	—	TIBOR+1	2012-2014	3,183
	2.39	**2014-2022**	**6,840**	—	—	—	—	—	—
	2.49	**2014-2022**	**6,844**	—	—	—	—	—	—
			115,488			5,948			65,644
			132,867			37,153			78,416

	31 December 2012 US$'000	31 December 2011 US$'000	1 January 2011 US$'000
Analysed into bank loans repayable:			
Within one year or on demand	**17,379**	31,205	12,772
In the second year	**17,089**	1,372	17,891
In the third to fifth years, inclusive	**55,419**	4,118	33,872
Beyond five years	**42,980**	458	13,881
	132,867	37,153	78,416

27. INTEREST-BEARING BANK BORROWINGS (continued)

Group (continued)

Notes:

(a) The Group's bank loans are secured by mortgages over the Group's container vessels which had an aggregate carrying value at the end of the reporting period of approximately US$186,089,000 (2011: US$15,379,000; 1 January 2011: US$119,947,000).

(b) Except for certain bank loans of JPY919,941,000 (equivalent to approximately US$10,690,000) which are denominated in Japanese Yen as at 31 December 2012 (2011: JPY1,538,000,000 (equivalent to approximately US$19,832,000); 1 January 2011: JPY4,941,019,000 (equivalent to approximately US$60,626,000)), all bank loans are in US dollars.

28. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Group

	Withholding taxes	
	2012	2011
	US$'000	US$'000
At 1 January	**49**	205
Deferred tax credited to profit or loss during the year (note 10)	**(49)**	(156)
At 31 December	—	49

The Group had no tax losses arising in Hong Kong during the year that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose (2011: Nil; 1 January 2011: Nil). The Group has tax losses arising in Mainland China of US$5,990,000 (2011: US$4,620,000; 1 January 2011: US$2,463,000), that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2012, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

Shares

	2012		2011	
	HK$'000	US$'000 equivalent	HK$'000	US$'000 equivalent
Authorised:				
5,000,000,000 ordinary shares of HK$0.1 each	**500,000**		500,000	
Issued and fully paid:				
2,584,500,000 (2011: 2,589,700,000) ordinary shares of HK$0.1 each	**258,450**	**33,323**	259,410	33,446

A summary of the transactions during the year in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Issued share capital		Share premium account		Treasury shares		Total
		HK$'000	US$'000 equivalent	HK$'000	US$'000 equivalent	HK$'000	US$'000 equivalent	US$'000 equivalent
At 1 January 2011	2,600,000,000	260,000	33,522	3,192,106	411,315	—	—	444,837
Repurchase of shares (note (a))	(10,300,000)	(590)	(76)	(17,513)	(2,251)	(440)	(56)	(2,383)
At 31 December 2011 and 1 January 2012	2,589,700,000	259,410	33,446	3,174,593	409,064	(440)	(56)	442,454
Cancellation of 2011 purchased shares (note (a))	—	(440)	(56)	—	—	440	56	—
Repurchase of shares (note (b))	(5,400,000)	(540)	(70)	(9,812)	(1,263)	—	—	(1,333)
Share options exercised (note (c))	200,000	20	3	554	71	—	—	74
At 31 December 2012	**2,584,500,000**	**258,450**	**33,323**	**3,165,335**	**407,872**	—	—	**441,195**

Notes:

(a) In December 2011, the Company purchased in aggregate 10,300,000 ordinary shares of the Company for an aggregate consideration, before expenses, of approximately HK$18,564,000 (equivalent to approximately US$2,383,000). There were 5,900,000 purchased shares cancelled in December 2011 and the remaining 4,400,000 purchased shares were cancelled during the year.

(b) During the year, the Company purchased in aggregate 5,400,000 ordinary shares of the Company for an aggregate consideration, before expenses, of approximately HK$10,352,000 (equivalent to approximately US$1,333,000). All purchased shares were cancelled during the year.

(c) The subscription rights attaching to 200,000 share options were exercised at the subscription price of HK$1.968 per share (note 30), resulting in the issue of 200,000 shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$394,000 (equivalent to approximately US$51,000). An amount of US$23,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

29. SHARE CAPITAL (continued)

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 30 to the financial statements.

30. SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company adopted a share option scheme in 2010 (the "Pre-IPO Share Option Scheme"). The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain employees, executives or officers of the Company made or may have made to the growth of the Company and/or the listing of shares on the Hong Kong Stock Exchange Limited (the "Stock Exchange "). Eligible participants of the Pre-IPO Share Option Scheme include the Company's directors, including independent non-executive directors and other employees of the Group. Upon the fulfilment of certain conditions, the Pre-IPO Share Option Scheme became effective on 31 March 2010 and will remain effective for five years commencing on the listing date of the Company on the Stock Exchange. The Pre-IPO Share Option Scheme was approved and adopted on 10 September 2010.

The aggregate number of shares that may be issued pursuant to the Pre-IPO Share Option Scheme shall not exceed 80,000,000 shares. The options granted to the participants pursuant to the Pre-IPO Share Option Scheme vest at the rate of 25% of each such grant for each year measured from the date of the first anniversary of the listing date of the Company, provided these employees remain in service at the respective vesting date.

The exercise price of share options is HK$3.824 per share, which was determined at a price equivalent to a 20% discount to the IPO price of the Company's shares of HK$4.78 per share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Pre-IPO Share Option Scheme during the year:

	2012		2011	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
At 1 January	**3.824**	**75,640**	3.824	78,560
Forfeited during the year	**3.824**	**(2,440)**	3.824	(2,920)
At 31 December	**3.824**	**73,200**	3.824	75,640

30. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme (continued)

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme as at the end of the reporting period are as follows:

2012

Number of options '000	Exercise price* HK$ per share	Exercise period
13,200	**3.824**	any time commencing from the first anniversary of the IPO date
20,000	**3.824**	any time commencing from the second anniversary of the IPO date
20,000	**3.824**	any time commencing from the third anniversary of the IPO date
20,000	**3.824**	any time commencing from the fourth anniversary of the IPO date
73,200		

2011

Number of options '000	Exercise price* HK$ per share	Exercise period
15,640	3.824	any time commencing from the first anniversary of the IPO date
20,000	3.824	any time commencing from the second anniversary of the IPO date
20,000	3.824	any time commencing from the third anniversary of the IPO date
20,000	3.824	any time commencing from the fourth anniversary of the IPO date
75,640		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted was US$2,084,000 in 2010, of which the Group recognised a share option expense of US$365,000 (2011: US$681,000) during the year.

30. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme (continued)

The fair value of equity-settled share options at the date of grant was determined by Jones Lang LaSalle Sallmanns using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the valuation of share options granted:

IPO date	30 September 2010
Maturity date	30 September 2015
Stock price	US$1.0
Exercise price*	80% of the IPO price
Volatility (%)	56.70
Risk-free interest rate (%)	2.23
Dividends yield (%)	2.00
Pre-forfeiture rate (%)	0.00
Post-forfeiture rate (%)	5.00
Early exercise level	3

* The expected exercise price is subject to the adjustments in the event of any capitalisation issue, rights issue, open offer, sub-division, consolidation of shares, or reduction of capital of the Company.

The expected volatility is indicative of future trends, which may also not necessarily be the actual outcomes.

There is no cash settlement alternative. The Company has not developed a past practice of cash settlement.

At the end of the reporting period, the Company had 73,200,000 (2011: 75,640,000) share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 73,200,000 additional ordinary shares of the Company and additional share capital of HK$7,320,000 (equivalent to approximately US$944,000) and share premium of HK$272,597,000 (equivalent to approximately US$35,167,000).

Subsequent to the end of the reporting period, a total of 160,000 share options lapsed.

30. SHARE OPTION SCHEMES (continued)

Post-IPO Share Option Scheme

The Company operates a share option scheme (the "Post-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Post-IPO Share Option Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group. The Post-IPO Share Option Scheme became effective on 10 September 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Post-IPO Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Post-IPO Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, or in excess of 0.1% of the shares of the Company in issue at any time, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

There is no minimum period that the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the board of directors, however no options shall be exercised 10 years after the date of grant. Each grantee shall pay a consideration of HK$1.00 at the time the option is granted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Post-IPO Share Option Scheme during the year:

	2012		2011	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
At 1 January	**1.968**	**11,600**	—	—
Granted during the year	—	—	1.968	11,600
Exercised during the year	**1.968**	**(200)**	—	—
At 31 December	**1.968**	**11,400**	1.968	11,600

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.112 per share (2011: no share options were exercised).

30. SHARE OPTION SCHEMES (continued)

Post-IPO Share Option Scheme (continued)

The exercise prices and exercise periods of the share options under the Post-IPO Share Option Scheme as at the end of the reporting period are as follows:

2012

Number of options '000	Exercise price* HK$ per share	Exercise period
5,600	**1.968**	25-10-2012 to 25-10-2021
5,800	**1.968**	25-10-2013 to 25-10-2021
11,400		

2011

Number of options '000	Exercise price* HK$ per share	Exercise period
5,800	1.968	25-10-2012 to 25-10-2021
5,800	1.968	25-10-2013 to 25-10-2021
11,600		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted was US$1,087,000 in 2011, of which the Group recognised a share option expense of US$887,000 (2011: US$186,000) during the year.

The fair value of equity-settled share options at the date of grant was determined by BMI Appraisals Limited using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the valuation of share options granted:

Dividend yield (%)	6.12
Expected volatility (%)	53.25
Risk-free interest rate (%)	1.44
Expected life of options (year)	10
Weighted average share price (HK$ per share)	3.5

The expected life of the options was the contractual life of the options and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

30. SHARE OPTION SCHEMES (continued)

Post-IPO Share Option Scheme (continued)

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 11,400,000 (2011: 11,600,000) share options outstanding under the Post-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 11,400,000 additional ordinary shares of the Company and additional share capital of HK$1,140,000 (equivalent to approximately US$147,000) and share premium of HK$21,295,000 (equivalent to approximately US$2,747,000).

31. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 61 to 62 of the financial statements.

(a) Capital redemption reserve

The capital redemption reserve arose from the shares repurchased and cancelled during the year. Further details of these shares repurchased and cancelled are set out in note 29 to the financial statements.

(b) Merger reserve

The merger reserve comprises the excess of the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control; the capital contribution from the then holding companies of the Group's subsidiaries; and the deemed distributions to the Controlling Shareholder in relation to the business combination under common control.

(c) PRC reserve funds

Pursuant to the relevant laws and regulations, a portion of the profits of the Company's subsidiaries which are established in the People's Republic of China has been transferred to reserve funds which are restricted as to use.

(d) Capital reserve

The capital reserve represents the difference between the amount of share repurchase consideration and the amount of the subscription monies of repurchased shares.

(e) Share-based compensation reserve

The share-based compensation reserve represents the difference between the fair value and consideration of the shares of the Company or its holding companies purchased by the Group's employees.

(f) Share option reserve

The share option reserve comprises the fair value of the share options granted which are yet to be exercised as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

31. RESERVES (continued)

Group (continued)

(g) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

(h) Available-for-sale investment revaluation reserve

The available-for-sale investment revaluation reserve represents unrealised gains and losses arising from changes in fair value of available-for-sale investments.

(i) Exchange fluctuation reserve

The exchange fluctuation reserve represents the differences arising from the translation of assets and liabilities and profit or loss of subsidiaries, whose functional currencies are not the US dollar, into the presentation currency of the Group.

Company

	Share premium account US$'000	Treasury shares US$'000	Capital redemption reserve US$'000	Share option reserve US$'000	Retained profits US$'000	Proposed final dividend US$'000	Total US$'000
At 1 January 2011	411,315	—	—	838	1,488	40,088	453,729
Total comprehensive income for the year	—	—	—	—	42,204	—	42,204
Final 2010 dividend declared	—	—	—	—	—	(40,088)	(40,088)
Repurchase of shares (note 29)	(2,251)	(56)	132	—	(132)	—	(2,307)
Transfer of share option reserve upon the forfeiture or expiry of share options	—	—	—	(91)	91	—	—
Proposed final 2011 dividend (note 12)	—	—	—	—	(39,997)	39,997	—
Share option expense (note 30)	—	—	—	867	—	—	867
At 31 December 2011 and 1 January 2012	409,064	(56)	132	1,614	3,654	39,997	454,405
Total comprehensive income for the year	—	—	—	—	38,510	—	38,510
Final 2011 dividend declared	—	—	—	—	—	(39,997)	(39,997)
Cancellation of repurchased shares (note 29)	—	56	—	—	—	—	56
Repurchase of shares (note 29)	(1,263)	—	70	—	(70)	—	(1,263)
Share options exercised (note 29)	71	—	—	(23)	—	—	48
Transfer of share option reserve upon the forfeiture or expiry of share options	—	—	—	(64)	64	—	—
Proposed final 2012 dividend (note 12)	—	—	—	—	(40,010)	40,010	—
Share option expense (note 30)	—	—	—	1,252	—	—	1,252
At 31 December 2012	407,872	—	202	2,779	2,148	40,010	453,011

32. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its containers, container vessels, office properties and warehouses under operating leases arrangements. Leases for containers are negotiated for terms ranging from one to ten years, those for vessels are for terms ranging from one to two years, those for office properties and warehouses are for terms ranging from one to five years and those for land are for terms of fifteen years and twenty years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012 US$'000	2011 US$'000 (Restated)
Within one year	**65,468**	76,296
In the second to fifth years, inclusive	**64,217**	103,619
After five years	**9,950**	732
	139,635	180,647

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	31 December 2012 US$'000	31 December 2011 US$'000	1 January 2011 US$'000
Contracted, but not provided for:			
Container vessels	**5,800**	164,900	135,700
Office buildings	—	6,786	—
Computer systems	—	—	927
	5,800	171,686	136,627
Contracted, but not provided for:			
Capital contributions payable to:			
Joint ventures	—	1,176	490
Associates	—	—	778
	5,800	172,862	137,895

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Group	
	2012	2011
	US$' 000	US$' 000
		(Restated)
Companies controlled by the Controlling Shareholder:		
Container marine transportation services income	**15,536**	6,002
Custom services income	—	20
Shipping agency fee expenses	**466**	116
Container vessels rental expenses	**2,460**	1,524
Vessel management income	**181**	143
Land and buildings rental expenses	**5**	16
Property management services expenses	**1**	1
Associates:		
Container marine transportation services income*	**11,116**	10,018
Shipping agency fee expenses*	**153**	97
Joint ventures:		
Container marine transportation services income*	**94,186**	55,071
Freight forwarding services income for marine transportation*	**2,381**	2,092
Warehousing expenses*	**7,884**	8,432
Freight forwarding services expenses*	**751**	327

The above transactions were conducted in accordance with the terms and conditions mutually agreed by the parties involved.

(b) Compensation of key management personnel of the Group:

	2012	2011
	US$' 000	US$' 000
Short term employee benefits	**2,163**	2,109
Post-employment benefits	**36**	36
Equity-settled share option expense	**103**	157
Total compensation paid to key management personnel	**2,302**	2,302

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

35. RELATED PARTY TRANSACTIONS (continued)

(c) On 28 February 2012, the Group entered into an equity transfer agreement with Qingdao SITC pursuant to which the Group agreed to acquire and Qingdao SITC agreed to sell the entire 100% interest in Shandong Shipping Management at the consideration of RMB5,522,000 (equivalent to US$877,000), which was determined with reference to the net asset value of Shandong Shipping Management based on the management accounts of Shandong Shipping Management as at 30 November 2011. Further details of this transaction are included in note 1 to the financial statements.

(d) On 5 April 2012, the Group entered in to an equity transfer agreement with Qingdao SITC pursuant to which the Group agreed to acquire and Qingdao SITC agreed to sell the entire 100% interest in Qingdao Logistics at the consideration of RMB169,000,000 (equivalent to US$26,598,000), which was determined with reference to the net asset value of Qingdao Logistics based on a valuation report prepared by an independent valuer. Further details of this transaction are included in note 1 to the financial statements.

Except for item (b) and those transactions identified with "*", the above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

As at 31 December 2012

Financial assets

	Financial assets at fair value through profit or loss – designated as such upon initial recognition US$'000	Loans and receivables US$'000	Available-for-sale financial assets US$'000	Total US$'000
Available-for-sale investments	—	—	1,207	1,207
Trade receivables	—	72,789	—	72,789
Financial assets included in prepayments, deposits and other receivables	—	9,385	—	9,385
Due from related companies	—	614	—	614
Derivative financial instruments	3,928	—	—	3,928
Pledged deposits	—	80	—	80
Cash and cash equivalents	—	378,781	—	378,781
	3,928	461,649	1,207	466,784

Financial liabilities

	Financial liabilities at fair value through profit or loss - designated as such upon initial recognition US$'000	Financial liabilities at amortised cost US$'000	Total US$'000
Trade payables	—	138,065	138,065
Financial liabilities included in other payables and accruals	—	14,823	14,823
Due to related companies	—	59	59
Derivative financial instruments	735	—	735
Interest-bearing bank borrowings	—	132,867	132,867
	735	285,814	286,549

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group

As at 31 December 2011

Financial assets

	Loans and receivables US$'000 (Restated)	Available-for-sale financial assets US$'000 (Restated)	Total US$'000 (Restated)
Available-for-sale investments	—	782	782
Trade receivables	78,511	—	78,511
Financial assets included in prepayments, deposits and other receivables	5,842	—	5,842
Due from related companies	1,470	—	1,470
Pledged deposits	79	—	79
Cash and cash equivalents	436,896	—	436,896
	522,798	782	523,580

Financial liabilities

	Financial liabilities at fair value through profit or loss - designated as such upon initial recognition US$'000 (Restated)	Financial liabilities at amortised cost US$'000 (Restated)	Total US$'000 (Restated)
Trade payables	—	141,103	141,103
Financial liabilities included in other payables and accruals	—	10,133	10,133
Due to related companies	—	1,918	1,918
Derivative financial instruments	1,014	—	1,014
Interest-bearing bank borrowings	—	37,153	37,153
	1,014	190,307	191,321

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group

As at 1 January 2011

Financial assets

	Loans and receivables US$' 000 (Restated)	Available-for-sale financial assets US$' 000 (Restated)	Total US$' 000 (Restated)
Available-for-sale investments	—	394	394
Trade receivables	49,337	—	49,337
Financial assets included in prepayments, deposits and other receivables	3,425	—	3,425
Due from related companies	2,228	—	2,228
Pledged deposits	75	—	75
Cash and cash equivalents	504,418	—	504,418
	559,483	394	559,877

Financial liabilities

	Financial liabilities at fair value through profit or loss - designated as such upon initial recognition US$' 000 (Restated)	Financial liabilities at amortised cost US$' 000 (Restated)	Total US$' 000 (Restated)
Trade payables	—	85,640	85,640
Financial liabilities included in other payables and accruals	—	17,286	17,286
Due to related companies	—	751	751
Derivative financial instruments	3,123	—	3,123
Interest-bearing bank borrowings	—	78,416	78,416
	3,123	182,093	185,216

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	2012		2011	
	Loans and receivables US$'000	Total US$'000	Loans and receivables US$'000	Total US$'000
Due from a subsidiary	**385,658**	**385,658**	386,435	386,435
Dividend receivable	**40,010**	**40,010**	39,997	39,997
Cash and cash equivalents	**1,253**	**1,253**	2,299	2,299
	426,921	**426,921**	428,731	428,731

Financial liabilities

	2012		2011	
	Financial liabilities at amortised cost US$'000	Total US$'000	Financial liabilities at amortised cost US$'000	Total US$'000
Financial liabilities included in other payables and accruals	—	—	293	293
	—	—	293	293

37. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts			Fair values		
	31 December 2012 US$'000	31 December 2011 US$'000 (Restated)	1 January 2011 US$'000 (Restated)	**31 December 2012 US$'000**	31 December 2011 US$'000 (Restated)	1 January 2012 US$'000 (Restated)
Financial assets						
Cash and cash equivalents	**378,781**	436,896	504,418	**378,781**	436,896	504,418
Pledged deposits	**80**	79	75	**80**	79	75
Trade receivables	**72,789**	78,511	49,337	**72,789**	78,511	49,337
Financial assets included in prepayments, deposits and other receivables	**9,385**	5,842	3,425	**9,385**	5,842	3,425
Derivative financial instruments	**3,928**	—	—	**3,928**	—	—
Available-for-sale investments	**1,207**	782	394	**1,207**	782	394
Due from related companies	**614**	1,470	2,228	**614**	1,470	2,228
	466,784	523,580	559,877	**466,784**	523,580	559,877
Financial liabilities						
Trade payables	**138,065**	141,103	85,640	**138,065**	141,103	85,640
Financial liabilities included in other payables and accruals	**14,823**	10,133	17,286	**14,823**	10,133	17,286
Derivative financial instruments	**735**	1,014	3,123	**735**	1,014	3,123
Interest-bearing bank borrowings	**132,867**	37,153	78,416	**132,867**	37,153	78,416
Due to related companies	**59**	1,918	751	**59**	1,918	751
	286,549	191,321	185,216	**286,549**	191,321	185,216

The unlisted equity investments of the Group's available-for-sale investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

37. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

	Carrying amounts		Fair values	
	31 December 2012 US$'000	31 December 2011 US$'000	**31 December 2012 US$'000**	31 December 2011 US$'000
Financial assets				
Cash and cash equivalents	**1,253**	2,299	**1,253**	2,299
Dividend receivable	**40,010**	39,997	**40,010**	39,997
Due from a subsidiary	**385,658**	386,435	**385,658**	386,435
	426,921	428,731	**426,921**	428,731

	Carrying amounts		Fair values	
	31 December 2012 US$'000	31 December 2011 US$'000	**31 December 2012 US$'000**	31 December 2011 US$'000
Financial liabilities				
Financial liabilities included in other payables and accruals	—	293	—	293
	—	293	—	293

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, dividend receivable, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies and an amount due from a subsidiary approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions of creditworthy banks. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

37. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

Group

As at 31 December 2012:

	Level 1 US$' 000	Level 2 US$' 000	Level 3 US$' 000	Total US$' 000
Available-for-sale investments, at fair value	527	—	—	527
Derivative financial instruments	—	3,928	—	3,928
	527	3,928	—	4,455

As at 31 December 2011:

	Level 1 US$' 000	Level 2 US$' 000	Level 3 US$' 000	Total US$' 000
Available-for-sale investments, at fair value	406	—	—	406

As at 1 January 2011:

	Level 1 US$' 000	Level 2 US$' 000	Level 3 US$' 000	Total US$' 000
Available-for-sale investments, at fair value	394	—	—	394

37. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Liabilities measured at fair value:

Group

As at 31 December 2012:

	Level 1	**Level 2**	**Level 3**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Derivative financial instruments	—	**735**	—	**735**

As at 31 December 2011:

	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Derivative financial instruments	—	1,014	—	1,014

As at 1 January 2011:

	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Derivative financial instruments	—	3,123	—	3,123

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2011: Nil) and no transfers into or out of Level 3 (2011: Nil).

The Company did not have any financial asset/liabilities measured at fair value as at 31 December 2012 (2011: Nil).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain between 5% and 50% of its interest-bearing borrowings at fixed interest rates. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2012, after taking into account the effect of the interest rate swaps, approximately 30% (2011: 20%; 1 January 2011: 34%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax US$'000
31 December 2012		
United States dollar	**100**	**(813)**
Japanese Yen	**100**	**(107)**
United States dollar	**(100)**	**813**
Japanese Yen	**(100)**	**107**
31 December 2011		
United States dollar	100	(173)
Japanese Yen	100	(198)
United States dollar	(100)	173
Japanese Yen	(100)	198
1 January 2011		
United States dollar	100	(178)
Japanese Yen	100	(606)
United States dollar	(100)	178
Japanese Yen	(100)	606

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 69.1% (2011: 76.8% (restated); 1 January 2011: 66.8% (restated)) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 43.3% (2011: 54.5% (restated); 1 January 2011: 44.5% (restated)) of costs were denominated in the units' functional currencies. The Group requires all its operating units to use forward currency contracts to eliminate the foreign currency exposures on transactions in excess of certain amounts of Japanese Yen and Renminbi for which payments are anticipated more than one month after the Group has entered into firm commitments for sales. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

At 31 December 2012, the Group had hedged 7.3% (2011: 9.0% (restated); 1 January 2011: 6.5% (restated)) of its foreign currency sales for which firm commitments existed at the end of the reporting period.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax US$'000
As at 31 December 2012		
If United States dollar weakens against Renminbi	**5.0**	**12,067**
If United States dollar strengthens against Renminbi	**(5.0)**	**(12,067)**
If United States dollar weakens against Japanese Yen	**5.0**	**822**
If United States dollar strengthens against Japanese Yen	**(5.0)**	**(822)**
As at 31 December 2011 (Restated)		
If United States dollar weakens against Renminbi	5.0	12,515
If United States dollar strengthens against Renminbi	(5.0)	(12,515)
If United States dollar weakens against Japanese Yen	5.0	(1,599)
If United States dollar strengthens against Japanese Yen	(5.0)	1,599
As at 1 January 2011 (Restated)		
If United States dollar weakens against Renminbi	5.0	4,501
If United States dollar strengthens against Renminbi	(5.0)	(4,501)
If United States dollar weakens against Japanese Yen	5.0	(2,819)
If United States dollar strengthens against Japanese Yen	(5.0)	2,819

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investments, amounts due from related companies, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is that not more than 90% of borrowings should mature in any 12-month period. 14% of the Group's debts would mature in less than one year as at 31 December 2012 (2011: 84%; 1 January 2011: 16%) based on the carrying values of borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	31 December 2012				
	Within one year or on demand US$'000	In the second year US$'000	In the third to fifth years, inclusive US$'000	In the sixth to tenth years, inclusive US$'000	Total US$'000
Interest-bearing bank borrowings	20,495	20,058	61,645	45,566	147,764
Trade payables	138,065	—	—	—	138,065
Financial liabilities included in other payables and accruals	14,823	—	—	—	14,823
Due to related companies	59	—	—	—	59
Derivative financial instruments	136	135	365	99	735
	173,578	20,193	62,010	45,665	301,446

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group (continued)

	31 December 2011				
	Within one year or on demand US$'000 (Restated)	In the second year US$'000 (Restated)	In the third to fifth years, inclusive US$'000 (Restated)	In the sixth to tenth years, inclusive US$'000 (Restated)	Total US$'000 (Restated)
Interest-bearing bank borrowings	32,305	1,583	4,425	461	38,774
Trade payables	141,103	—	—	—	141,103
Financial liabilities included in other payables and accruals	10,133	—	—	—	10,133
Due to related companies	1,918	—	—	—	1,918
Derivative financial instruments	775	239	—	—	1,014
	186,234	1,822	4,425	461	192,942

	1 January 2011				
	Within one year or on demand US$'000 (Restated)	In the second year US$'000 (Restated)	In the third to fifth years, inclusive US$'000 (Restated)	In the sixth to tenth years, inclusive US$'000 (Restated)	Total US$'000 (Restated)
Interest-bearing bank borrowings	14,081	18,977	35,885	14,128	83,071
Trade payables	85,640	—	—	—	85,640
Financial liabilities included in other payables and accruals	17,286	—	—	—	17,286
Due to related companies	751	—	—	—	751
Derivative financial instruments	2,693	109	256	65	3,123
	120,451	19,086	36,141	14,193	189,871

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain a healthy ratio. Net debt includes interest-bearing bank borrowings, trade and other payables, accruals, amounts due to related companies, less cash and cash equivalents. Adjusted capital includes equity attributable to owners of the parent less the hedging reserve. The gearing ratios as at the end of the reporting periods were as follows:

Group

	31 December 2012 US$'000	31 December 2011 US$'000 (Restated)	1 January 2011 US$'000 (Restated)
Interest-bearing bank borrowings	**132,867**	37,153	78,416
Trade payables	**138,065**	141,103	85,640
Other payables and accruals	**22,904**	15,719	21,960
Due to related companies	**59**	1,918	751
Less: Cash and cash equivalents	**(378,781)**	(436,896)	(504,418)
Net cash	**(84,886)**	(241,003)	(317,651)
Equity attributable to owners of the parent	**702,856**	649,970	593,959
Hedging reserve	**(3,928)**	713	2,560
Adjusted capital	**698,928**	650,683	596,519
Capital and net debt	**614,042**	409,680	278,868
Gearing ratio	**N/A**	N/A	N/A

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 March 2013.

Five Year Financial Summary

A summary of consolidated results and of the assets, liabilities and non-controlling interests of SITC International Holdings Company Limited (the "Company") and its subsidiaries (together the "Group") for the last five financial years, as extracted from the published audited financial statements or the prospectus issued on 20 September 2010 in connection with the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited on 6 October 2010 and restated as appropriate, is set out below. The amounts for each year in the five year summary have been adjusted as a result of the common control business combination and the early adoption of certain HKFRSs, as detailed in notes 1 and 2.1 to the financial statements, respectively.

The summary below does not form part of the audited financial statements.

	Year ended 31 December				
	2012	2011	2010	2009	2008
	US$'000	US$'000	US$'000	US$'000	US$'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
REVENUE	**1,204,615**	1,060,004	855,967	676,142	756,667
Cost of sales	**(1,066,258)**	(945,304)	(692,683)	(612,590)	(662,936)
Gross profit	**138,357**	114,700	163,284	63,552	93,731
Other income and gains	**14,205**	34,478	2,374	4,176	5,024
Administrative expenses	**(60,674)**	(52,089)	(41,245)	(34,678)	(51,263)
Other expenses and losses	**(842)**	(4,509)	(13,650)	(1,614)	(11,171)
Finance costs	**(2,141)**	(1,622)	(1,691)	(1,725)	(3,926)
Share of profits and losses of:					
Joint ventures	**6,640**	5,145	4,522	3,382	3,448
Associates	**548**	258	133	74	—
PROFIT BEFORE TAX	**96,093**	96,361	113,727	33,167	35,843
Income tax expense	**(2,293)**	(2,004)	(1,396)	(567)	(468)
PROFIT FOR THE YEAR	**93,800**	94,357	112,331	32,600	35,375
Profit attributable to:					
Owners of the parent	**93,488**	93,558	111,983	32,224	35,097
Non-controlling interests	**312**	799	348	376	278
	93,800	94,357	112,331	32,600	35,375
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**1,000,638**	851,706	787,410	337,603	285,910
TOTAL LIABILITIES	**(295,811)**	(198,258)	(190,920)	(237,183)	(186,287)
NON-CONTROLLING INTERESTS	**(1,971)**	(3,478)	(2,531)	(2,082)	(1,599)
	702,856	649,970	593,959	98,338	98,024