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 2011


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Corporate Profile

SITC International Holdings Company Limited (the “Company” or “SITC”) is a leading PRC-based shipping logistics company that provides integrated transportation and logistics solutions, have been the largest non-state-owned PRC-based shipping logistics company since 2006 in terms of revenue. We are the third largest overall and largest non-state-owned PRC-based container shipping company in terms of 2011 shipping capacity, according to Drewry Maritime Services (Asia) Pte Ltd (“Drewry”), 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.

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 2011:

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 (Chief Executive Officer)
LIU Kecheng (Joint Company Secretary)
LI Xuexia
XUE Peng

Non-Executive Director

LIU Rongli

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

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

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P. O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Corporate Information

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

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

COMPLIANCE ADVISOR

Citigroup Global Markets Asia Limited
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3 Garden Road
Central
Hong Kong

WEBSITE

www.sitc.com

Financial and Operating Highlights

		2011	2010	Change
Results				
Turnover	US$'000	**1,087,241**	891,510	**22.0%**
Profit attributable to owners of the parent	US$'000	**93,608**	111,983	**(16.4)%**
Basic earnings per share	US cents	**3.60**	4.31	**(16.5)%**
Profit margin	%	**8.7**	12.6	**(3.9)% pt.**
Net cash flows from operating activities	US$'000	**92,476**	156,326	**(40.8)%**
Financial Position				
Equity attributable to owners of the parent	US$'000	**649,474**	593,636	**9.4%**
Net current assets	US$'000	**374,057**	462,588	**(19.1)%**
Interest–bearing bank borrowings	US$'000	**37,153**	78,416	**(52.6)%**
Financial Ratio				
Return on equity (note 1)	%	**15.1**	32.3	**(17.2)% pt.**
Return on assets (note 2)	%	**11.3**	19.6	**(8.3)% pt.**
Assets turnover ratio (note 3)	times	**1.3**	1.6	**(0.3)**
Gearing ratio	%	**—**	—	**—**
Operating Statistics				
Number of vessels operated as at year end	vessels	**53**	49	**4**
Shipping volume – Sea freight logistics	TEU	**1,546,259**	1,373,220	**173,039**
Freight forwarding volume – Land-based logistics	TEU	**1,341,359**	954,322	**387,037**

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.

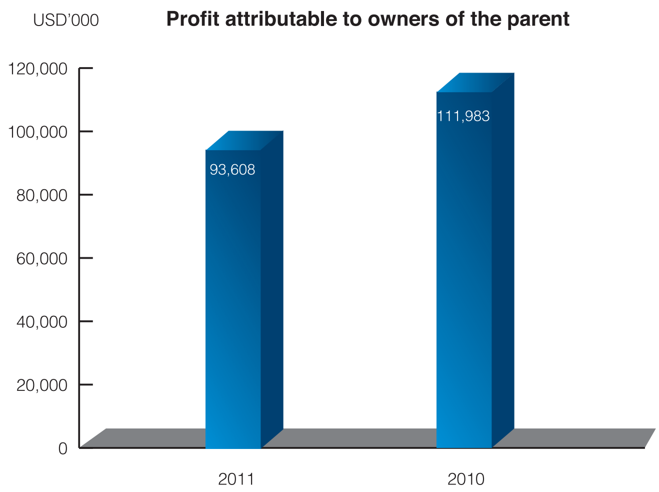
Note 2

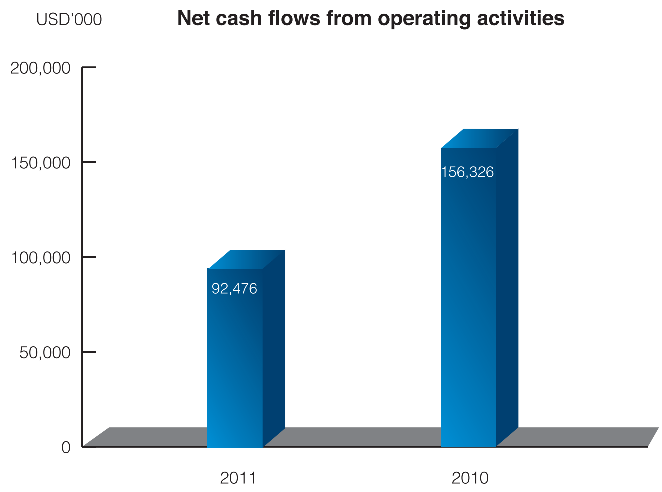
Return on assets is calculated by using the profit of the year and the average balance of total assets as at beginning of year and end of year.

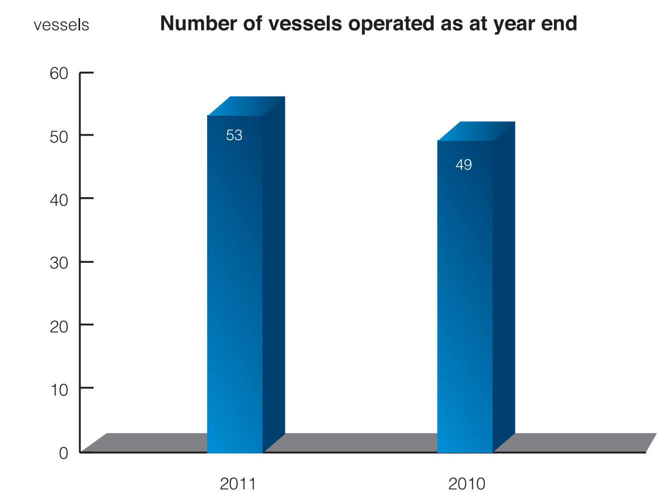
Note 3

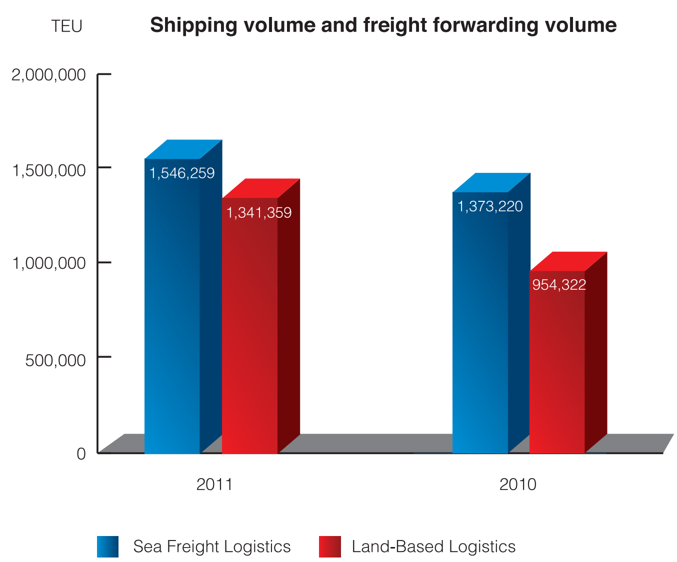
Assets turnover ratio is calculated by using the turnover and the average balance of total assets as at beginning of year and end of year.

Financial and Operating Highlights









Major Milestones in 2011

January 2011

SITC and a Korean shipbuilding company signed a shipbuilding contract to build two 1040 TEU container vessels.

February 2011

SITC was awarded “2010 National Advanced Logistics Corporation” by China Communication & Transportation Association.

March 2011

SITC-DINH VU LOGISTICS COMPANY LIMITED, a joint venture of SITC engaged in the business of warehousing and depot, was formally put into operation.

April 2011

“SITC INCHON”, a second-hand container vessel of 1,000 TEU purchased by SITC, was delivered.

SITC and a Chinese shipbuilding company signed a shipbuilding contract to build two 1,100 TEU container vessels.

SITC acquired an ERP system from SAP, the management software supplier. An implementation contract was also entered into with IBM so as to fully upgrade the financial information system of the Company.

SITC Containe Lines Integration Management Information System (SIMIS) was implemented, serving as the primary information systems platform for our sea freight logistics business, enhancing our ability to manage our business and serve our customers.

June 2011

Qingdao Qianwan United Advance Container Terminal Co., Ltd (“QQCTUA”), a joint venture of SITC, was officially put into operation, and was engaged in the business of container terminals.

At the eighth China Freight Industry Awards:

- SITC was awarded one first award and two second award for the “China-Korea”, “China-Southeast Asia” and “China-Japan” trade lanes;
- SITC Container Lines Co., Ltd., a subsidiary of SITC, was awarded “Top Ten Companies of Comprehensive Services” and “Most Outstanding Shipping Corporation in Social Responsibility”;
- SITC Logistics Co., Ltd., a subsidiary of SITC, was awarded “The Best Regional Freight Forwarding Companies — Top Ten Enterprises in the Northern Region” and “The best Freight Fowarding Companies — Top Ten Enterprises of Depot Service/LCL Consolidation Service”;

July 2011

SITC and its partners (including Hanjin Shipping Co. Ltd.) entered into a letter of intention to establish a joint venture to engage in the container terminals business in Inchon Port and Gimpo Port of Korea and domestic river trade transportation in Korea.

September 2011

SITC commenced the China Kampuchea shipping route.

SITC exercised an option signed with a Chinese shipyard for building two 1,100 TEU container vessels.

October 2011

SAP project was officially launched, which symbolized a new milestone for the financial management of the Company.

Major Milestones in 2011

November 2011

SITC purchased an office building of approximately 3,100 square meters in the Beiwaitan District in Shanghai for the companies in the Shanghai region as office purpose.

SITC underwent organizational integration to re-organize the logistics business group and develop third-party logistics operations.

"SITC HAIPHONG", a second-hand container vessel of 1,000 TEU purchased by SITC, was delivered.

SITC and other partners (including Hanjin Shipping Co. Ltd. of Korea) entered into an agreement to establish a joint venture to engage in the business of warehousing, depot, etc. in the new port of Busan, Korea.

December 2011

Mr. YANG Shaopeng, the chairman of the Board of directors (the "Board") ("the Board") of SITC, was awarded the "100 Most Influential People in Shipping Industry for the year of 2011" by "Lloyd's List DCN" of the UK, an international shipping magazine.

Mr. YANG Xianxiang, the chief executive officer and executive director of SITC was awarded the "Top Ten People of Industry Trend in 2011" by the China Shipping Gazette, and was featured as the cover story of the magazine.

SITC-DINH VU LOGISTICS COMPANY LIMITED, a joint venture of SITC, inter into a contract to acquire a parcel of land of 50,000 square meters in phase two of the expansion of its depot and warehousing business.

Repurchased 10.30 million shares of the Company in the open market.

Community Welfare:

In 2011, SITC actively engaged in various community welfare activities, and donated funds in an aggregate of HK$4.6 million to Aiyou Huaxia Charity Foundation, Sichuan Western Natural Protection Foundation, the earthquake stricken area in Japan, and the flooding stricken area in Thailand.

Network Expansion:

SITC established 14 new shipping agency and freight forwarding outlets at cities in Weifang, Nantong, Hangzhou, Yiwu, Fangcheng, Linyi, Kunming, Zhapu, Chongqing, Guangzhou, Ningbo, Lianyungang in China and Haiphong and Ho Chi Minh in Vietnam.

Chairman's Statement

"We will continue to improve our unique business model, expand our intra-Asia service network and replicate our integrated service model within our network to bring ourselves 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 audited results for the year ended 31 December 2011.

Following the brief recovery in 2010, the global shipping sector entered into a downturn again in the year 2011. Affected by the slow recovery of the United States economy and the worsening 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 in general suffered operating losses.

In contrast to the slow economic recovery in the United States and Europe, China experienced a 9.2% growth in its gross domestic product in 2011, and remained the world's second largest economy. Economies in Southeast Asian countries, including Thailand and Vietnam, grew at varying paces during the year. Consequently, the intra-Asia container shipping market experienced moderate growth in 2011 and remained the world's largest container shipping market. The signing of the China – ASEAN Free Trade Agreement in 2010 has stimulated trade growth between China and ASEAN countries and has driven the rapid development of the shipping and logistics industry in Asia during the year under review.

SITC is a leading PRC-based shipping logistics company focused on serving the intra-Asia trade market. The Group leverages on its one-stop shipping logistics solutions platform, unique business model, high quality customers and high frequency intra-Asia container shipping and logistics route network to derive full benefits of the growth in the trade and economies of China and other Asian countries.

The Group performed well during the year under review, with turnover reaching approximately US$1,087.2 million, representing an increase of 22% from 2010. Profit before tax amounted to approximately US$98.2 million, representing a decrease of US$16.8 million from 2010. Profit attributable to owners of the parent amounted to approximately US$93.6 million, and earnings per share was approximately US$3.6 cents in 2011. The Board resolved to recommend the payment of a final dividend of HK$0.12 per share.

For the year of 2011, we continued to outperform many of our peers and achieved total shipping volume of 1,546,259 TEU, up 12.6% from last year, with average freight rate of US$543/TEU, up 7.3% year on year. The Group's land-based freight forwarding business achieved volume of 1,341,359 TEU, up 40.6% year on year. SITC has been achieving significant growth in its container shipping volume over the years and maintained growth in intra-Asia market share in 2011.

The year of 2011 was an exceptional year in the history of our development. Faced with the industry downturn, the Company leveraged on the proceeds raised from its initial public offering and strong operating cash flow amidst the difficult business environment, and pursued development opportunities and expansion at low costs. The Group has actively pursued expansion of its fleet. Since the listing of the Company, a total of 13 container vessels have been commissioned and two second-hand container vessels have been acquired. Our fleet capacity increased from 44,440 TEU at the end of 2010 to 50,360 TEU at the end of 2011. Our new vessels were purchased at attractive prices, expanding the scale of our self-owned fleet to secure a long-term cost advantage. The Group targets to increase its total operating fleet from 53 as at 31 December 2011 to about 80 vessels in the next three to five years.

In our land-based logistics segment, SITC set up 14 new shipping agency and freight forwarding outlets at cities in Weifang, Nantong, Hangzhou, Yiwu, Fangcheng, Linyi, Kunming, Zhapu, Chongqing, Guangzhou, Ningbo, Lianyungang in the PRC, Haiphong and Ho Chi Minh in Vietnam during 2011. This further boosted our ability to provide integrated logistics services to our customers. Moreover, Qingdao Qianwan United Advance Container Terminal Co., Limited, a joint venture of the Group engaged in container terminal business at Qingdao commenced operation in June 2011. SITC-DINH VU Logistics Limited, a joint venture engaged in depot business in Vietnam, which formally commenced operation in March, inter into a purchase contract for a parcel of land of 50,000 square meters in December 2011, for the expansion work in Phase 2 of the depot, laying a foundation for the further expansion of our depot and warehousing business.

The global shipping industry is expected to face a lot of difficulties and challenges in the year of 2012. The Group's management remains confident about the business environment in intra-Asia container shipping and logistics in the year of 2012. As its business expands, SITC will continue to optimize its unique business model, expand its intra-Asia service network and replicate its integrated service model within its network to 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 ("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

14 March 2012

Management Discussion and Analysis

OVERVIEW

Business Review

SITC is a leading PRC-based shipping logistics company that provides integrated transportation and logistics solutions.

In the year 2011, our sea freight logistics business continued to provide container shipping services that focused exclusively on the intra-Asia market. As of 31 December 2011, we operated a total of 51 trade lanes, including 6 trade lanes through joint services and 18 trade lanes through container slot exchange arrangements. These trade lanes cover 40 major ports in the PRC, Japan, Korea, Taiwan, Hong Kong, Vietnam, Thailand, the Philippines and Cambodia. As of 31 December 2011, we operated a fleet of 53 vessels with total capacity of 50,360 TEU, comprised of 14 self-owned and 39 chartered vessels, with an average age of 7.7 years. 43 of these 53 vessels were of the 1,000 TEU type. Revenue generated by our sea freight logistics business for the year ended 31 December 2011 amounted to US$839.6 million and it represented an increase of approximately 20.8% as compared to the same period in the year 2010. The increase represented mainly the increase in our shipping volume due to the increase in our shipping capacity and the increase in average freight rate.

Our land-based logistics business is another key part of our business model, which includes freight forwarding, shipping agency, depot and warehousing, trucking and ship brokerage services. As of 31 December 2011, our freight forwarding network covered 24 major cities in the PRC, Japan, Korea, Hong Kong and Vietnam while our shipping agency network covered 42 major ports and cities in the PRC, Japan, Korea, Hong Kong, Vietnam, Thailand and the Philippines. We also operated approximately 578,000 m^2 of depot and 71,000 m^2 of warehousing space. Revenue generated by our land-based logistics business for the year ended 31 December 2011 amounted to US$733.0 million as compared to US$472.9 million for the same period in the year 2010. The increase was mainly attributable to the increased scale of our freight forwarding operations.

The global shipping industry is expected to face a number of difficulties and challenges in 2012. The management of the Group remains confident about the business environment for container shipping logistics within intra-Asia market in the year 2012. With the expansion of our business, we will continue to optimize our unique business model, expand our intra-Asia service network, as well as replicate our integrated service model within our network. Meanwhile, we will continue to expand our self-owned fleet by taking advantage of windows of attractive vessel prices, so as to keep pace with the development of our business and secure a long-term competitive cost position. Through the above measures and together with our continuous enhancement on our information technology systems, we will strive for the goal in becoming a world-class integrated logistics solutions provider.

Market Review

During the year 2011, the global shipping industry slumped into a trough again after experiencing a brief recovery in 2010. The intra-Asia container shipping market (which is the focus of our 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 2011, we recorded an approximately 12.6% increase in shipping volume and an increase of approximately 7.3% in terms of average freight rate and an increase of approximately 40.6% in land-based freight forwarding volume.

Financial Overview

	Year ended 31 December							
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	Sea freight logistics		**Land-based logistics**		**Inter-segment sales**		**Total**	
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	**839,598**	694,808	**732,968**	472,874	**(485,325)**	(276,172)	**1,087,241**	891,510
Cost of sales	**(797,465)**	(583,041)	**(648,192)**	(412,825)	**485,325**	276,172	**(960,332)**	(719,694)
Gross profit	**42,133**	111,767	**84,776**	60,049			**126,909**	171,816
Other income and gains (excluding interest and investment income)	**19,560**	1,055	**2,485**	515			**22,045**	1,570
Administrative expenses	**(12,194)**	(18,495)	**(45,240)**	(33,649)			**(57,434)**	(52,144)
Share of profits and losses of associates	**—**	—	**258**	133			**258**	133
Other expenses and losses	**(4,324)**	(4,936)	**(200)**	(1,230)			**(4,524)**	(6,166)
Segment results	**45,175**	89,391	**42,079**	25,818			**87,254**	115,209
Finance costs							**(1,625)**	(1,678)
Interest and investment income							**12,558**	1,484
Profit before tax							**98,187**	115,015
Income tax expense							**(3,752)**	(2,684)
Profit for the year							**94,435**	112,331
Profit attributable to:								
Owners of the parents							**93,608**	111,983
Non-controlling interests							**827**	348
							94,435	112,331

Revenue

Our total revenue after inter-segment elimination increased by approximately 22.0% from approximately US$891.5 million for the year ended 31 December 2010 to approximately US$1,087.2 million for the year ended 31 December 2011. This reflected the increase in revenue of both sea freight logistics and land-based logistics segments, primarily attributable to (i) the increase in our shipping volume due to the increase in our shipping capacity and the higher average freight rate; as well as (ii) the increased scale of our freight forwarding operations.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by approximately 33.4% from approximately US$719.7 million for the year ended 31 December 2010 to approximately US$960.3 million for the year ended 31 December 2011. This increase was primarily attributable to (i) the increase in shipping volume in sea freight logistics and freight forwarding in our land-based logistics; and (ii) the increase in the major components of our cost of sales, such as bunker cost and vessels charter cost.

As a result of the foregoing, our gross profit decreased from approximately US$171.8 million for the year ended 31 December 2010 to approximately US$126.9 million for the year 2011. Our gross profit margin decreased from approximately 19.3% for the year ended 31 December 2010 to approximately 11.7% for the year ended 31 December 2011.

Other Income and Gains (excluding interest and investment income)

For the year ended 31 December 2011, our other income and gains (excluding interest and investment income) increased by US$20.5 million from US$1.6 million for the year ended 31 December 2010 to US$22.1 million for the year 2011. The increase was mainly attributable to a gain of US$18.7 million in foreign exchange translation of our RMB deposits.

Administrative Expenses

Our administrative expenses increased by 10.2% from US$52.1 million for the year ended 31 December 2010 to US$57.4 million for the year ended 31 December 2011. The increase primarily reflected an increased administrative expenses from network expansion for our land-based logistics segment.

Other Expenses and Losses

Our other expenses and losses decreased by 26.6% from US$6.2 million for the year ended 31 December 2010 to US$4.5 million for the corresponding period in 2011. The amount in 2010 mainly represented a loss on early termination of derivative instruments in an amount of US$3.3 million and fair value losses on cash flow hedges of US$0.9 million. The amount in 2011 mainly represented fair value losses on cash flow hedges of US$4.2 million.

Finance Costs

Our finance costs remain stable at approximately US$1.6 million for the year ended 31 December 2011, mainly representing the outstanding interest-bearing loans during these periods. Our effective interest rates of 2.8% for the year ended 31 December 2011 was comparable to that of 2010.

Interest and Investment Income

The amount of interest and investment income increased from US$1.5 million for the year ended 31 December 2010 to US$12.6 million for the year ended 31 December 2011. The increase was mainly attributable to the increase in the income from our time deposit and other principal guaranteed investment products in an aggregate amount of US$11.1 million.

Profit Before Tax

As a result of the foregoing, our profit before tax decreased by approximately 14.6% from US$115.0 million for the year ended 31 December 2010 to US$98.2 million for the year ended 31 December 2011.

Income Tax Expense

Our income tax expense increased by approximately 39.8% from US$2.7 million for the year ended 31 December 2010 to US$3.8 million for the year ended 31 December 2011. This was mainly due to the increase in profit from our land-based logistics segment.

Profit for the Year

Our profit for the year ended 31 December 2011 was US$94.4 million, representing a decrease of approximately 15.9% as compared to the profit of US$112.3 million for the year ended 31 December 2010.

Sea Freight Logistics

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

	Year ended 31 December			
	2011		2010	
	Amount US$'000	% of segment revenue	Amount US$'000	% of segment revenue
Income Statement Data:				
Sales to external customers	**375,013**	**44.7%**	433,796	62.4%
Inter-segment sales	**464,585**	**55.3%**	261,012	37.6%
Segment revenue	**839,598**	**100%**	694,808	100.0%
Cost of Sales	**(797,465)**	**(95.0)%**	(583,041)	(83.9)%
Equipment and cargoes transportation costs	**(425,677)**	**(50.7)%**	(337,247)	(48.5)%
Voyage costs	**(254,220)**	**(30.3)%**	(175,235)	(25.2)%
Vessels costs	**(117,568)**	**(14.0)%**	(70,559)	(10.2)%
Gross Profit	**42,133**	**5.0%**	111,767	16.1%
Other income and gains (excluding interest and investment income)	**19,560**	**2.3%**	1,055	0.2%
Administrative expenses	**(12,194)**	**(1.5)%**	(18,495)	(2.7)%
Other expenses and losses	**(4,324)**	**(0.5)%**	(4,936)	(0.7)%
Segment results	**45,175**	**5.3%**	89,391	12.9%

Segment results

The following table sets forth the number of our trade lanes as at the year ended 31 December 2010 and 2011, and port calls per week and average freight rates for the years indicated:

Year ended 31 December		As at 31 December			
2011	2010	2011	2010	2011	2010
Average freight rate *(US$ per TEU)*		Number of trade lanes		Port calls per week	
543	506	51	53	279	289

Revenue

Revenue of our sea freight logistics business before inter-segment elimination increased by approximately 20.8% from US$694.8 million for the year ended 31 December 2010 to US$839.6 million for the year ended 31 December 2011. This increase primarily reflected (i) the increase in shipping volume from 1.37 million TEU for the year ended 31 December 2010 to 1.55 million TEU for the year ended 31 December 2011; and (ii) the increase in our average freight rate by approximately 7.3% to US$543 per TEU for the year ended 31 December 2011 from US$506 per TEU for the year ended 31 December 2010, which primarily reflected the additional fee charged to our customers as a result of the increase in our cost of sales.

Cost of Sales, Gross Profit and Gross Profit Margin

The cost of sales of our sea freight logistics business increased by approximately 36.8% from US$583.0 million for the year ended 31 December 2010 to US$797.5 million for the year ended 31 December 2011. This increase primarily reflected the followings:

- Equipment and cargoes transportation costs increased by approximately 26.2% from US$337.2 million for the year ended 31 December 2010 to US$425.7 million for the same period in 2011, primarily reflecting an increase in loading and discharge cost by approximately 18.0% from US$232.7 million for the year ended 31 December 2010 to US$274.7 million for the year ended 31 December 2011. The increase in loading and discharge cost primarily reflected the increase in our loading and discharge volume due to our increased shipping volume. The average loading and discharge expenses per TEU were generally stable during these periods. The costs of containers increased by approximately 38.4% from US$35.9 million for the year ended 31 December 2010 to US$49.7 million for the year ended 31 December 2011. Such increase was primarily attributable to the increase in the number of container leased to support our business expansion.

- Voyage costs increased by approximately 45.1% from US$175.2 million for the year ended 31 December 2010 to US$254.2 million for the same period in 2011. The increase primarily reflected an increase in bunkers cost of approximately 59.6% from US$129.4 million for the year ended 31 December 2010 to US$206.5 million for the year ended 31 December 2011, an increase of average bunker costs per tonne by approximately 35.2% from US$495 in 2010 to US$669 in 2011. The volume of bunker consumption for the year ended 31 December 2011 was 309 thousand tonnes, which represented a grow of 18% from approximately 262 thousand tonnes from that of 2010.

- Vessel costs increased by approximately 66.6% from US$70.6 million for the year ended 31 December 2010 to US$117.6 million for the same period in 2011, primarily reflecting an increase in vessels chartering expenses by approximately 91.7% from US$49.3 million for the year ended 31 December 2010 to US$94.5 million for the same period in 2011. Our vessels chartering expenses increased due to the significant increase in the average vessels charter rate and the increased number of vessels chartered during the period.

As a result of the foregoing, we recorded gross profit of US$42.1 million for our sea freight logistics business for the year ended 31 December 2011, representing an approximately 62.3% decrease as compared to US$111.8 million for the corresponding period in 2010. Our gross profit margin decreased from approximately 16.1% in 2010 to approximately 5.0% in 2011, primarily reflecting an increase in per TEU in unit bunker cost and daily vessel charter rate.

Other Income and Gains (excluding interest and investment income)

For the year ended 31 December 2011, the other income and gains (excluding interest and investment income) increased by US$18.5 million as compared to the year ended 31 December 2010. The amount for the year 2011 mainly represented a US$18.7 million gain in the foreign exchange translation of our RMB deposits.

Administrative Expenses

Administrative expenses of our sea freight logistics business decreased by 34.1% from US$18.5 million for the year ended 31 December 2010 to US$12.2 million in the corresponding period in 2011. In 2010, a foreign exchange loss of US$7.7 million was recorded in administrative expenses which was recorded as a gain in 2011 and included in other income and gains (excluding interest and investment income). Excluding the effect from foreign exchange loss/gain, the administrative expenses for the sea freight logistics business increased by US$1.4 million from US$10.8 million in 2010 to US$12.2 million in 2011, primarily due to increases in our information technology expenses and other general office expenses.

Other Expenses and Losses

Other expenses and losses for our sea freight logistics business decreased by approximately 12.4% from US$4.9 million for the year ended 31 December 2010 to US$4.3 million for the same period in 2011. The amount in 2010 mainly represented loss on early termination of derivative instruments of US$3.3 million and fair value losses on cash flow hedges of US$0.9 million. The amount in 2011 mainly represented fair value losses on cash flow hedges and loss on fixed asset disposal of US$4.2 million.

Segment Results

As a result of the foregoing, the segment results of our sea freight logistics business decreased by 49.4% from US$89.4 million for the year ended 31 December 2010 to US$45.2 million for the year ended 31 December 2011.

Land-Based Logistics

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

	Year ended 31 December			
	2011		2010	
	Amount (US$'000)	% of segment revenue	Amount (US$'000)	% of segment revenue
Income Statement Data:				
Sales to external customers	**712,228**	**97.2%**	457,714	96.8%
Inter-segment sales	**20,740**	**2.8%**	15,160	3.2%
Segment revenue	**732,968**	**100.0%**	472,874	100.0%
Freight forwarding and shipping agency	**686,394**	**93.6%**	441,287	93.3%
Warehousing and others	**46,574**	**6.4%**	31,587	6.7%
Cost of Sales	**(648,192)**	**(88.4)%**	(412,825)	(87.3)%
Freight forwarding and shipping agency	**(617,800)**	**(84.3)%**	(394,187)	(83.4)%
Warehousing and others	**(30,392)**	**(4.1)%**	(18,638)	(3.9)%
Gross Profit	**84,776**	**11.6%**	60,049	12.7%
Other income and gains (excluding interest and investment income)	**2,485**	**0.3%**	515	0.1%
Administrative expenses	**(45,240)**	**(6.2)%**	(33,649)	(7.1)%
Other expenses and losses	**(200)**	**(0.03)%**	(1,230)	(0.3)%
Share of profits and losses of associates	**258**	**0.04%**	133	0.03%
Segment results	**42,079**	**5.7%**	25,818	5.4%

Revenue

The revenue of our land-based logistics business before inter-segment elimination increased by approximately 55.0% from US$472.9 million for the year ended 31 December 2010 to US$733.0 million for the year ended 31 December 2011. This increase was mainly attributable to the increased scale of our freight forwarding business.

- *Freight forwarding and shipping agency.* Revenue of our freight forwarding and shipping agency business increased by approximately 55.5% from US$441.3 million for the year ended 31 December 2010 to US$686.4 million for the corresponding period in 2011. This increase primarily reflected (i) the increase in our freight forwarding volume from 0.95 million TEU in the year ended 31 December 2010 to 1.34 million TEU for the corresponding period in the year 2011 due to the increased scale of our business; and (ii) the increase in average freight forwarding fee mainly due to the increase in average freight rate.

- *Warehousing and others.* Revenue of our warehousing and other business increased by approximately 47.5% from US$31.6 million for the year ended 31 December 2010 to US$46.6 million for the same period in 2011. This increase primarily reflected an increased number of containers handled by our depot and warehousing services.

Cost of Sales, Gross Profit and Gross Profit Margin

The cost of sales of our land-based logistics business increased by approximately 57.0% from US$412.8 million for the year ended 31 December 2010 to US$648.2 million for the corresponding period in 2011. This increase reflected increases in the cost of sales of both our freight forwarding and shipping agency businesses and our warehousing and other business.

- *Freight Forwarding and Shipping Agency.* Cost of sales of our freight forwarding and shipping agency businesses increased by approximately 56.7% from US$394.2 million for the year ended 31 December 2010 to US$617.8 million for the same period in 2011, primarily reflecting an increase in both shipping volume and the average freight rate charged by carriers.

- *Warehousing and others.* Cost of sales of our warehousing and other business increased by approximately 63.1% from US$18.6 million for the year ended 31 December 2010 to US$30.4 million for the same period in 2011. This increase primarily reflected (i) the increased number of containers handled by our depot and warehousing services; and (ii) the increase in fuel and trucking expenses due to the increased scale of our business.

As a result of the foregoing, the gross profit of our land-based logistics business increased by approximately 41.2% from US$60.0 million for the year ended 31 December 2010 to US$84.8 million for the same period in 2011. The gross profit margin of our land-based logistics business was 12.7% and 11.6% for the year ended 31 December 2010 and 2011, respectively.

Other Income and Gains (excluding interest and investment income)

Other income and gains (excluding interest and investment income) of our land-based business were US$2.5 million for the year ended 31 December 2011. It mainly represented the compensation to the preparation work received in respect of our investment at container terminal project.

Administrative Expenses

Administrative expenses of our land-based logistics business increased by approximately 34.4% from US$33.6 million for the year ended 31 December 2010 to US$45.2 million for the same period in 2011. The increase primarily reflected increased administrative expenses for the network expansion for our land-based logistics business.

Other Expenses and Losses

Other expenses and losses by our land-based logistics business amounted to US$0.2 million for the year ended 31 December 2011, primarily reflecting the fair value loss on cash flows hedges of our land-based logistics business.

Segment Results

As a result of the foregoing, the segment results of our land-based logistics business increased by approximately 63% from US$25.8 million for the year ended 31 December 2010 to US$42.1 million for the year ended 31 December 2011.

Assets and Liabilities

As at 31 December 2011, total assets of the Group amounted to US$864.7 million, representing an increase of 8% in an amount of US$64.3 million as compared to US$800.4 million as of 31 December 2010. Total liabilities of the Group increased by approximately 3.7% from US$204.4 million as of 31 December 2010 to US$212.1 million as of 31 December 2011.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Yang Shaopeng (**楊紹鵬**), aged 55, is the Chairman of the Board of Directors, 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 34 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. Mr. Yang is the spouse of our non-executive Director, Ms. Liu Rongli. Mr. Yang was appointed an executive Director on 9 April 2010. 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 45, is the Chief Executive Officer, an executive Director 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 25 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 SITC Maritime Group Co, Ltd. 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 Co., Ltd. (新海豐集裝箱運輸有限公司) ("**SITC Container Lines**") and as a chief executive officer of SITC Steamship (Shanghai) Co., Ltd.. Mr. Yang was appointed an executive Director on 9 April 2010 and was also appointed as the president of the SITC Logistics in November 2011.

Mr. Liu Kecheng (**劉克誠**), aged 38, is an executive Director, joint company secretary and authorized representative 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 18 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 an executive Director on 9 April 2010.

Ms. Li Xuexia (**李雪霞**), aged 41, is an executive Director of our Company. Ms. Li has been a Director and director of human resources of our Company since January 2008. Ms. Li graduated from Qingdao University in 1992 in Chinese Studies. She also obtained a master's degree in business administration from Asia International Open University (Macau) in 2000 and received a master's degree in business administration from China Europe International Business School in 2006. Ms. Li has over 18 years of experience in the shipping industry through her employment in the shipping companies. Ms. Li worked in the general office of Shandong International Transportation Corporation from October 1993 to May 1996 and she served as the general manager of the planning & development center of Shandong SITC from May 1996 to July 1998. Between August 1998 and October 2003, she served as a general manager of the planning center. From October 2003 to December 2007, she served as the chief administrative officer of Shandong SITC. She served as director of Shandong SITC from December 2006 to December 2007. Ms. Li was appointed an executive Director on 9 April 2010.

Mr. Xue Peng (**薛鵬**), aged 41, is an executive Director, chief financial officer and authorized representative 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 an 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 19 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 an executive Director on 9 April 2010.

Non-executive Director

Ms. Liu Rongli (**劉榮麗**), aged 55, is a non-executive Director of our Company. Ms. Liu joined our Company in August 2006. Ms. Liu graduated from Shandong Cadres Correspondence College (山東幹部函授大學) in 1998 majoring in finance and has over 18 years of experience in finance through her employment in Hualu Group Company Limited (華魯集團有限公司) where she was involved in the financial management of this company. Hualu Group Company Limited (華魯集團有限公司) is a state-owned enterprise which is principally engaged in investment holding, pharmaceutical, chemical, international trade and property development. From November 1994 to January 2009, she served at the Hualu Group Company Limited Qingdao Office (華魯集團有限公司青島辦事處). She was also appointed as a director of Shandong SITC in December 2000. Ms. Liu is the spouse of our chairman Mr. Yang Shaopeng. Ms. Liu was appointed a non-executive Director on 9 April 2010.

Independent Non-executive Directors

Mr. Tsui Yung Kwok (**徐容國**), aged 43, is an independent non-executive Director, the chairman of the audit committee (the "**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 19 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, a company listed on the Stock Exchange in 2009 (Stock Code 829), since September 2009. Mr. Tsui is a member of the Institute of Chartered Accountants in Australia, the Australian Society of Certified Practising Accountants, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

Mr. Yeung Kwok On (**楊國安**), aged 51, 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 Harvard Business Review (PRC), 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 51, 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 the founder and chairman of Strategenes Limited. Dr. Lo 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 the 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 as well as that of the Faculty of Business, Hong Kong Polytechnic University. He is also a governor of an independent school the ISF Academy as well as 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), South China Land Limited (GEM of the Stock Exchange, Stock Code 8155) and Varitronix International Limited (the Stock Exchange, Stock Code 710).

Dr. Lo was an executive director, vice chairman, managing director and the chief financial officer of I.T. Limited (the Stock Exchange, Stock Code 999) from May 2006 to June 2009.

Mr. Ngai Wai Fung (**魏偉峰**), aged 50, 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. Mr. Ngai is currently a vice president of the Hong Kong Institute of Chartered Secretaries. 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. Mr. 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. Mr. 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. Mr. 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 Ph. D degree from Shanghai University of Finance and Economics in 2012. Mr. 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 and 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 Institute. Mr. 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).

Mr. 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 48, 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 25 years of experience in the company management and secretarial field. She is currently the company secretary of China Molybdenum Co., Ltd., Sun Art Retail Group Limited and China Polymetallic Mining Limited, all of which are companies listed on the Hong Kong Stock Exchange. China Molybdenum Co., Ltd. and its subsidiaries are specialized in mining, dressing, smelting and processing of molybdenum and tungsten. Sun Art Retail Group Limited and its subsidiaries operate hypermarket in China. China Polymetallic Mining Limited and its subsidiaries operate in exploration, mining and primary processing of mineral resources. She was appointed as a joint company secretary of our Company on September 10, 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 six 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 September 10, 2010.

SENIOR MANAGEMENT

The table below sets forth certain information in respect of the members of our senior management:

Name	Age	Position
XU Weili	48	Chief Officer of Safety Operation Centre
XIAO Senyuan	51	President of SITC Shipowning Group Co., Ltd.
XUE Mingyuan	38	President of SITC Container Lines Co., Ltd.
JI Bin	38	President of SITC Logistics Development Co., Ltd.
YU Jian	45	General manager of SITC Shipping Agency (Shanghai) Co., Ltd.
JI Wenguang	38	General manager of SITC Brokers Co., Ltd.

Mr. XU Weili（徐偉力）has been our Chief Officer of Safety Operation Centre since October 2008 and is also responsible for internal audit. He graduated from Shanghai Maritime University with a bachelor's degree in Economics in 1986 and he received a master's degree in business administration from China Europe International Business School in 2006. Mr. Xu has over 26 years of experience in the shipping industry through his employment in the shipping companies. From 1986 to 1996, Mr. Xu worked in the accounting department of China Shipping Agency Qingdao, and from 1996 to 1999, he was seconded to Qingdao United Nation Shipping Agency Co., Ltd. as finance manager. From October 1999 to March 2000, he served as the assistant general manager in the finance center of Shandong SITC. From March 2000 to December 2006, he served as the chief financial officer and the general manager of finance center of Shandong SITC. From January 2007 to January 2008, he served as the chief financial officer of SITC Logistics.

Mr. XIAO Senyuan（肖森元）has been the president of SITC Shipowning since January 2008. Mr. Xiao graduated from Qingdao Ocean Shipping Mariners College（青島遠洋船員學院）in 1980 in marine engineering. He also passed the English Post-Proficiency Test Band 6 for the COSCO system for chief engineer in 2000 and obtained a Certificate of Special Training for Seafarers（海船船員特殊培訓合格證書）in 2002. He obtained a certificate of Training for General Managers from China Europe International Business School in January 2011. Mr. Xiao has over 32 years of experience in the shipping industry through his employment in the shipping companies. He joined COSCO Shipping Co., Ltd. Qingdao Branch in August 1980 and served on board vessels in various engineering capacity until March 2003. He served as a engine maintenance supervisor for Shandong Shipping Management from April 2003 to April 2004. Between May 2004 and August 2007, he served as the manager of the ship technical department in Shandong Shipping Management. He served as the general manager of Shandong Shipping Management between September 2007 and December 2007. He was appointed as the general manager of Shanghai SITC Shipping Management Co. Ltd, in July 2010.

Mr. XUE Mingyuan（薛明元）has been the president of SITC Container Lines Co., Ltd, since May 2010. Mr. Xue graduated from Shandong Foreign Economic and Trade School（山東省對外經濟貿易學校）in 1994 and was awarded a certificate for completing the courses in international trade and he passed the English language subject in Shandong University through self-study examination in 1994. He also obtained a master's degree in international shipping and transport logistics from the Hong Kong Polytechnic University in 2004. He is now continuing his education at the China Europe International Business School of Management for a master of business administration course. Mr. Xue has over 18 years of experience in the shipping industry through his employment in the shipping companies. He worked in the container business department of Lufeng Shipping between July 1994 and July 1997, and as an export manager for SITC Lianji (Shandong) Co., Ltd.（山東海豐聯集有限公司）, a freight forwarder, from August 1997 to January 1998. Between January 1998 and December 2003, he served as the manager of customer service department and the manager of marketing department of SITC Container Lines. From December 2003 to April 2010, he served as the vice-general manager and general manager of New SITC Korea.

Mr. JI Bin（季斌）has been the president of SITC Logistics Development Co., Ltd. since November 2011. Mr. Ji graduated from Jiangsu Maritime Institute（江蘇海事職業技術學院）in 1995 majoring in navigation and he graduated from Shandong University of Economics in 1999 majoring in international trade. In 2004, he graduated from Qingdao Ocean Shipping Mariners College（青島遠洋船員學院）majoring in transportation management. He obtained a master's degree in business administration from Asia International Open University (Macau) in November 2004 and completed the advanced training course of modern economic management in Tsinghua University in December 2004, and obtained the Senior Professional Manager Qualification Certificate. In September 2008, he also received a master's degree in business administration from China Europe International Business School in September 2008. In September 2008, he entered Shanghai Maritime University for a PHD degree in Transport and Communications Economy and Management. Mr. Ji has over 17 years of experience in the shipping industry through his employment in the shipping companies. He joined SFTC in 1995. He worked as an operation manager in SITC Container Lines (Shandong) Co., Ltd. (山東省海豐船務有限公司) from May 1997 to August 2000. From August 2000 to January 2002, he served as the deputy general manager of SITC Shipping Agency (Dalian) Co., Ltd., (大連海豐國際船舶代理有限公司). From January 2002 to May 2004, he served as the general manager of SITC Shipping Agency (Tianjin) Co., Ltd. (天津新海豐國際船舶代理有限公司). From June 2004 to December 2005, he served as the vice president of SITC Container Lines and served as its president between December 2005 and April 2010. He was the president of SITC Logistics between April 2010 and November 2011.

Mr. YU Jian (余健) has been the general manager of SITC Shipping Agency (Shanghai) Co., Ltd. (上海新海豐國際船舶代理有限公司) since February 2001. Mr. Yu graduated from State Oceanic Administration Ningbo Ocean School (國家海洋局寧波海洋學校) in 1986 majoring in navigation, and he graduated from Qingdao Ocean Shipping Mariners College (青島遠洋船員學院) in 1989 majoring in navigation. He is now continuing his education at Shanghai Maritime University for a master of business administration with port management profession. Mr. Yu has over 22 years of experience in the shipping industry through his employment in the shipping companies. From April 1993 to February 1996, Mr. Yu worked as the shipping manager of Hong Kong Zhicheng International Shipping Company Limited (香港志成國際海運公司) a company that engages primarily in bulk carrier and ship chartering business. Between November 1999 and January 2001, he served as the operational manager of Taiwan Wan Hai Shipping Co., Ltd, Qingdao branch (台灣萬海航運公司青島辦事處), a container shipping company.

Mr. JI Wenguang (紀文光) has been the general manager of SITC Brokers (Shandong) Co., Ltd. (山東省海豐船舶經紀有限公司) since January 2005 and the general manager of SITC Brokers Co., Ltd., since July 2006. Mr. Ji graduated from Qingdao University in 1996 with bachelor's degree in Economics majored in international trading. He also obtained a master's degree in business administration from Business School of Nankai University in 2005. He is now continuing his education at Advanced Financial College of Shanghai Jiaotong University for a master of business administration course. Mr. Ji has over 16 years of experience in the shipping industry through his employment in various shipping companies. After graduation in July 1996, he joined Shandong SITC as an assistant administration officer. In February 1998, he started his profession as shipbroker in SITC Brokers (Shandong) Co., Ltd. and served as manager of the chartering department from 2000 in charge of all chartering, sales and purchase and new building. In February 2004, he was appointed as manager of the shipping department of Shandong Steamship and rejoined SITC Brokers (Shandong) Co., Ltd. in January 2005 as its general manager.

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 2011 of the Group.

MAJOR BUSINESS

The Company is a leading PRC-based 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 5 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 2011 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 14 March 2012 (Wednesday), it was proposed that a final dividend of HK$0.12 per share be paid after 18 May 2012 to the shareholders of the Company whose names appear on the Company's register of members at the close of business at 16:30 on 9 May 2012 (Wednesday). The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company to be held on 4 May 2012 (Friday) (the "Annual General Meeting ").

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 2 May 2012 (Wednesday) to 4 May 2012 (Friday), 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, 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 not later than 4:30 p.m. on 30 April 2012 (Monday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 10 May 2012 (Thursday) to 14 May 2012 (Monday), 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, 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 not later than 4:30 p.m. on 9 May 2012 (Wednesday).

RESERVE

Details of the changes in reserve of the Group during the year ended 31 December 2011 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 associations (the "Articles of Associations"), 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 2011, the Company had distributable reserve amounting to approximately US$452,847,000.

PROPERTY, PLANT AND EQUIPMENTS

The changes in property, plant and equipments during the year ended 31 December 2011 are set out in Note 14 to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 15.4% of the Group's total purchase. The percentage of turnover attributable to the Group's five largest customers accounted for approximately 19.7% 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 totalled approximately HK$4.6 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
LI Xuexia
XUE Peng

Non-executive Director

LIU Rongli

Independent non-executive Directors

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

Details of the resumes 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 letters of appointments of all independent non-executive Directors, YANG Xianxiang, LIU Kecheng, TSUI Yung Kwok, YEUNG Kwok On, LO Wing Yan, William and NGAI Wai Fung 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 headed "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 55.29% of the issued share capital in the Company. Mr. YANG Shaopeng, Better Master and Resourceful Link are the controlling shareholders of the Company. As disclosed in the prospectus of the Company dated 20 September 2010 (the "**Prospectus**"), Mr. Yang Shaopeng also originally owned 62.5% in Shandong SITC which was involved in various businesses which had been excluded from the deed of non-competition provided by the controlling shareholders to the Company. On 9 November 2011, in view of the business reorganisation of Shandong SITC, the Company and Shandong SITC entered into a deed of termination, pursuant to which the parties agreed to terminate various transactions that the Company originally entered with Shandong SITC (the "**Internal Reorganisation**"). Pursuant to such Internal Reorganisation, SITC Shandong no longer has any competing business with the Company. For further details about the Internal Reorganisation, please refer to the announcement of Company dated 9 November 2011.

Pursuant to the Internal Reorganisation,SITC Investment Holdings (Qingdao) Company Limited ("**Qingdao SITC Investment**") which is owned by Mr. YANG Shaopeng as to 62.5% has taken over the previous competing businesses carried out by Shandong SITC and subsequently a supplemental deed of non-competition in the same context as the deed of non-competition that the Company had with Shandong SITC was entered into with Qingdao SITC Investment. Pursuant to such supplemental deed of non-competition, the following businesses have been excluded from the 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%-owned subsidiary of Qingdao SITC Investment 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 us 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 us to enjoy the charter fee revenues derived from such operation.

(b) Shandong Steamship, continues to own two PRC-registered vessels named the Hai Feng Lian Fa and Hei 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 us.

(c) SITC Ship Management Co., Ltd. (山東省海豐船舶管理有限公司)("**Shandong Shipping Management**"), a wholly-owned subsidiary of Qingdao SITC Investment, was principally engaged in ship management services. Since the commencement of operations of SITC Shipping Management (Shanghai) Co., Ltd. (上海海豐船舶管理有限公司)("**Shanghai SITC Shipping Management**") in January 2011, Shandong Shipping Management has been focusing on providing crew management services to the Company and Shanghai SITC Shipping Management has focused on providing ship management services to the Company. See the section headed "Connected Transactions" in this Report for details.

(d) The Company has invested in companies in which Qingdao SITC Investment also has shareholding (whether or not such companies are our subsidiaries). 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 of which pursuant to the Internal Reorganisation interests of Shandong SITC have been transferred to Qingdao SITC Investment are set out in the section headed "Relationship with Our Controlling Shareholders" in the Prospectus.

(e) 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. (上海海嵐航運有限公司), with the intention to engage in shipping and other businesses within the PRC that can only be conducted by majority PRC companies. Pursuant to the Internal Reorganisation, the shareholding interest of SITC Shipping (Shanghai) Co., Ltd. is owned as to 49% and 51% by SITC Container Lines and Shanghai Steamship (a 100%-owned subsidiary of Qingdao Investment) respectively.

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 deed of non-competition dated 10 September 2010 and the supplemental deed of non-competition entered into by and among our Company, our controlling shareholders, Mr. YANG Shaopeng, Better Master and Resourceful.

The independent non-executive Directors have reviewed the deed of non-competition and whether the controlling shareholders have abided by the non-competition undertaking. The independent non-executive Directors confirmed that they had determined that the controlling shareholders have not been in breach of the non-competition undertaking during the year ended 31 December 2011.

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 can grant options for the subscription of our shares to the employees, managerial staff and senior employees and those other persons that the Board of Directors 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 of Directors, 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 followings are details of the options granted pursuant to the Post-IPO Share Option Scheme but not yet exercised:

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 2011	Approximate percentage of shareholding upon the exercise of the options
YANG Shaopeng (Executive Director)	25 October 2011	1,000,000	1,000,000	—	1,000,000	0.04%
YANG Xianxiang (Executive Director)	25 October 2011	1,000,000	1,000,000	—	1,000,000	0.04%
LIU Kecheng (Executive Director)	25 October 2011	300,000	300,000	—	300,000	0.01%
LI Xuexia (Executive Director)	25 October 2011	300,000	300,000	—	300,000	0.01%
XUE Peng (Executive Director)	25 October 2011	300,000	300,000	—	300,000	0.01%
TSUI Yung Kwok (Independent non-executive Director)	25 October 2011	400,000	400,000	—	400,000	0.02%
YEUNG Kwok On (Independent non-executive Director)	25 October 2011	400,000	400,000	—	400,000	0.02%
LO Wing Yau, William (Independent non-executive Director)	25 October 2011	400,000	400,000	—	400,000	0.02%
NGAI Wai Fung (Independent non-executive Director)	25 October 2011	400,000	400,000	—	400,000	0.02%
Other employees	25 October 2011	7,100,000	7,100,000	—	7,100,000	0.27%
Total		**11,600,000**	**11,600,000**	**—**	**11,600,000**	0.45%

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 Post-IPO 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 participants 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:

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 2011	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	63,740,000	2,920,000	60,820,000	2.45%
Total		**78,560,000**	**2,920,000**	**75,640,000**	**2.92%**

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 2011, 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 Securities and Futures Ordinance ("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	1,431,898,158	55.29%
LIU Rongli(2)	Beneficiary of the Pengli Trust	1,431,898,158	55.29%
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%

Notes:

(1) The Shares are held by Resourceful Link, the issued share capital of which 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 Trustees (Hong Kong) 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	—	400,000	0.02%
LO Wing Yau, William	Beneficial owner	—	400,000	0.02%
NGAI Wai Fung	Beneficial owner	—	400,000	0.02%

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%

Notes:

(1) Resourceful Link is interested in approximately 55.29% 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 Trustees (Hong Kong) 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 55.29% 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 Trustees (Hong Kong) 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 55.29% 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 Trustees (Hong Kong) 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 2011, 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	55.29%
Better Master[1]	Interest in controlled orporation	1,431,898,158	55.29%
Pengli Holdings Limited[1]	Interest in controlled corporation	1,431,898,158	55.29%
Barclays Wealth Trustees (Hong Kong) Limited[1]	Trustee	1,431,898,158	55.29%

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 Trustees (Hong Kong) 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 Trustees (Hong Kong) 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 Trustees (Hong Kong) 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 Trustees (Hong Kong) 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 2011 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.

CONNECTED TRANSACTIONS

Following the listing of the Group on 6 October 2010, the transactions between the Group and certain connected persons of the Group became continuing connected transactions. The Company has applied and the Stock Exchange has on 20 August 2010 granted a waiver from, among others, strict compliance with the announcement and/or shareholders' approval requirements under Rule 14A.42(3) of the Listing Rules for the continuing connected transactions set out in the Prospectus of the Company. On 9 November 2011, in view of the Internal Reorganisation of Shandong SITC, the parties agreed to terminate various continuing connected transactions that the Company originally entered with Shandong SITC and entered into new continuing connected transactions with Qingdao SITC Investment. For further details about the Internal Reorganisation of Shandong SITC, please refer to the announcement of Company dated 9 November 2011.

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 Investment to the Company

On 9 November 2011, the Company and Qingdao SITC Investment entered into a trademark license agreement pursuant to which, Qingdao SITC Investment has granted to the Company a non-exclusive 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 Investment 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 Investment 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 Investment 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 Investment 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 Investment 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 2011, the rent paid by the Company for the two properties listed above were US$715,271 and US$15,355, respectively.

Property Management Services

On 9 November 2011, the Company has also entered into a property management services agreement with Qingdao SITC Investment, pursuant to which Qingdao SITC Investment 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 Investment 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 2011, should not exceed the annual cap of US$40,500. For the year ended 31 December 2011, the actual property management fees charged by Qingdao SITC Investment were US$23,767.

Bonded Warehousing Services

On 1 September 2010, Qingdao BLP Reko International Warehousing Co., Ltd. (青島保税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 2011 of the bonded warehousing services should not exceed US$380,000. 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 2011, the actual bonded warehousing services fees was US182,698.

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 2011 in respect of the container repair services should not exceed US$80,047. For the year ended 31 December 2011, container repair services fee paid by the Company amounted to US$63,975.

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 Investment, in relation to the agency services to be provided by Qingdao SITC Investment to the Company and the container shipping services to be provided by SITC Container Lines to the shipping agency companies of Qingdao SITC Investment.

The master agency agreement has a term of two financial years expiring on 31 December 2012. The following table sets forth the annual caps for the year ended 31 December 2011 and the actual amount of annual services fees incurred in relation to the master agency agreement for the year ended 31 December 2011:

	Service fees received by the Company *(US$)*	**Service fees to be paid by the Company** *(US$)*
Annual fee expected	29,960,000	1,290,000
Actual service fees involved	6,245,519	581,936

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.

Provision of Ship Management Services by Shandong Shipping Management

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) in-port 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.

For the year ended 31 December 2011, the amount of management fees actually incurred by the Company was US$414,200.

Chartering of Vessels

On 1 January 2008, SITC Container Lines, our wholly-owned subsidiary incorporated in Hong Kong, 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 Shandong Steamship, 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.

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$1,500,000 and US$2,000,000, respectively. For the year ended 31 December 2011, the chartering fee for the chartering of the vessels Hai Feng Lian Fa and Hai Feng Lian Jie was a sum of US$1,406,759 and US$116,748, 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 1 November 2011, New SITC Korea and SITC Container Lines entered into a supplemental agreement with Sinokor to increase the annual caps of the service fees to be received from and paid to Sinokor under the agreement for the year ended 31 December 2011 and the year ending 31 December 2012, respectively. For further details about the increases in the annual caps, please refer to the announcement of Company dated 1 November 2011.

The following table sets forth the annual caps for 2011 and the actual amount of annual services fees incurred in relation to the mutual container marine transportation services for the year ended 31 December 2011:

	Service fees received from Sinokor *(US$)*	**Service fees paid to Sinokor** *(US$)*
Annual fee expected (Revised)	2,000,000	2,574.000
Actual service fees involved	1,814,427	1,735,159

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.

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.

Due to better-than-expected demand of depot services and the expected continuation of the demand in the upcoming years, subsequently on 21 June 2011, Smart Logistics and Damco Logistics entered into a supplemental agreement to increase the annual caps of the service fees to be received by Smart Logistics 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 2011 of the depot services should not exceed US$2,050,000. For further details about the increases in the annual caps, please refer to the announcement of Company dated 29 June 2011.

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. For the year ended 31 December 2011, the actual depot services fees was US1,376,769.

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.

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 2011 and the actual amount of annual services fees incurred in relation to the mutual services for the year ended 31 December 2011:

	Logistics Service fees received by the Company *(US$)*	**Container shipping service fee paid to Maersk Shipping** *(US$)*
Annual fee expected	2,994,933	21,967,722
Actual service fees involved	594,382	0

Mutual Services Agreement with TVL

Prior to the Listing Date, SITC Container Lines, a subsidiary of the Company, has been providing container shipping services to T.V.L. International (Holdings) Co., Ltd. ("**TVL**") and TVL has been providing container shipping agency services to the Company, in each case, as part of TVL and our ordinary course of business. As TVL is a 30% substantial shareholder of SITC Shipping Agency (HK) Co., Ltd., a subsidiary of the Company, transactions between the Company and TVL constitute connected transactions for the Company under Chapter 14A of the Listing Rules upon Listing.

On 1 September 2010, SITC Container Lines and TVL entered into an agreement for the provision of mutual services for a term of three financial years ending 31 December 2012.

The service fees were determined with reference to the historical transaction amounts and the anticipated business volume for 2010, 2011 and 2012.

The following table sets forth the annual caps for 2011 and the actual amount of annual services fees incurred in relation to the mutual services for the year ended 31 December 2011:

	Service fees received from TVL	**Service fees paid to TVL**
	(US$)	(US$)
Annual fee expected	18,100,000	527,000
Actual service fees involved	8,974,780	232,582

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 2012.

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 of Directors that the aforesaid continuing connected transactions:

1. have been approved by the Board of Directors of the Company;

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 2011 the Group had an aggregate of 1,072 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 of Directors was satisfied with the independent status of all the independent non-executive Directors.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

In October 2010, the Group completed its initial public offering and raised proceeds of approximately US$384.9 million. For the year ended 31 December 2011, the Company has used approximately US$104.6 million in the purchase and construction of container vessels, approximately US$6.9 million in land-based logistics projects, approximately US$25.3 million in information technology, acquisitions of other fixed assets and office premises. The balance of the un-utilized proceeds will be applied by the Company for the purchase additional container vessels, containers as well as investing in land-based logistics business and for general working capital purposes.

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 set out in Appendix 14 to the Listing Rules and 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 since October 2011. 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 2011, pursuant to the mandate to purchase shares of the Company obtained from the Company's shareholders at the 2011 annual general meeting held on 29 April 2011, the Company repurchased an aggregate of 10,300,000 shares on the Stock Exchange, detailed below, for an aggregate consideration of HK$18,563,724 before expenses and all these shares were subsequently cancelled by the Company on 30 December 2011 and 7 February 2012, respectively and accounted for approximately 0.4% of its total issued share capital as at 31 December 2011:

	Price per share		Number of ordinary shares of	Aggregate
Month of repurchase	**Highest**	**Lowest**	**HK$0.10 each**	**Consideration**
	HK$	*HK$*		*HK$*
December	2.00	1.71	10,300,000	18,563,724
Total			10,300,000	18,563,724

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.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the reporting period of the Group are set out in Note 39 to the Financial Statements.

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 153 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 2011.

AUDITORS

The Company appointed Ernst & Young as the Auditors of the Company for the year ended 31 December 2011. The Company will submit a resolution in the coming Annual General Meeting to re-appoint Ernst & Young as the Auditors of the Company.

For and on behalf of the Board of Directors
YANG Shaopeng
Chairman

14 March 2012

Corporate Governance Report

The Board of the Company is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2011.

CORPORATE GOVERNANCE PRACTICES

The Group strives to maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Group's corporate governance principles emphasize the importance of a quality Board, effective internal controls and accountability to shareholders.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

In the opinion of the directors, the Company has complied with all the code provisions as set out in the CG Code throughout the year under review ended 31 December 2011.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

THE BOARD OF DIRECTORS

RESPONSIBILITIES

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the chief executive officer, of which the Directors also undertake, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

BOARD COMPOSITION

Membership of the Board is currently made up of ten members in total, with five executive Directors, one non-executive Director and four independent non-executive Directors.

The Company has adopted the recommended best practice under the CG Code for the Board to have at least one-third of its membership comprising independent non-executive Directors. The composition of the Board is set out below:

Executive Directors

Mr YANG Shaopeng	Chairman
Mr YANG Xianxiang	Chief Executive Officer
Mr LIU Kecheng	Joint Company Secretary
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
Mr NGAI Wai Fung

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under "Directors and Senior Management" on page 23 of this report.

During the year ended 31 December 2011, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the Chairman and the chief executive officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Mr YANG Shaopeng, and the chief executive officer is Mr YANG Xianxiang. The positions of Chairman and chief executive officer are held by separate persons in order to preserve independence and a balance of views and judgement. With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The chief executive officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The chief executive officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive and non-executive Directors of the Company is engaged on a service contract for a term of three years, and the appointment may be terminated by not less than one month's written notice; while each of the independent non-executive Directors of the Company is engaged on a service contract for a term of one year. The appointment may be terminated by not less than two months' written notice.

In accordance with the Company's Articles of Association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed by the Board to fill a causal vacancy or as an addition to the Board shall submit himself / herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee established on 10 September 2010 is to be responsible for reviewing the Board composition, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive Directors.

Nomination Committee

The Nomination Committee comprises five members, namely Mr YANG Shaopeng (Chairman), Mr YANG Xianxiang, Mr YEUNG Kwok On, Dr LO Wing Yan, William and Mr NGAI Wai Fung, the majority of which are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive Directors.

In accordance with the Company's Articles of Association, one-third of the Directors of the Company, shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting and every Director shall be subject to retirement at the annual general meeting at least once every three years.

The Company's circular dated 26 March 2012 contains detailed information of the directors standing for re-election.

During the year ended 31 December 2011, no meeting has been convened by the Nomination Committee because the Company was listed on 6 October 2010, and all the Directors were re-elected as Directors at the 2011 Annual General Meeting held on 29 April 2011. The Nomination Committee therefore considers that it is not necessary to review the size and composition of the Board and identify any new board member for the year ended 31 December 2011.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed Director receives 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 are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

BOARD MEETINGS

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management, including chief executive officer, chief financial officer and joint company secretary, attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The joint company secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Directors' Attendance Records

During the year ended 31 December 2011, six regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the Board meetings during the year ended 31 December 2011 are set out below:

Name of Director	Attendance / Number of Meetings
Mr YANG Shaopeng	6/6
Mr YANG Xianxiang	6/6
Mr LIU Kecheng	6/6
Ms LI Xuexia	6/6
Mr XUE Peng	6/6
Ms LIU Rongli	6/6
Mr TSUI Yung Kwok	6/6
Mr YEUNG Kwok On	6/6
Dr LO Wing Yan, William	6/6
Mr NGAI Wai Fung	6/6

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2011.

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

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

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the joint company secretaries, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders upon request.

The Board also has the full support of the chief executive officer and the senior management for the discharge of its responsibilities.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2011 are set out on page 102 in note 8 to the financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee comprises five members, namely, Mr YEUNG Kwok On (Chairman), Mr YANG Shaopeng, Mr YANG Xianxiang, Mr TSUI Yung Kwok and Mr NGAI Wai Fung, the majority of which are independent non-executive Directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for 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, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

The Remuneration Committee held two meetings during the year ended 31 December 2011 and the attendance records are set out below:

Name of Director	Attendance / Number of Meetings
Mr YEUNG Kwok On	2/2
Mr YANG Shaopeng	2/2
Mr YANG Xianxiang	2/2
Mr TSUI Yung Kwok	2/2
Mr NGAI Wai Fung	2/2

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILTIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The Management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

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, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor and senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Mr TSUI Yung Kwok (Chairman), Dr LO Wing Yan, William and Mr NGAI Wai Fung, of which two independent non-executive Directors who possess the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal auditor or external auditors before submission to the Board
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

The Audit Committee held five meetings during the year ended 31 December 2011 and the attendance records are set out below:

Name of Director	Attendance / Number of Meetings
Mr TSUI Yung Kwok	5/5
Dr LO Wing Yan, William	5/5
Mr NGAI Wai Fung	5/5

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on page 56.

During the year under review ended 31 December 2011, the remuneration paid / payable to the Company's external auditors, Messrs Ernst & Young, is set out below:

Service Category	Fees Paid/ Payable (HK$)
Audit Services	2,480,000
Non-audit Services	
- Tax advisory services	178,410
- Others	507,188
Total	3,165,598

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 also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders face-to-face dialogue with the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

The 2012 Annual General Meeting ("AGM") will be held on 4 May 2012. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.sitc.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted are available for public access.

SHAREHOLDER 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.

Independent Auditors' Report

ERNST & YOUNG
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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 58 to 152, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

14 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
REVENUE	5	**1,087,241**	891,510
Cost of sales		**(960,332)**	(719,694)
Gross profit		**126,909**	171,816
Other income and gains	5	**34,603**	3,054
Administrative expenses		**(57,434)**	(52,144)
Other expenses and losses		**(4,524)**	(6,166)
Finance costs	7	**(1,625)**	(1,678)
Share of profits and losses of associates		**258**	133
PROFIT BEFORE TAX	6	**98,187**	115,015
Income tax expense	10	**(3,752)**	(2,684)
PROFIT FOR THE YEAR		**94,435**	112,331
OTHER COMPREHENSIVE INCOME/(LOSS)			
Cash flow hedges:	26		
Effective portion of changes in fair value of hedging instruments arising during the year		**(2,360)**	(4,511)
Reclassification adjustments for losses included in profit or loss		**4,207**	943
		1,847	(3,568)
Exchange differences on translation of foreign operations		**2,003**	1,303
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**3,850**	(2,265)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**98,285**	110,066

Consolidated Statement of Comprehensive Income (continued)

Year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Profit for the year attributable to:			
Owners of the parent	11	**93,608**	111,983
Non-controlling interests		**827**	348
		94,435	112,331
Total comprehensive income attributable to:			
Owners of the parent	11	**97,442**	109,624
Non-controlling interests		**843**	442
		98,285	110,066
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic (US cents per share)		**3.60**	4.31
Diluted (US cents per share)		**3.60**	4.29

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

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 US$'000	2010 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**271,081**	194,823
Prepaid land lease payments	15	**3,783**	2,045
Investments in associates	18	**9,187**	2,402
Available-for-sale investments	19	**782**	394
Total non-current assets		**284,833**	199,664
CURRENT ASSETS			
Bunkers		**16,088**	11,796
Trade receivables	20	**84,290**	55,910
Prepayments, deposits and other receivables	21	**29,525**	15,476
Due from related companies	22	**871**	2,133
Pledged deposits	23	**79**	75
Cash and cash equivalents	23	**449,018**	515,334
Total current assets		**579,871**	600,724
CURRENT LIABILITIES			
Trade payables	24	**151,355**	93,194
Other payables and accruals	25	**19,821**	27,160
Due to related companies	22	**866**	1,096
Derivative financial instruments	26	**775**	2,693
Interest-bearing bank borrowings	27	**31,205**	12,772
Tax payable		**1,792**	1,221
Total current liabilities		**205,814**	138,136
NET CURRENT ASSETS		**374,057**	462,588
TOTAL ASSETS LESS CURRENT LIABILITIES		**658,890**	662,252

Consolidated Statement of Financial Position (continued)

31 December 2011

	Notes	2011 US$'000	2010 US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**658,890**	662,252
NON-CURRENT LIABILITIES			
Derivative financial instruments	26	**239**	430
Interest-bearing bank borrowings	27	**5,948**	65,644
Deferred tax liabilities	28	**49**	205
Total non-current liabilities		**6,236**	66,279
Net assets		**652,654**	595,973
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**33,446**	33,522
Reserves	31	**576,031**	520,026
Proposed final dividend	12	**39,997**	40,088
		649,474	593,636
Non-controlling interests		**3,180**	2,337
Total equity		**652,654**	595,973

YANG Shaopeng
Director

YANG Xianxiang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Attributable to owners of the parent														Non-controlling interests	Total equity
	Issued capital	Share premium account	Treasury shares	Capital redemption reserve	Merger reserve	PRC reserve funds	Capital reserve	Share-based compensation reserve	Share option reserve	Hedging reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total		
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
	(note 29)	(note 29)	(note 29)	(note 31(a))	(note 31(b))	(note 31(c))	(note 31(d))	(note 31(e))	(note 31(f))	(note 31(g))	(note 31(h))					
At 1 January 2010	—	—	—	—	(2,999)	1,419	(463)	4,597	—	1,008	3,648	90,816	—	98,026	1,895	99,921
Profit for the year	—	—	—	—	—	—	—	—	—	—	—	111,983	—	111,983	348	112,331
Other comprehensive loss for the year:																
Changes in fair value of hedging instruments, net of tax	—	—	—	—	—	—	—	—	—	(3,568)	—	—	—	(3,568)	—	(3,568)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	—	—	1,209	—	—	1,209	94	1,303
Total comprehensive income for the year	—	—	—	—	—	—	—	—	—	(3,568)	1,209	111,983	—	109,624	442	110,066
Issue of shares in connection with the group reorganisation (note 29)	1	—	—	—	(1)	—	—	—	—	—	—	—	—	—	—	—
Capitalisation issue of shares (note 29)	25,140	(25,140)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issue of shares in connection with the listing of the Company's shares (note 29)	8,381	392,212	—	—	—	—	—	—	—	—	—	—	—	400,593	—	400,593
Share issue expenses (note 29)	—	(15,169)	—	—	—	—	—	—	—	—	—	—	—	(15,169)	—	(15,169)
Deemed distributions to a company controlled by the controlling shareholder of the Company's ultimate holding company	—	—	—	—	(276)	—	—	—	—	—	—	—	—	(276)	—	(276)
Transfer to PRC reserve funds	—	—	—	—	—	408	—	—	—	—	—	(408)	—	—	—	
Proposed final 2010 dividend (note 12)	—	—	—	—	—	—	—	—	—	—	—	(40,088)	40,088	—	—	—
Share option expense (note 30)	—	—	—	—	—	—	—	—	838	—	—	—	—	838	—	838
At 31 December 2010	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

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2011

	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))	Exchange fluctuation reserve US$'000 (note 31(h))	Retained profits US$'000	Proposed final dividend US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2011	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
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	93,608	–	93,608	827	94,435
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	–	–	–	–	–	–	–	–	–	–	1,987	–	–	1,987	16	2,003
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	1,847	1,987	93,608	–	97,442	843	98,285
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)
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 expenses (note 30)	–	–	–	–	–	–	–	–	867	–	–	–	–	867	–	867
At 31 December 2011	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

* These reserve accounts comprise the consolidated reserves of US$576,031,000 (2010: US$520,026,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**98,187**	115,015
Adjustments for:			
Finance costs	7	**1,625**	1,678
Share of profits and losses of associates		**(258)**	(133)
Interest income	5	**(10,941)**	(1,484)
Loss/(gain) on disposal/write-off of items of property, plant and equipment, net	5, 6	**(888)**	1,053
Fair value losses/(gains), net			
Derivative instruments			
– transactions not qualifying as hedges	5, 6	**302**	(914)
Cash flow hedges (transfer from equity)	6	**4,207**	943
Loss on early termination of derivative instruments	6	**—**	3,300
Depreciation	14	**12,498**	10,553
Recognition of prepaid land lease payments	15	**54**	43
Impairment of trade receivables	6	**15**	870
Equity-settled share option expenses	30	**867**	838
		105,668	131,762
Increase in bunkers		**(4,292)**	(4,234)
Increase in trade receivables		**(28,395)**	(21,078)
Increase in prepayments, deposits and other receivables		**(14,009)**	(8,138)
Decrease in amounts due from related companies		**1,262**	28,170
Decrease in derivative financial assets		**—**	1,574
Decrease in financial assets at fair value through profit or loss		**—**	27,534
Increase in trade payables		**58,161**	21,138
Increase/(decrease) in other payables and accruals		**(7,339)**	1,834
Decrease in amounts due to related companies		**(230)**	(14,547)
Decrease in derivative financial liabilities		**(4,771)**	(8,243)
Effect of foreign exchange rate changes, net		**(19,558)**	2,458
Cash generated from operations		**86,497**	158,230
Interest received		**10,941**	1,484
Interest paid		**(1,625)**	(1,678)
Profits tax paid		**(3,337)**	(1,710)
Net cash flows from operating activities		**92,476**	156,326

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Net cash flows from operating activities		**92,476**	156,326
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(96,514)**	(38,995)
Proceeds from disposal of items of property, plant and equipment		**10,251**	670
Investment in an associate		**(6,520)**	—
Purchase of an available-for-sale investment		**(376)**	—
Prepayment of land leases payments		**(1,779)**	—
Purchase of shareholding in a jointly-controlled entity		**—**	110
Increase in non-pledged time deposits with original maturity of over three months but less than one year when acquired		**(1,118)**	—
Increase in pledged time deposits		**(4)**	(75)
Dividend received from an associate		**69**	70
Net cash flows used in investing activities		**(95,991)**	(38,220)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares in connection with the listing		**—**	400,593
Share issue expenses		**—**	(15,169)
Repurchase of shares		**(2,383)**	—
New bank borrowings		**80,622**	410
Repayment of bank borrowings		**(122,347)**	(18,623)
Deemed distributions to a company controlled by the controlling shareholder of the Company's ultimate holding company		**—**	(276)
Dividends paid to the immediate holding company	12	**—**	(40,000)
Dividends paid to shareholders	12	**(40,088)**	—
Net cash flows from/(used in) financing activities		**(84,196)**	326,935
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(87,711)**	445,041
Cash and cash equivalents at beginning of year		**515,334**	66,251
Effect of foreign exchange rate changes, net		**20,277**	4,042
CASH AND CASH EQUIVALENTS AT END OF YEAR		**447,900**	515,334
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**258,229**	508,632
Non-pledged time deposits with original maturity of less than three months when acquired	23	**189,671**	6,702
Cash and cash equivalents as stated in the consolidated statement of cash flows		**447,900**	515,334
Non-pledged time deposits with original maturity of over three months but less than one year when acquired	23	**1,118**	—
Cash and cash equivalents as stated in the consolidated statement of financial position		**449,018**	515,334

Statement of Financial Position

31 December 2011

	Notes	2011 US$'000	2010 US$'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	**386,435**	382,817
Dividend receivable		**39,997**	45,000
Cash and cash equivalents	23	**2,299**	21
Total current assets		**428,731**	427,838
CURRENT LIABILITIES			
Other payables and accruals	25	**293**	—
Total current liabilities		**293**	—
NET CURRENT ASSETS		**428,438**	427,838
TOTAL ASSETS LESS CURRENT LIABILITIES		**487,851**	487,251
Net assets		**487,851**	487,251
EQUITY			
Issued capital	29	**33,446**	33,522
Reserves	31	**414,408**	413,641
Proposed final dividend	12	**39,997**	40,088
Total equity		**487,851**	487,251

YANG Shaopeng
Director

YANG Xianxiang
Director

1. CORPORATE INFORMATION AND GROUP REORGANISATION

SITC International Holdings Company Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 9 April 2010. The registered office address of the Company is 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 businesses (collectively referred to as the "Relevant Businesses").

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.

Prior to the incorporation of the Company, the Relevant Businesses were carried out by certain subsidiaries of SITC Group Company Limited, which was incorporated in the BVI and was indirectly majority owned and controlled by the controlling shareholder of the Company's ultimate holding company (the "Controlling Shareholder", who is also a director of the Company). In order to rationalise the corporate structure of the Group in preparation for the listing of the Company's shares (the "Listing") on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company underwent a group reorganisation (the "Reorganisation") which was completed on 16 April 2010, further details of which are set out in the Company's prospectus dated 20 September 2010.

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 combination under common control

Pursuant to the Reorganisation, the Company became the holding company of the companies then comprising the Group. Since the Company and the Relevant Businesses were ultimately controlled by the Controlling Shareholder both before and after the completion of the Reorganisation and the Company was considered as a continuation of SITC Group Company Limited, the Reorganisation was accounted for using the principles of merger accounting.

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2010 include the results, changes in equity and cash flows of all companies then comprising the Group, as if the corporate structure of the Group immediately after the completion of the Reorganisation had been in existence throughout the year ended 31 December 2010, or since their respective dates of acquisition, incorporation or registration, where this is a shorter period.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Other than the Reorganisation which was accounted for using the principles of merger accounting, 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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that 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 new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010,* the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 35 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

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.

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.

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

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.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

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.

Amendments to HKAS 1 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, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes - Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Group's profit or loss to the extent of dividends received and receivable. The Group's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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 the associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Group's profit or loss to the extent of dividends received and receivable. The Group's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

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*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 it measures 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 either 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 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 acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of 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.

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 any 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and 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 values 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.

The Group's financial assets include cash and bank balances, trade and other receivables, amounts due from related companies and available-for-sale investments.

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 net changes in fair value recognised in other income and gains 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 these financial assets. 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.

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 finance income in profit or loss. The loss arising from impairment is recognised in finance costs for loans and in other expenses for receivables in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 amount of 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 future write-off is later recovered, the recovery is credited to other expenses and losses in profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 finance 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 plus, in the case of loans and borrowings, 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 borrowings.

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 of 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, and only 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

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. 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 in 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.

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 in 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

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 a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 through 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.

Share-based payment transactions

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 payment transactions, 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 value is determined by an external valuer 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 payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

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.

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 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 ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss.

All differences arising on settlement or translation of monetary items are taken to 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 equity. 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 retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on 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, jointly-controlled entities 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 ruling 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 and jointly-controlled entities are translated into US Dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries and jointly-controlled entities 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 the disclosure of contingent liabilities, at the end of the reporting period. However, 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 New 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 earning 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. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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 2011 was US$84,290,000 (2010: US$55,910,000).

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 Group did not have any derivative financial assets at 31 December 2011 (2010: Nil). The carrying amount of derivative financial liabilities at 31 December 2011 was US$1,014,000 (2010: US$3,123,000).

Deferred tax assets

Deferred tax assets are recognised for all 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 2011 (2010: Nil).

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 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 pre-IPO 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 post-IPO 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 freight forwarding, shipping agency, depot and warehousing, trucking and ship brokerage services and related businesses.

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 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.

The Group's revenue from external customers from each kind of services is set out in note 5 to the financial statements.

4. OPERATING SEGMENT INFORMATION (continued)

In 2011, there was no customer individually accounted for 10% or more of the Group's revenue. In 2010, there was one customer individually accounted for 10% or more of the Group's revenue and its revenue amounted to US$95,417,000. The sales of the above customer were included in the sea freight logistics segment.

Year ended 31 December 2011

	Sea freight logistics US$'000	Land-based logistics US$'000	Total US$'000
Segment revenue:			
Sales to external customers	375,013	712,228	1,087,241
Intersegment sales	464,585	20,740	485,325
	839,598	732,968	1,572,566
Reconciliation:			
Elimination of intersegment sales			(485,325)
Revenue			1,087,241
Segment results	45,175	42,079	87,254
Reconciliation:			
Bank interest income			10,941
Other investment income			1,617
Finance costs			(1,625)
Profit before tax			98,187
Segment assets	274,986	393,499	668,485
Reconciliation:			
Elimination of intersegment receivables			(281,113)
Corporate and other unallocated assets			477,332
Total assets			864,704
Segment liabilities	99,597	348,373	447,970
Reconciliation:			
Elimination of intersegment payables			(281,113)
Corporate and other unallocated liabilities			45,193
Total liabilities			212,050
Other segment information:			
Share of profits and losses of associates	—	258	258
Depreciation	7,945	4,553	12,498
Recognition of prepaid land lease payments	—	54	54
Gain on disposal of items of property, plant and equipment, net	817	71	888
Impairment of trade receivables	—	15	15
Investments in associates	—	9,187	9,187
Capital expenditure *	71,276	25,238	96,514

* Capital expenditure consists of additions to property, plant and equipment.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010

	Sea freight logistics US$'000	Land-based logistics US$'000	Total US$'000
Segment revenue:			
Sales to external customers	433,796	457,714	891,510
Intersegment sales	261,012	15,160	276,172
	694,808	472,874	1,167,682
Reconciliation:			
Elimination of intersegment sales			(276,172)
Revenue			891,510
Segment results	89,391	25,818	115,209
Reconciliation:			
Interest income			1,484
Finance costs			(1,678)
Profit before tax			115,015
Segment assets	204,753	208,438	413,191
Reconciliation:			
Elimination of intersegment receivables			(143,788)
Corporate and other unallocated assets			530,985
Total assets			800,388
Segment liabilities	67,161	190,076	257,237
Reconciliation:			
Elimination of intersegment payables			(143,788)
Corporate and other unallocated liabilities			90,966
Total liabilities			204,415
Other segment information:			
Share of profits and losses of associates	—	133	133
Depreciation	8,883	1,670	10,553
Recognition of prepaid land lease payments	—	43	43
Loss on disposal/write-off of items of property, plant and equipment, net	13	1,040	1,053
Impairment of trade receivables	680	190	870
Investments in associates	—	2,402	2,402
Capital expenditure *	36,783	2,905	39,688

* Capital expenditure consists of additions to property, plant and equipment, including assets from the acquisition of a jointly-controlled entity.

4. OPERATING SEGMENT INFORMATION (continued)

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, geographical segment information is only presented for revenue.

The revenue information is based on the location of customers.

	2011 **US$'000**	2010 US$'000
Mainland China	**485,196**	479,361
Japan	**419,026**	307,951
Korea	**61,040**	44,825
Others	**121,979**	59,373
	1,087,241	891,510

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2011 US$'000	2010 US$'000
Revenue		
Container shipping services	**375,013**	433,796
Shipping agency services, freight forwarding services for transportation and logistics management services	**712,228**	457,714
	1,087,241	891,510
Other income		
Bank interest income	**10,941**	1,484
Other investment income	**1,617**	37
Terminal compensation income	**2,363**	—
Government subsidies*	**74**	619
	14,995	2,140
Gains		
Gain on disposal of items of property, plant and equipment, net	**888**	—
Fair value gains, net on derivative instruments – transactions not qualifying as hedges	**—**	914
Foreign exchange differences, net	**18,720**	—
	19,608	914
	34,603	3,054

* 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.

6. PROFIT BEFORE TAX

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

	Notes	2011 US$'000	2010 US$'000
Cost of bunkers consumed		**206,454**	129,452
Depreciation	14	**12,498**	10,553
Recognition of prepaid land lease payments	15	**54**	43
Auditors' remuneration		**372**	247
Minimum lease payments under operating leases in respect of:			
Land and buildings		**4,309**	3,608
Vessels		**94,252**	49,354
Containers		**49,740**	35,983
		148,301	88,945
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**35,092**	28,755
Equity-settled share option expenses	30	**867**	838
Pension scheme contributions (defined contribution scheme)		**5,461**	2,989
		41,420	32,582
Foreign exchange differences, net		**(18,720)**	7,674
Loss on disposal/write-off of items of property, plant and equipment, net*		**—**	1,053
Impairment of trade receivables*	20	**15**	870
Loss on early termination of derivative instruments*		**—**	3,300
Fair value losses, net on cash flow hedges (transfer from equity)*	26	**4,207**	943
Fair value losses, net on derivative instruments – transactions not qualifying as hedges *		**302**	—

* These loss items 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	
	2011	2010
	US$'000	US$'000
Interest on bank loans wholly repayable within five years	**1,263**	624
Interest on bank loans wholly repayable beyond five years	**362**	1,054
	1,625	1,678

8. DIRECTORS' REMUNERATION

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

	Group	
	2011	2010
	US$'000	US$'000
Fees	**262**	81
Other emoluments:		
Salaries, allowances and benefits in kind	**1,276**	1,336
Performance related bonuses	**571**	2,581
Equity-settled share option expenses	**157**	155
Pension scheme contributions	**36**	27
	2,040	4,099
	2,302	4,180

During the year, certain directors were granted share options, in respect of their services to the Group, under the two Share Option Schemes of the Company, further details of which are set out 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 directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees and equity-settled share option expense paid to independent non-executive directors during the year were as follows:

	Fees US$'000	Equity-settled share option expense US$'000	Total remuneration US$'000
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**
2010			
Mr. Tsui Yung Kwok	8	—	8
Mr. Yeung Kwok On	8	—	8
Mr. Lo Wing Yan, William, JP	8	—	8
Mr. Ngai Wai Fung	9	—	9
	33	—	33

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

8. DIRECTORS' REMUNERATION (continued)

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

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Equity-settled share option expenses US$'000	Pension scheme contributions US$'000	Total remuneration US$'000
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**
2010						
Executive directors:						
Mr. Yang Shaopeng	8	673	1,150	76	—	1,907
Mr. Yang Xianxiang	8	432	1,150	55	8	1,653
Mr. Liu Kecheng	8	43	89	8	3	151
Ms. Li Xuexia	8	94	96	8	8	214
Mr. Xue Peng	8	94	96	8	8	214
	40	1,336	2,581	155	27	4,139
Non-executive director:						
Ms. Liu Rongli	8	—	—	—	—	8
	48	1,336	2,581	155	27	4,147

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2010: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2010: one) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	US$'000	US$'000
Salaries, allowances and benefits in kind	**186**	97
Performance related bonuses	**170**	102
Equity-settled share option expense	**14**	8
Pension scheme contributions	**19**	7
	389	214

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

	Number of employees	
	2011	2010
HK$1,000,001 to HK$1,500,000	**1**	—
HK$1,500,001 to HK$2,000,000	**1**	1
	2	1

During the year and in the prior year, share options were granted to two non-director, highest paid employees in respect of their 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, highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSE

	2011	2010
	US$'000	US$'000
Group:		
Current:		
Mainland China	**2,503**	1,772
Hong Kong	**1,005**	379
Elsewhere	**400**	328
Deferred (note 28)	**(156)**	205
Total tax charge for the year	**3,752**	2,684

10. INCOME TAX EXPENSE (continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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 – 2011

	Mainland China		Hong Kong		Elsewhere		Total	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%
Profit before tax	8,950		74,199		15,038		98,187	
Tax at the statutory tax rate	2,238	25.0	12,243	16.5	4,752	31.6	19,233	19.6
Lower tax rates for specific provinces or enacted by local authority	—	—	—	—	—	—	—	—
Effect of withholding tax at 5% on the distributable	—	—	—	—	—	—	—	—
profits of the Group's PRC subsidiaries	—	—	—	—	—	—	—	—
Income not subject to tax	(2,432)	(27.2)	(12,863)	(17.3)	(4,736)	(31.5)	(20,031)	(20.4)
Expenses not deductible for tax	1,386	15.5	1,625	2.2	252	1.7	3,263	3.3
Tax losses not recognised	1,155	12.9	—	—	132	0.9	1,287	1.3
Tax charge at the Group's effective rate	2,347	26.2	1,005	1.4	400	2.7	3,752	3.8

10. INCOME TAX EXPENSE (continued)

Group - 2010

	Mainland China		Hong Kong		Elsewhere		Total	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%
Profit before tax	3,842		108,592		2,581		115,015	
Tax at the statutory tax rate	961	25.0	17,918	16.5	791	30.6	19,670	17.1
Lower tax rates for specific provinces or enacted by local authority	—	—	—	—	(15)	(0.6)	(15)	—
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	205	5.3	—	—	—	—	205	0.2
Income not subject to tax	(835)	(21.7)	(18,518)	(17.1)	(1,854)	(71.7)	(21,207)	(18.4)
Expenses not deductible for tax	1,442	37.6	979	0.9	867	33.6	3,288	2.9
Tax losses not recognised	204	5.3	—	—	539	20.8	743	0.6
Tax charge at the Group's effective rate	1,977	51.5	379	0.3	328	12.7	2,684	2.3

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of US$2,207,000 (2010: loss of US$3,424,000) which has been dealt with in the financial statements of the Company.

12. DIVIDEND

	2011		2010	
	HK$'000	**US$'000 equivalent**	HK$'000	US$'000 equivalent
Proposed final – HK12 cents (equivalent to US1.54 cents) per ordinary share (2010: HK12 cents (equivalent to US1.54 cents))	**310,764**	**39,997**	312,000	40,088

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 for the year ended 31 December 2011 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 2,599,662,866 in issue during the year ended 31 December 2011.

The calculation of the basic earnings per share amount for the year ended 31 December 2010 is based on the profit for that year attributable to the ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,600,000,000 in issue during the year ended 31 December 2010, on the assumption that the Reorganisation, the capitalisation issue of shares and the issue of shares in connection with the Listing had been completed on 1 January 2010.

The calculation of the diluted earnings per share amount based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended 31 December 2010, as used in the basic earnings per share calculation, and the weighted average of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2011 in respect of a dilution as the shares outstanding under the two Share Option Schemes had an anti-dilutive effect on the basic earnings per share amount presented.

The calculations of basic and diluted earnings per share are based on:

	2011 **US$'000**	2010 US$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**93,608**	111,983

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**2,599,662,866**	2,600,000,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**—**	10,934,643
	2,599,662,866	2,610,934,643

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 2011							
At 31 December 2010 and 1 January 2011:							
Cost	17,801	167,175	17,129	11,461	5,200	34,392	253,158
Accumulated depreciation	(2,466)	(36,917)	(10,250)	(6,153)	(2,549)	—	(58,335)
Net carrying value	15,335	130,258	6,879	5,308	2,651	34,392	194,823
At 1 January 2011, net of accumulated depreciation	15,335	130,258	6,879	5,308	2,651	34,392	194,823
Additions	771	27,900	2	4,823	643	62,375	96,514
Transfers	—	—	—	806	—	(806)	—
Depreciation provided during the year	(1,161)	(6,428)	(1,503)	(2,632)	(774)	—	(12,498)
Disposals/write-off	(9)	(8,975)	(4)	(115)	(260)	—	(9,363)
Exchange realignment	781	—	—	153	216	455	1,605
At 31 December 2011, net of accumulated depreciation	15,717	142,755	5,374	8,343	2,476	96,416	271,081
At 31 December 2011:							
Cost	19,091	183,042	17,123	17,176	5,482	96,416	338,330
Accumulated depreciation	(3,374)	(40,287)	(11,749)	(8,833)	(3,006)	—	(67,249)
Net carrying value	15,717	142,755	5,374	8,343	2,476	96,416	271,081

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 2010							
At 31 December 2009 and 1 January 2010:							
Cost	15,973	167,174	16,941	9,362	3,033	1,623	214,106
Accumulated depreciation	(1,857)	(30,347)	(8,734)	(5,207)	(1,350)	—	(47,495)
Net carrying value	14,116	136,827	8,207	4,155	1,683	1,623	166,611
At 1 January 2010, net of accumulated depreciation	14,116	136,827	8,207	4,155	1,683	1,623	166,611
Additions	1,655	—	225	994	2,040	34,081	38,995
Acquisition of a jointly-controlled entity	—	—	—	666	27	—	693
Transfers	—	—	—	262	—	(262)	—
Depreciation provided during the year	(549)	(6,569)	(1,529)	(778)	(1,128)	—	(10,553)
Disposals/write-off	(359)	—	(24)	(188)	(47)	(1,105)	(1,723)
Exchange realignment	472	—	—	197	76	55	800
At 31 December 2010, net of accumulated depreciation	15,335	130,258	6,879	5,308	2,651	34,392	194,823
At 31 December 2010:							
Cost	17,801	167,175	17,129	11,461	5,200	34,392	253,158
Accumulated depreciation	(2,466)	(36,917)	(10,250)	(6,153)	(2,549)	—	(58,335)
Net carrying value	15,335	130,258	6,879	5,308	2,651	34,392	194,823

At 31 December 2011, one of the Group's container vessels with a net carrying amount of approximately US$15,379,000 (2010: US$119,947,000) was pledged to secure bank loans granted to the Group (note 27).

At 31 December 2010, the Group's buildings situated in Shanghai and Qingdao, the PRC, and Japan with an aggregate net book value of approximately US$15,335,000 did not have building ownership certificates registered under the names of the respective subsidiaries and jointly-controlled entities of the Group. In the opinion of the directors, the Group is entitled to lawfully and validly occupy and use the buildings for its daily operations, notwithstanding the fact that the related building ownership certificates had not yet been obtained.

At 31 December 2011, the Group's buildings obtained building ownership certificates registered under the name of the respective subsidiaries and jointly-controlled entities of the Group.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2011 US$'000	2010 US$'000
Carrying amount at 1 January	**2,107**	2,086
Additions	**1,779**	—
Recognised during the year	**(54)**	(43)
Exchange realignment	**53**	64
Carrying amount at 31 December	**3,885**	2,107
Current portion included in prepayments, deposits and other receivables	**(102)**	(62)
Non-current portion	**3,783**	2,045

The leasehold lands are situated in Mainland China and Vietnam and are held under medium term leases.

16. INVESTMENT IN A SUBSIDIARY

	Company	
	2011 US$'000	2010 US$'000
Unlisted shares, at cost	**59,413**	59,413

The amount due from a subsidiary 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 (formerly named as SITC Development 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	RMB5,000,000	—	100	Provision of declaration services

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
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
SITC Container Lines Company Limited	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$100	—	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

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	
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
SITC Busan Shipping Enterprises Inc.	Panama 6 December 2004	US$100	—	100	Vessel chartering
SITC Yantai Shipping Enterprises Inc.	Panama 6 December 2004	US$100	—	100	Vessel chartering
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 Ltd.	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

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 Haiphong Shipping Company Limited	Hong Kong 11 October 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	RMB20,488,300	—	100	Provision of container marine transportation
SITC Container Lines (Korea) Co., Ltd. #	Korea 7 December 2002	KRW600,000,000	—	51	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

* 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 JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities are as follows:

Name	Particulars of issued shares held/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. ("SITC-Dinh") @	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 jointly-controlled entities.

@ SITC-Dinh Logistics was incorporated in 2011.

All of the above investments in jointly-controlled entities are indirectly held by the Company.

17. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2011 US$'000	2010 US$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**10,679**	8,159
Current assets	**25,586**	20,828
Current liabilities	**(18,181)**	(14,652)
Net assets	**18,084**	14,335
Share of the jointly-controlled entities' results:		
Revenue	**60,181**	36,642
Other income	**290**	679
	60,471	37,321
Total expenses	**(53,578)**	(31,472)
Income tax	**(1,748)**	(1,303)
Profit after tax	**5,145**	4,546

18. INVESTMENTS IN ASSOCIATES

	Group	
	2011	2010
	US$'000	US$'000
Share of net assets	**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 Co., Ltd.	Paid-up capital	PRC	25%	Provision of storage and terminal services
APL-SITC Terminal Holdings Pte. Ltd. ("APL-SITC")#	Ordinary shares of US$1 each	Singapore	20%	Investment holding

APL-SITC was incorporated in 2011.

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

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

	2011	2010
	US$'000	US$'000
Assets	**46,227**	12,217
Liabilities	**3,481**	2,735
Revenues	**21,551**	17,575
Profit	**635**	442

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2011	2010
	US$'000	US$'000
Club debentures, at fair value	**406**	394
Unlisted equity investment, at cost	**376**	—
	782	394

As at 31 December 2011, the Group's unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

20. TRADE RECEIVABLES

	Group	
	2011	2010
	US$'000	US$'000
Trade receivables	**84,634**	56,243
Impairment	**(344)**	(333)
	84,290	55,910

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 15 days, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. 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.

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	
	2011	2010
	US$'000	US$'000
Within 1 month	**72,886**	41,705
1 to 2 months	**9,136**	12,691
2 to 3 months	**1,358**	971
Over 3 months	**910**	543
	84,290	55,910

20. TRADE RECEIVABLES (continued)

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

	Group	
	2011 **US$'000**	2010 US$'000
At 1 January	**333**	—
Impairment losses recognised (note 6)	**15**	870
Amount written off as uncollectible	**(4)**	(537)
At 31 December	**344**	333

Included in the above provision for impairment of trade receivable is a provision for individually impaired trade receivables of US$15,000 (2010: US$870,000) with a carrying amount before provision of US$344,000 (2010: US$1,206,000).

The individually impaired trade receivables relate 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 is expected to be recovered.

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

	Group	
	2011 **US$'000**	2010 US$'000
Neither past due nor impaired	**83,380**	55,367
Less than 1 month past due	**910**	543
	84,290	55,910

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 and the Group's jointly-controlled entities of US$1,386,000 (2010: Nil) and US$2,617,000 (2010: US$1,434,000), 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	
	2011	2010
	US$'000	US$'000
Prepayments	**22,918**	11,461
Deposits and other receivables	**6,607**	4,015
	29,525	15,476

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	
	2011	2010
	US$'000	US$'000
Due from related companies		
Companies controlled by the Controlling Shareholder	**817**	2,133
Associates	**54**	—
	871	2,133
Due to related companies		
Companies controlled by the Controlling Shareholder	**207**	1,096
Associates	**659**	—
	866	1,096

The maximum outstanding amount due from the companies controlled by the Controlling Shareholder during the year was US$2,594,000 (2010: US$62,230,000). The balances with these 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	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Cash and bank balances	**258,229**	508,632	**2,299**	21
Time deposits	**190,868**	6,777	**—**	—
	449,097	515,409	**2,299**	21
Less: Pledged time deposits	**(79)**	(75)	**—**	—
Cash and cash equivalents	**449,018**	515,334	**2,299**	21

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$375,277,000 (2010: US$423,518,000). 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	
	2011	2010
	US$'000	US$'000
Within 1 month	**138,011**	66,260
1 to 2 months	**6,078**	18,397
2 to 3 months	**3,092**	4,663
Over 3 months	**4,174**	3,874
	151,355	93,194

Included in the Group's trade payables are amounts due to the companies controlled by the Controlling Shareholder and the Group's jointly-controlled entities of US$168,000 (2010: US$441,000) and US$852,000 (2010: US$655,000), respectively, which are repayable within 30 days, which represents similar credit terms to those offered by the companies controlled by the Controlling Shareholder and the Group's jointly-controlled entities to their major customers.

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	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Other payables	**13,870**	20,338	**293**	—
Accruals	**5,951**	6,822	**—**	—
	19,821	27,160	**293**	—

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

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2011 US$'000	2010 US$'000
Forward currency contracts	719	2,559
Interest rate swaps	295	564
	1,014	3,123
Portion classified as non-current:		
Interest rate swaps	(239)	(430)
Current portion	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 to customers in Japan and Mainland China 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 have been negotiated to match the terms of the commitments. The cash flow hedges relating to expected future sales in 2012 were assessed to be highly effective and net gains of US$1,847,000 (2010: net losses of US$3,568,000) were included in the hedging reserve as follows:

	2011 US$'000	2010 US$'000
Total fair value losses included in the hedging reserve	(2,360)	(4,511)
Reclassified from other comprehensive income and recognised in profit or loss	4,207	943
Net gains/(losses) on cash flow hedges	1,847	(3,568)

27. INTEREST-BEARING BANK BORROWINGS

Group

	2011 Effective interest rate (%)	2011 Maturity	2011 US$'000	2010 Effective interest rate (%)	2010 Maturity	2010 US$'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**	**2012**	**1,373**	LIBOR+0.8-LIBOR+1.2	2011	12,044
	—	**—**	**—**	TIBOR+1	2011	728
			31,205			12,772
Non-current						
Bank loans - secured	**LIBOR+0.8**	**2013-2017**	**5,948**	LIBOR+0.8-LIBOR+1.2	2012-2017	62,461
	—	**—**	**—**	TIBOR+1	2012-2014	3,183
			5,948			65,644
			37,153			78,416

	2011 US$'000	2010 US$'000
Analysed into bank loans repayable:		
Within one year or on demand	**31,205**	12,772
In the second year	**1,372**	17,891
In the third to fifth years, inclusive	**4,118**	33,872
Beyond five years	**458**	13,881
	37,153	78,416

Notes:

(a) One of the Group's bank loans is secured by mortgages over the Group's container vessel which had an aggregate carrying value at the end of the reporting period of approximately US$15,379,000 (2010: US$119,947,000).

(b) Except for certain bank loans of JPY1,538,000,000 (equivalent to approximately US$19,832,000) which are denominated in Japanese Yen as at 31 December 2011 (2010: 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	
	2011	2010
	US$'000	US$'000
At 1 January	**205**	—
Deferred tax charged/(credited) to profit or loss during the year (note 10)	**(156)**	205
At 31 December	**49**	205

The Group has no tax losses arising in Hong Kong during the year (2010: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of US$4,620,000 (2010: US$2,403,000), 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 2011, 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 and jointly-controlled entities 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

	2011 HK$'000	2011 US$'000 equivalent	2010 HK$'000	2010 US$'000 equivalent
Authorised:				
5,000,000,000 ordinary shares of HK$0.1 each	**500,000**		500,000	
Issued and fully paid:				
2,589,700,000 (2010: 2,600,000,000) ordinary shares of HK$0.1 each	**259,410**	**33,446**	260,000	33,522

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 HK$'000	Issued share capital US$'000 equivalent	Share premium account HK$'000	Share premium account US$'000 equivalent	Treasury shares HK$'000	Treasury shares US$'000 equivalent	Total US$'000 equivalent
On incorporation (note (a))	1	—	—	—	—	—	—	—
Issue of shares in connection with the Reorganisation (note (b))	98,210	10	1	463,414	59,412	—	—	59,413
Capitalisation issue of shares (note (c))	1,949,901,789	194,990	25,140	(194,990)	(25,140)	—	—	—
Issue of shares in connection with the Listing (note (d))	650,000,000	65,000	8,381	3,042,000	392,212	—	—	400,593
	2,600,000,000	260,000	33,522	3,310,424	426,484	—	—	460,006
Share issue expenses	—	—	—	(118,318)	(15,169)	—	—	(15,169)
At 31 December 2010 and 1 January 2011	2,600,000,000	260,000	33,522	3,192,106	411,315	—	—	444,837
Repurchase of shares (note (e))	(10,300,000)	(590)	(76)	(17,513)	(2,251)	(440)	(56)	(2,383)
At 31 December 2011	**2,589,700,000**	**259,410**	**33,446**	**3,174,593**	**409,064**	**(440)**	**(56)**	**442,454**

29. SHARE CAPITAL (continued)

Shares (continued)

Notes:

(a) On 9 April 2010, the Company was incorporated with an authorised share capital of HK$380,000 (equivalent to approximately US$49,000) divided into 3,800,000 ordinary shares of HK$0.1 each and one of which was issued and fully paid at par.

(b) On 16 April 2010, the Company issued 98,210 ordinary shares of HK$0.1 each to Grand SITC Holdings Company Limited to acquire the entire interests of SITC Group Company Limited held by Grand SITC Holdings Company Limited as part of the Reorganisation, further details of which are set out in note 1 to the financial statements.

(c) On 10 September 2010, the Company conditionally issued and allotted 1,949,901,789 ordinary shares of HK$0.1 each as fully paid to the shareholders whose names appeared on the register of the members of the Company on the same date by way of capitalisation of HK$194,990,178.90 (equivalent to approximately US$25,140,000) which was then standing to the credit of the share premium account of the Company upon the Listing of shares of the Company. This issue and allotment of shares became unconditional on 6 October 2010, i.e., the Listing date.

(d) On 6 October 2010, the Company's shares were listed on the Stock Exchange and the Company issued 650,000,000 ordinary shares of HK$0.1 each at HK$4.78 per share with gross proceeds of approximately HK$3,107,000,000 (equivalent to approximately US$400,593,000).

(e) 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). During the year, there were 5,900,000 purchased shares cancelled and the remaining 4,400,000 purchased shares were subsequently cancelled in February 2012.

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 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 be 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, 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.

30. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme (continued)

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

	2011		2010	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**3.824**	**78,560**	—	—
Granted during the year	**—**	**—**	3.824	79,160
Forfeited during the year	**3.824**	**(2,920)**	3.824	(600)
At 31 December	**3.824**	**75,640**	3.824	78,560

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

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		

2010

Number of options '000	Exercise price* HK$ per share	Exercise period
18,560	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
78,560		

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

30. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme (continued)

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$681,000 (2010: US$838,000) during the year.

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 75,640,000 (2010: 78,560,000) 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 75,640,000 additional ordinary shares of the Company and additional share capital of HK$7,564,000 (equivalent to approximately US$972,000) and share premium of HK$281,683,000 (equivalent to approximately US$36,206,000).

Subsequent to the end of the reporting period, a total of 280,000 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.

30. SHARE OPTION SCHEMES (continued)

Post-IPO Share Option Scheme (continued)

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

	2011 Weighted average exercise price HK$ per share	2011 Number of options '000
At 1 January	—	—
Granted during the year	1.960	11,600
At 31 December	1.960	11,600

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

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 case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was US$1,087,000 (2010: Nil) of which the Group recognised a share option expense of US$186,000 (2010: Nil) during the year.

30. SHARE OPTION SCHEMES (continued)

Post-IPO Share Option Scheme (continued)

The fair value of equity-settled share options at the date of grant was determined by BMI Appraisals Limited ("BMI") 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:

	2011
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.

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 11,600,000 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 11,600,000 additional ordinary shares of the Company and additional share capital of HK$1,160,000 (equivalent to approximately US$149,000) and share premium of HK$21,668,000 (equivalent to approximately US$2,783,000).

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 62 to 63 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 30 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; 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 and jointly-controlled entities 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 payment transactions 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.

(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.

31. RESERVES (continued)

Group (continued)

(h) Exchange fluctuation reserve

The exchange fluctuation reserve represents the differences arising from the translation of assets and liabilities and profit or loss of subsidiaries and jointly-controlled entities, whose functional currencies are not the US Dollars, 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 9 April 2010 (date of incorporation) (note 29(a))	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	41,576	—	41,576
Issue of shares in connection with the Reorganisation (note 29(b))	59,412	—	—	—	—	—	59,412
Capitalisation issue of shares (note 29(c))	(25,140)	—	—	—	—	—	(25,140)
Issue of shares in connection with the Listing (note 29(d))	392,212	—	—	—	—	—	392,212
Share issue expenses (note 29)	(15,169)	—	—	—	—	—	(15,169)
Proposed final 2010 dividend	—	—	—	—	(40,088)	40,088	—
Share option expense (note 30)	—	—	—	838	—	—	838
At 31 December 2010 and 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(e))	(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 expenses (note 30)	—	—	—	867	—	—	867
At 31 December 2011	409,064	(56)	132	1,614	3,654	39,997	454,405

32. CONTINGENT LIABILITIES

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

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its containers, container vessels, office properties and warehouses under operating lease arrangements. Lease for containers are negotiated for terms ranging from one to ten years, vessels are for terms ranging from one to two years, office properties and warehouse are for terms ranging from one to five years and lands 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:

	2011	2010
	US$'000	US$'000
Within one year	**77,154**	59,347
In the second to fifth years, inclusive	**106,078**	60,504
After five years	**2,742**	438
	185,974	120,289

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:

	2011	2010
	US$'000	US$'000
Contracted, but not provided for:		
Container vessels	**164,900**	135,700
Office building	**6,786**	—
Computer systems	**—**	927
	171,686	136,627
Contracted, but not provided for:		
Capital contributions payable to:		
Jointly-controlled entity	**1,176**	490
Associate	**—**	778
	1,176	1,268
	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	
	2011	2010
	US$'000	US$'000
Companies controlled by the Controlling Shareholder:		
Container marine transportation services income	**6,002**	78,608
Shipping agency income	**—**	86
Freight forwarding services income for marine transportation	**—**	96
Custom services income	**20**	—
Shipping agency fee expenses	**116**	14,365
Container vessels rental expenses	**1,524**	1,363
Vessel management fee	**414**	1,040
Land and buildings rental expenses	**731**	735
Land and buildings rental expenses*	**297**	266
Property management services expenses	**24**	—
Associates:		
Container marine transportation services income*	**10,018**	6,595
Shipping agency fee expenses*	**97**	70
Jointly-controlled entities:		
Container marine transportation services income*	**55,071**	26,152
Freight forwarding services income for marine transportation*	**2,092**	503
Warehousing expenses	**—**	2,277
Warehousing expenses*	**8,432**	665
Freight forwarding services expenses*	**327**	227
Venturers of the Group's jointly-controlled entities:		
Logistics services income	**594**	3,082
Depot services income	**1,377**	—
Bonded warehousing services income	**183**	—

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

(b) Other transactions with related parties:

During the year, the Group disposed of a container vessel with a carrying amount of US$3,541,000 to SITC Steamships Co., Ltd., a company controlled by the Controlling Shareholder, for a cash consideration US$3,800,000, which was mutually agreed by the two parties.

35. RELATED PARTY TRANSACTIONS (continued)

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

	2011 US$'000	2010 US$'000
Short term employee benefits	**2,109**	3,998
Post-employment benefits	**36**	27
Equity-settled share option expenses	**157**	155
Total compensation paid to key management personnel	**2,302**	4,180

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

Except for item (c) 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

2011

Financial assets

	Loans and receivables US$'000	Available-for-sale financial assets US$'000	Total US$'000
Available-for-sale investments	—	782	782
Trade receivables	84,290	—	84,290
Financial assets included in prepayments, deposits and other receivables	6,607	—	6,607
Due from related companies	871	—	871
Pledged deposits	79	—	79
Cash and cash equivalents	449,018	—	449,108
	540,865	782	541,647

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	—	151,355	151,355
Financial liabilities included in other payables and accruals	—	13,870	13,870
Due to related companies	—	866	866
Derivative financial instruments	1,014	—	1,014
Interest-bearing bank borrowings	—	37,153	37,153
	1,014	203,244	204,258

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Group

2010

Financial assets

	Loans and receivables US$'000	Available-for-sale financial assets US$'000	Total US$'000
Available-for-sale investments	—	394	394
Trade receivables	55,910	—	55,910
Financial assets included in prepayments, deposits and other receivables	6,323	—	6,323
Due from related companies	2,133	—	2,133
Pledged deposits	75	—	75
Cash and cash equivalents	515,334	—	515,334
	579,775	394	580,169

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	—	93,194	93,194
Financial liabilities included in other payables and accruals	—	22,005	22,005
Due to related companies	—	1,096	1,096
Derivative financial instruments	3,123	—	3,123
Interest-bearing bank borrowings	—	78,416	78,416
	3,123	194,711	197,834

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Company

Financial assets

	2011		2010	
	Loans and receivables US$'000	**Total US$'000**	Loans and receivables US$'000	Total US$'000
Due from a subsidiary	**386,435**	**386,435**	382,817	382,817
Dividend receivables	**39,997**	**39,997**	45,000	45,000
Cash and cash equivalents	**2,299**	**2,299**	21	21
	428,731	**428,731**	427,838	427,838

Financial liabilities

	2011		2010	
	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	
	2011 **US$'000**	2010 US$'000	**2011** **US$'000**	2010 US$'000
Financial assets				
Cash and cash equivalents	**449,018**	515,334	**449,018**	515,334
Pledged deposits	**79**	75	**79**	75
Trade receivables	**84,290**	55,910	**84,290**	55,910
Financial assets included in prepayments, deposits and other receivables	**6,607**	6,323	**6,607**	6,323
Available-for-sale investments	**782**	394	**782**	394
Due from related companies	**871**	2,133	**871**	2,133
	541,647	580,169	**541,647**	580,169

	Carrying amounts		Fair values	
	2011 **US$'000**	2010 US$'000	**2011** **US$'000**	2010 US$'000
Financial liabilities				
Trade payables	**151,355**	93,194	**151,355**	93,194
Financial liabilities included in other payables and accruals	**13,870**	22,005	**13,870**	22,005
Derivative financial instruments	**1,014**	3,123	**1,014**	3,123
Interest-bearing bank borrowings	**37,153**	78,416	**37,153**	78,416
Due to related companies	**866**	1,096	**866**	1,096
	204,258	197,834	**204,258**	197,834

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

37. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

	Carrying amounts		Fair values	
	2011 **US$'000**	2010 US$'000	**2011** **US$'000**	2010 US$'000
Financial assets				
Cash and cash equivalents	**2,299**	21	**2,299**	21
Dividend receivable	**39,997**	45,000	**39,997**	45,000
Due from a subsidiary	**386,435**	382,817	**386,435**	382,817
	428,731	427,838	**428,731**	427,838

	Carrying amounts		Fair values	
	2011 **US$'000**	2010 US$'000	**2011** **US$'000**	2010 US$'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, time deposits, pledged deposits, trade receivables, dividend receivable, trade payables, 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 2011:

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

As at 31 December 2010:

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

37. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Liabilities measured at fair value:

Group

As at 31 December 2011:

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

As at 31 December 2010:

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'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 (2010: Nil) and no transfers into or out of Level 3 (2010: Nil).

The Company did not have any financial asset/liabilities measured at fair value as at 31 December 2011 (2010: 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.

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 2011, after taking into account the effect of the interest rate swaps, approximately 20% (2010: 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
2011		
United States dollar	**100**	**(173)**
Japanese Yen	**100**	**(198)**
United States dollar	**(100)**	**173**
Japanese Yen	**(100)**	**198**
2010		
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 currency. Approximately 77.6% (2010: 67.8%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 51.8% (2010: 44.0%) of costs were denominated in the units' functional currency. 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 2011, the Group had hedged 8.7% (2010: 6.4%) 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
2011		
If United States dollar weakens against Renminbi	**5.0**	**12,719**
If United States dollar strengthens against Renminbi	**(5.0)**	**(12,719)**
If United States dollar weakens against Japanese Yen	**5.0**	**(1,599)**
If United States dollar strengthens against Japanese Yen	**(5.0)**	**1,599**
2010		
If United States dollar weakens against Renminbi	5.0	4,929
If United States dollar strengthens against Renminbi	(5.0)	(4,929)
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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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. 84% of the Group's debts would mature in less than one year as at 31 December 2011 (2010: 16%) based on the carrying value 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

			2011		
	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	31,205	1,372	4,118	458	37,153
Trade payables	151,355	—	—	—	151,355
Financial liabilities included in other payables and accruals	13,870	—	—	—	13,870
Due to related companies	866	—	—	—	866
Derivative financial instruments	775	239	—	—	1,014
	198,071	1,611	4,118	458	204,258

			2010		
	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	14,081	18,977	35,885	14,128	83,071
Trade payables	93,194	—	—	—	93,194
Financial liabilities included in other payables and accruals	22,005	—	—	—	22,005
Due to related companies	1,096	—	—	—	1,096
Derivative financial instruments	2,693	109	256	65	3,123
	133,069	19,086	36,141	14,193	202,489

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 2011 and 31 December 2010.

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 the gearing ratio between 40% and 90%. 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

	2011 **US$'000**	2010 US$'000
Interest-bearing bank borrowings	**37,153**	78,416
Trade payables	**151,355**	93,194
Other payables and accruals	**19,821**	27,160
Due to related companies	**866**	1,096
Less: Cash and cash equivalents	**(449,018)**	(515,409)
Net cash	**(239,823)**	(315,543)
Equity attributable to owners of the parent	**649,712**	593,636
Hedging reserve	**713**	2,560
Adjusted capital	**650,425**	596,196
Capital and net debt	**410,602**	280,653
Gearing ratio	**—**	—

39. EVENTS AFTER THE REPORTING PERIOD

On 28 February 2012, SITC Investment Holdings (Qingdao) Company Limited ("Qingdao SITC Investment"), an investment holding company in which 62.5% interest is owned by the Controlling Shareholder, entered into an equity transfer agreement with SITC Shipping Management (Shanghai) Co., Ltd. ("Shanghai SITC Shipping Management"), a subsidiary of the Group, pursuant to which Qingdao SITC Investment agreed to sell, and Shanghai SITC Shipping Management agreed to purchase, the entire equity interest in SITC Ship Management (Shandong) Co., Ltd. ("Shandong Shipping Management") for a total consideration of approximately US$877,000. The transaction was not yet completed on the date of approval of these financial statements.

On the same day, Shanghai SITC Shipping Management and Qingdao SITC Investment entered into a shipping management and crew management agreement pursuant to which Shanghai SITC Shipping Management agreed to provide shipping management services and crew management services to Qingdao SITC Investment.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 March 2012.

Five Year Financial Summary

The consolidated results of SITC International Holdings Company Limited (the "Company") and its subsidiaries (together the "Group") for the years ended 31 December 2011 and 2010 and the consolidated assets, liabilities and equity of the Group as at 31 December 2011 and 2010 are those set out in the audited financial statements.

The summary of the consolidated results of the Group for each of the three years ended 31 December 2007, 2008 and 2009 and of the assets, liabilities and non-controlling interests as at 31 December 2007, 2008 and 2009 has been extracted from 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. The amounts for the year ended 31 December 2010 and 2011 were extracted from published audited financial statements. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis as set out in note 2.1 to the financial statements.

The summary below does not form part of the audited financial statements.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	US$'000	US$'000	US$'000	US$'000	US$'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**1,087,241**	891,510	694,173	771,900	576,359
Cost of sales	**(960,332)**	(719,694)	(624,150)	(671,540)	(520,208)
Gross profit	**126,909**	171,816	70,023	100,360	56,151
Other income and gains	**34,603**	3,054	4,264	4,923	12,329
Administrative expenses	**(57,434)**	(52,144)	(37,040)	(53,427)	(26,713)
Other expenses and losses	**(4,524)**	(6,166)	(1,614)	(11,178)	(81)
Finance costs	**(1,625)**	(1,678)	(1,745)	(3,966)	(6,479)
Share of profits and losses of associates	**258**	133	74	—	—
PROFIT BEFORE TAX	**98,187**	115,015	33,962	36,712	35,207
Income tax expense	**(3,752)**	(2,684)	(1,482)	(1,322)	(876)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**94,435**	112,331	32,480	35,390	34,331
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**—**	—	—	—	4,858
PROFIT FOR THE YEAR	**94,435**	112,331	32,480	35,390	39,189

Five Year Financial Summary

	Year ended 31 December				
	2011	2010	2009	2008	2007
	US$'000	US$'000	US$'000	US$'000	US$'000
Profit attributable to:					
Owners of the parent	**93,608**	111,983	32,150	35,106	38,762
Non-controlling interests	**827**	348	330	284	427
	94,435	112,331	32,480	35,390	39,189
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**864,704**	800,388	346,437	291,737	332,941
TOTAL LIABILITIES	**(212,050)**	(204,415)	(246,516)	(192,492)	(266,067)
NON-CONTROLLING INTERESTS	**(3,180)**	(2,337)	(1,895)	(1,457)	(3,994)
	649,474	593,636	98,026	97,788	62,880