

REPORT OF THE DIRECTORS & FINANCIAL STATEMENTS

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REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") submit their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 43 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2008 are set out in the consolidated income statement on page 118 of this annual report.

The directors declared an interim dividend of HK27.4 cents (equivalent to US3.514 cents) per share, totalling HK\$615,138,000 (equivalent to US\$78,890,000), which was paid on 19th September 2008.

The directors recommend the payment of a final dividend of HK10.7 cents (equivalent to US1.382 cents) per share, with a scrip dividend alternative, totalling HK\$240,218,000 (equivalent to US\$31,026,000), payable on or about 20th July 2009.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 199 of this annual report.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 119 and 120 of this annual report.

Movements in the reserves of Company during the year are set out in note 21 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$260,000.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 20 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2008 calculated under the Companies Act of Bermuda amounted to US\$864,614,000.

BORROWINGS

Details of the borrowings of the Group are set out in note 22 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in notes 3.20 and 34 to the consolidated financial statements.

DIRECTORS

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

| | |
|---|--|
| Dr. WEI Jiafu ² | (resigned as non-executive director and Chairman of the Board on 22nd July 2008) |
| Mr. CHEN Hongsheng ² (<i>Chairman</i>) | (re-designated from executive director to non-executive director and appointed as Chairman of the Board on 22nd July 2008) |
| Mr. LI Jianhong ¹ | |
| Mr. XU Lirong ² | |
| Ms. SUN Yueying ¹ | |
| Mr. XU Minjie ¹ (<i>Vice Chairman and Managing Director</i>) | |
| Dr. SUN Jiakang ² | |
| Mr. HE Jiale ¹ | (appointed on 1st January 2009) |
| Dr. WONG Tin Yau, Kelvin ¹ | |
| Mr. WANG Zhi ¹ | |
| Mr. YIN Weiyu ¹ | (appointed on 4th January 2008) |
| Mr. QIN Fuyan ¹ | (resigned on 4th January 2008) |
| Dr. LI Kwok Po, David ³ | |
| Mr. LIU Lit Man ³ | (retired on 15th May 2008) |
| Mr. CHOW Kwong Fai, Edward ³ | |
| Mr. Timothy George FRESHWATER ³ | |
| Dr. FAN HSU Lai Tai, Rita ³ | (appointed on 1st January 2009) |

¹ Executive Director

² Non-executive Director

³ Independent Non-executive Director

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. HE Jiale and Dr. FAN HSU Lai Tai, Rita, being new directors appointed during the year, retire at the forthcoming general meeting and, being eligible, offer themselves for re-election.

In accordance with Clauses 87(1) and (2) of the Company's Bye-laws, Mr. LI Jianhong, Ms. SUN Yueying, Mr. XU Minjie, Dr. WONG Tin Yau, Kelvin and Mr. CHOW Kwong Fai, Edward, being directors in longest office, retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out on pages 82 to 91 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. XU Minjie has entered into a service agreement with COSCO Pacific Management Company Limited ("COSCO Pacific Management"), a wholly owned subsidiary of the Company, on 24th January 2007 for a term of three years commencing from 24th January 2007. The agreement is renewable automatically for successive terms of three years subject to termination by either party giving not less than three months' notice in writing to the other party pursuant to the terms of the service agreement.

REPORT OF THE DIRECTORS

Dr. WONG Tin Yau, Kelvin has a service agreement with the Company commencing from 22nd July 1996. The agreement is terminable by either party giving to the other party not less than one month's prior notice in writing.

Mr. WANG Zhi has an employment contract with COSCO Pacific Management commencing from 1st April 2001. Such contract is terminable by either party by giving to the other party not less than one month's prior notice in writing.

Mr. YIN Weiyu has an employment contract with COSCO Pacific Management commencing from 9th October 2006. Such contract is terminable by either party by giving to the other party not less than one month's prior notice in writing.

Save as disclosed above, none of the directors has a service agreement or employment contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

SHARE OPTIONS

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

All options granted under the 1994 Share Option Scheme had been expired on 19th May 2007. There was no outstanding option yet to be exercised under the 1994 Share Option Scheme as at 1st January 2008.

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

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

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

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

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

As at the date of this report, a total of 87,731,229 shares (representing approximately 3.91% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the 2003 Share Option Scheme and a total of 42,633,000 shares (representing approximately 1.90% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2003 Share Option Scheme.

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

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

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

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

Notes:

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

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

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

REPORT OF THE DIRECTORS

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

| Category | Exercise price HK\$ | Number of share options | | | | | Outstanding at 31st December 2008 | % of total issued share capital | Exercisable period | Note |
|--------------------------------------|---------------------|---------------------------------|-------------------------|---------------------------|--|------------------------|-----------------------------------|---------------------------------|------------------------|---------------|
| | | Outstanding at 1st January 2008 | Granted during the year | Exercised during the year | Transfer (to)/ from other categories during the year | Lapsed during the year | | | | |
| Directors | | | | | | | | | | |
| Mr. CHEN Hongsheng | 13.75 | 1,000,000 | - | - | - | - | 1,000,000 | 0.045% | 3.12.2004-2.12.2014 | (2), (4) |
| Mr. LI Jianhong | 13.75 | 1,000,000 | - | - | - | - | 1,000,000 | 0.045% | 2.12.2004-1.12.2014 | (2), (4) |
| Ms. SUN Yueying | 13.75 | 1,000,000 | - | - | - | - | 1,000,000 | 0.045% | 3.12.2004-2.12.2014 | (2), (4) |
| Mr. XU Minjie | 19.30 | 800,000 | - | - | - | - | 800,000 | 0.036% | 19.4.2007-18.4.2017 | (3), (4) |
| Dr. SUN Jiakang | 13.75 | 700,000 | - | - | - | - | 700,000 | 0.031% | 1.12.2004 - 30.11.2014 | (2), (4) |
| Dr. WONG Tin Yau, Kelvin | 9.54 | 800,000 | - | - | - | - | 800,000 | 0.036% | 28.10.2003-27.10.2013 | (1), (4) |
| | 13.75 | 1,000,000 | - | - | - | - | 1,000,000 | 0.045% | 2.12.2004-1.12.2014 | (2), (4) |
| | 19.30 | 500,000 | - | - | - | - | 500,000 | 0.022% | 18.4.2007-17.4.2017 | (3), (4) |
| Mr. WANG Zhi | 13.75 | 550,000 | - | - | - | - | 550,000 | 0.024% | 29.11.2004-28.11.2014 | (2), (4) |
| | 19.30 | 500,000 | - | - | - | - | 500,000 | 0.022% | 18.4.2007-17.4.2017 | (3), (4) |
| Mr. YIN Weiyu* | 19.30 | - | - | - | 500,000 | - | 500,000 | 0.022% | 19.4.2007-18.4.2017 | (3), (4), (5) |
| Ex-directors | | | | | | | | | | |
| Dr. WEI Jiafu** | 13.75 | 1,000,000 | - | - | (1,000,000) | - | - | - | 3.12.2004-2.12.2014 | (2), (4), (5) |
| Mr. QIN Fuyan* | 13.75 | 200,000 | - | - | (200,000) | - | - | - | 29.11.2004-28.11.2014 | (2), (4), (5) |
| | 19.30 | 500,000 | - | - | (500,000) | - | - | - | 19.4.2007-18.4.2017 | (3), (4), (5) |
| | | 9,550,000 | - | - | (1,200,000) | - | 8,350,000 | | | |
| Continuous contract employees | | | | | | | | | | |
| | 9.54 | 1,725,000 | - | (94,000) | - | (20,000) | 1,611,000 | 0.072% | (refer to note 1) | (1) |
| | 13.75 | 14,042,000 | - | (50,000) | 200,000 | (120,000) | 14,072,000 | 0.627% | (refer to note 2) | (2), (5) |
| | 19.30 | 14,770,000 | - | - | - | (190,000) | 14,580,000 | 0.649% | (refer to note 3) | (3), (5) |
| Others | | | | | | | | | | |
| | 9.54 | 50,000 | - | - | - | - | 50,000 | 0.002% | (refer to note 1) | (1) |
| | 13.75 | 3,124,000 | - | (4,000) | 1,000,000 | - | 4,120,000 | 0.184% | (refer to note 2) | (2), (5) |
| | | 33,711,000 | - | (148,000) | 1,200,000 | (330,000) | 34,433,000 | | | |
| | | 43,261,000 | - | (148,000) | - | (330,000) | 42,783,000 | | | |

* Mr. QIN Fuyan resigned and Mr. YIN Weiyu has been appointed as an executive director of the Company, both with effect from 4th January 2008.

** Dr. WEI Jiafu resigned as Chairman of the Board and a non-executive director of the Company on 22nd July 2008.

Notes:

- (1) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme at an exercise price of HK\$9.54. The options are exercisable at any time within ten years from the commencement date which is the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options was from 28th October 2003 to 6th November 2003.
- (2) The share options were granted during the period from 25th November 2004 to 16th December 2004 under the 2003 Share Option Scheme at an exercise price of HK\$13.75. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options was from 25th November 2004 to 16th December 2004.
- (3) The share options were granted during the period from 17th April 2007 to 19th April 2007 under the 2003 Share Option Scheme at an exercise price of HK\$19.30. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options was from 17th April 2007 to 19th April 2007.
- (4) These options represent personal interests held by the relevant directors as beneficial owners.
- (5) Mr. QIN Fuyan resigned and Mr. YIN Weiyu has been appointed as an executive director of the Company, both with effect from 4th January 2008. In this respect, the options granted to Mr. QIN Fuyan were re-classified from the category of "directors" to the category of "continuous contract employees" and the options granted to Mr. YIN Weiyu were re-classified from the category of "continuous contract employees" to the category of "directors". Dr. WEI Jiafu resigned as Chairman of the Board and a non-executive director of the Company on 22nd July 2008. In this respect, the options granted to Dr. WEI Jiafu were re-classified from the category of "directors" to the category of "others".
- (6) The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$18.19.
- (7) No share options were granted or cancelled under the 2003 Share Option Scheme during the year ended 31st December 2008.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2008, the interests of the Company's directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(a) Long positions in the shares of the Company

| Name of director | Capacity | Nature of interest | Number of ordinary shares held | % of total issued share capital of the Company |
|----------------------------------|------------------|--------------------|--------------------------------|--|
| Dr. LI Kwok Po, David | Beneficial owner | Personal | 258,000 | 0.011% |
| Mr. Timothy George FRESHWATER | Beneficial owner | Personal | 30,000 | 0.001% |

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

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

REPORT OF THE DIRECTORS

(c) Long positions in the shares of associated corporations

| Name of associated corporation | Name of director | Capacity | Nature of interest | Number of H shares held | % of total issued H share capital of the relevant associated corporation | Number of A shares held | % of total issued A share capital of the relevant associated corporation |
|--------------------------------------|--------------------------|--------------------|--------------------|-------------------------|--|-------------------------|--|
| China COSCO Holdings Company Limited | Dr. WONG Tin Yau, Kelvin | Beneficial owner | Personal | 573,875 | 0.022% | – | – |
| | Mr. YIN Weiyu | Beneficial owner | Personal | – | – | 10,000 | 0.0001% |
| | | Interest of spouse | Family | – | – | 4,000 | 0.0001% |

| Name of associated corporation | Name of director | Capacity | Nature of interest | Number of shares held | % of total issued share capital of the relevant associated corporation |
|--------------------------------------|--------------------------|------------------|--------------------|-----------------------|--|
| COSCO International Holdings Limited | Dr. WONG Tin Yau, Kelvin | Beneficial owner | Personal | 800,000 | 0.054% |

| Name of associated corporation | Name of director | Capacity | Nature of interest | Number of shares held | % of total issued share capital of the relevant associated corporation | Note |
|---------------------------------------|--------------------|------------------|--------------------|-----------------------|--|----------|
| COSCO Corporation (Singapore) Limited | Mr. LI Jianhong | Beneficial owner | Personal | 1,300,000 | 0.058% | (1) |
| | Ms. SUN Yueying | Beneficial owner | Personal | 1,400,000 | 0.063% | (1) |
| | Ex-director | | | | | |
| | Dr. WEI Jiafu | Beneficial owner | Personal | 1,900,000 | 0.085% | (1), (2) |

Notes:

- (1) Adjustments were made to the number of shares held by these directors as a result of the approval of the sub-division of every 1 ordinary share of S\$0.20 each divided into 2 ordinary shares of S\$0.10 each by the shareholders of COSCO Corporation (Singapore) Limited ("COSCO Singapore"), an associated corporation of the Company listed on the Singapore Exchange Securities Trading Limited, at the extraordinary general meeting held on 17th January 2006.
- (2) Dr. WEI Jiafu resigned as a non-executive director of the Company and Chairman of the Board on 22nd July 2008. He held 1,900,000 shares of COSCO Singapore as at the aforesaid date.

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

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

| Name of associated corporation | Name of director | Capacity | Nature of interest | Exercise price HK\$ | Number of share options | | | | Outstanding at 31st December 2008 | % of total issued share capital of the relevant associated corporation | Note |
|--------------------------------------|------------------|------------------|--------------------|---------------------|---------------------------------|-------------------------|---------------------------|------------------------|-----------------------------------|--|---------------|
| | | | | | Outstanding at 1st January 2008 | Granted during the year | Exercised during the year | Lapsed during the year | | | |
| COSCO International Holdings Limited | Mr. LI Jianhong | Beneficial owner | Personal | 0.57 | 1,800,000 | - | - | (1,800,000) | - | - | (1), (4) |
| | | | | 1.37 | 1,200,000 | - | - | - | 1,200,000 | 0.081% | (2) |
| | Dr. SUN Jiakang | Beneficial owner | Personal | 0.57 | 600,000 | - | (600,000) | - | - | - | (1) |
| | | | | 1.37 | 800,000 | - | - | - | 800,000 | 0.054% | (2) |
| Dr. WONG Tin Yau, Kelvin | Beneficial owner | Personal | 0.57 | 800,000 | - | (800,000) | - | - | - | (1) | |
| | | | 1.37 | 500,000 | - | - | - | 500,000 | 0.034% | (2) | |
| Ex-director | | | | | | | | | | | |
| | Dr. WEI Jiafu | Beneficial owner | Personal | 0.57 | 1,800,000 | - | - | (1,800,000) | - | - | (1), (3), (4) |
| | | | | 1.37 | 1,200,000 | - | - | - | 1,200,000 | 0.081% | (2), (3) |

Notes:

- (1) The share options were granted by COSCO International Holdings Limited ("COSCO International"), an associated corporation of the Company listed on the Stock Exchange, on 26th November 2003 pursuant to the share option scheme adopted by COSCO International on 17th May 2002 and amended by the shareholders of COSCO International at the special general meeting held on 5th May 2005 (the "Share Option Scheme of COSCO International"). The share options were exercisable at an exercise price of HK\$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.
- (2) The share options were granted by COSCO International on 2nd December 2004 pursuant to the Share Option Scheme of COSCO International. The share options are exercisable at an exercise price of HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.
- (3) Dr. WEI Jiafu resigned as a non-executive director of the Company and Chairman of the Board on 22nd July 2008.
- (4) Dr. WEI Jiafu and Mr. LI Jianhong voluntarily renounced their rights to exercise the share options at the exercise price of HK\$0.57 within the exercisable period. The share options were lapsed on 23rd December 2008.
- (5) During the year, no share options mentioned above were cancelled.

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| Name of associated corporation | Name of director | Capacity | Nature of interest | Exercise price S\$ | Number of share options | | | | Outstanding at 31st December 2008 | % of total issued share capital of the relevant associated corporation | Note |
|---------------------------------------|--------------------|------------------|--------------------|--------------------|---------------------------------|-------------------------|---------------------------|------------------------|-----------------------------------|--|---------------|
| | | | | | Outstanding at 1st January 2008 | Granted during the year | Exercised during the year | Lapsed during the year | | | |
| COSCO Corporation (Singapore) Limited | Mr. LI Jianhong | Beneficial owner | Personal | 1.23 | 700,000 | - | - | - | 700,000 | 0.031% | (1) |
| | Ms. SUN Yueying | Beneficial owner | Personal | 1.23 | 700,000 | - | - | - | 700,000 | 0.031% | (1) |
| | Ex-director | | | | | | | | | | |
| | Dr. WEI Jiafu | Beneficial owner | Personal | 1.23 | 1,100,000 | - | - | (1,100,000) | - | - | (1), (2), (3) |

Notes:

- (1) The share options were granted by COSCO Corporation (Singapore) Limited on 21st February 2006 and are exercisable at any time between 21st February 2007 and 20th February 2011.
- (2) Dr. WEI Jiafu resigned as a non-executive director of the Company and Chairman of the Board on 22nd July 2008.
- (3) Dr. WEI Jiafu voluntarily renounced his rights to exercise the share options at the exercise price of S\$1.23 within the exercisable period. The share options were lapsed on 15th October 2008.
- (4) During the year, no share options mentioned above were cancelled.

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

| Name of associated corporation | Name of director | Capacity | Nature of interest | Exercise price HK\$ | Number of units of share appreciation rights | | | | % of total issued H share capital of the relevant associated corporation | Note |
|--------------------------------------|--------------------|------------------|--------------------|---------------------|--|-------------------------|---------------------------|-----------------------------------|--|----------|
| | | | | | Outstanding at 1st January 2008 | Granted during the year | Exercised during the year | Outstanding at 31st December 2008 | | |
| China COSCO Holdings Company Limited | Mr. CHEN Hongsheng | Beneficial owner | Personal | 3.195 | 600,000 | - | (75,000) | 525,000 | 0.020% | (1) |
| | | | | 3.588 | 700,000 | - | - | 700,000 | 0.027% | (2) |
| | | | | 9.540 | 680,000 | - | - | 680,000 | 0.026% | (3) |
| | Mr. LI Jianhong | Beneficial owner | Personal | 3.195 | 450,000 | - | - | 450,000 | 0.017% | (1) |
| | | | | 3.588 | 600,000 | - | - | 600,000 | 0.023% | (2) |
| | | | | 9.540 | 580,000 | - | - | 580,000 | 0.022% | (3) |
| | Mr. XU Lirong | Beneficial owner | Personal | 3.195 | 375,000 | - | - | 375,000 | 0.015% | (1) |
| | | | | 3.588 | 500,000 | - | - | 500,000 | 0.019% | (2) |
| | | | | 9.540 | 580,000 | - | - | 580,000 | 0.022% | (3) |
| | Ms. SUN Yueying | Beneficial owner | Personal | 3.195 | 500,000 | - | (50,000) | 450,000 | 0.017% | (1) |
| | | | | 3.588 | 600,000 | - | - | 600,000 | 0.023% | (2) |
| | | | | 9.540 | 580,000 | - | - | 580,000 | 0.022% | (3) |
| | Mr. XU Minjie | Beneficial owner | Personal | 3.195 | 100,000 | - | (25,000) | 75,000 | 0.003% | (1) |
| | | | | 3.588 | 90,000 | - | - | 90,000 | 0.003% | (2) |
| | Dr. SUN Jiakang | Beneficial owner | Personal | 3.195 | 500,000 | - | (125,000) | 375,000 | 0.015% | (1) |
| | | | | 3.588 | 500,000 | - | - | 500,000 | 0.019% | (2) |
| | | | | 9.540 | 480,000 | - | - | 480,000 | 0.019% | (3) |
| | Mr. YIN Weiyu | Beneficial owner | Personal | 3.195 | 100,000 | - | - | 100,000 | 0.004% | (1) |
| | | | | 3.588 | 65,000 | - | - | 65,000 | 0.003% | (2) |
| | Ex-director | | | | | | | | | |
| | Dr. WEI Jiafu | Beneficial owner | Personal | 3.195 | 680,000 | - | - | 680,000 | 0.026% | (1), (4) |
| | | | | 3.588 | 900,000 | - | - | 900,000 | 0.035% | (2), (4) |
| | | | | 9.540 | 880,000 | - | - | 880,000 | 0.034% | (3), (4) |

Notes:

- The share appreciation rights were granted by China COSCO Holdings Company Limited ("China COSCO"), an associated corporation of the Company listed on the Stock Exchange and the Shanghai Stock Exchange, in units with each unit representing one H share of China COSCO, on 16th December 2005 pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). Under the Plan, no shares will be issued. The share appreciation rights can be exercisable at HK\$3.195 per unit at any time between 16th December 2007 and 15th December 2015.
- The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 5th October 2006 pursuant to the Plan. Under the Plan, no shares will be issued. The share appreciation rights can be exercisable at HK\$3.588 per unit at any time between 5th October 2008 and 4th October 2016.
- The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 4th June 2007 pursuant to the Plan. Under the Plan, no shares will be issued. The share appreciation rights can be exercisable at HK\$9.540 per unit at any time between 4th June 2009 and 3rd June 2017.
- Dr. WEI Jiafu resigned as a non-executive director of the Company and Chairman of the Board on 22nd July 2008.
- During the year, no share appreciation rights mentioned above were lapsed or cancelled.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31st December 2008, none of the directors or chief executive of the Company had any interests or short positions in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries (excluding the Group) (collectively the "COSCO Group") (excluding the COSCO Logistics Group as defined below) carry on, among others, the businesses of shipping agency, freight forwarding and/or third party logistics and supporting services relating to the aforesaid services ("Logistics Businesses"), details of which are disclosed in the connected transactions circular issued by the Company dated 13th October 2003. The core of such businesses is unlikely to be in competition with the businesses carried on by COSCO Logistics Co., Ltd. ("COSCO Logistics"), its subsidiaries, jointly controlled entities and associates (collectively the "COSCO Logistics Group"). As at 31st December 2008, China COSCO, a subsidiary of COSCO and an intermediate holdings company of the Company, and the Group has 51% and 49% equity interest in COSCO Logistics respectively.

As at 31st December 2008, Mr. CHEN Hongsheng, Mr. LI Jianhong, Mr. XU Lirong, Ms. SUN Yueying, Mr. XU Minjie and Dr. SUN Jiakang, all being directors of the Company, held directorships and/or senior management posts in the COSCO Group (excluding the COSCO Logistics Group) and/or other companies which have interests in container terminals ("Container Terminal Interests").

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

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2008, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name | Capacity | Nature of interests | Number of ordinary shares/Percentage of total issued share capital | | | |
|---|---|--|--|-------|-----------------|---|
| | | | Long positions | % | Short positions | % |
| COSCO Investments Limited | Beneficial owner | Beneficial interest | 200,120,000 | 8.91 | – | – |
| COSCO Pacific Investment Holdings Limited | Beneficial owner and interest of controlled corporation | Beneficial interest and corporate interest | 1,144,166,411 | 50.96 | – | – |
| China COSCO Holdings Company Limited | Interest of controlled corporation | Corporate interest | 1,144,166,411 | 50.96 | – | – |
| China Ocean Shipping (Group) Company | Interest of controlled corporation | Corporate interest | 1,144,166,411 | 50.96 | – | – |
| Mondrian Investment Partners Limited | Investment manager | Other interest | 114,456,000 | 5.10 | – | – |

Note:

The 1,144,166,411 shares relate to the same batch of shares in the Company. COSCO Investments Limited ("COSCO Investments") is a wholly owned subsidiary of COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment"). Accordingly, the 200,120,000 shares of the Company held by COSCO Investments are also included as part of COSCO Pacific Investment's interests in the Company. COSCO Pacific Investment is a wholly owned subsidiary of China COSCO and it itself holds 944,046,411 shares of the Company beneficially. Accordingly, COSCO Pacific Investment's interests in relation to the 1,144,166,411 shares of the Company are also recorded as China COSCO's interests in the Company. China Ocean Shipping (Group) Company ("COSCO") holds 54.55% interest of the issued share capital of China COSCO as at 31st December 2008, and accordingly, COSCO is deemed to have the interests of 1,144,166,411 shares of the Company held by COSCO Pacific Investment.

Save as disclosed above, as at 31st December 2008, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR SUPPLIERS AND LESSEES

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

| | |
|---|--------|
| Percentage of container purchases attributable to the Group's largest supplier | 8.85% |
| Percentage of container purchases attributable to the Group's five largest suppliers | 37.51% |
| Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO | 70.36% |
| Percentage of leasing income attributable to the Group's five largest lessees | 82.68% |

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

Three of the Group largest suppliers attribute 24.25% of container purchases of the Group. During the year ended 31st December 2008, the Group and COSCO have equity interest in China International Marine Containers (Group) Co., Ltd., the holding company of the aforesaid three suppliers of the Group.

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

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the year ended 31st December 2008, except for the following deviations:

Code provision B.1.1

The code provision B.1.1 of the Corporate Governance Code provides, inter alia, that a majority of the members of the remuneration committee should be independent non-executive directors. Mr. LIU Lit Man retired from office as an independent non-executive director at the annual general meeting of the Company held on 15th May 2008 and resigned as a member of the remuneration committee. Accordingly, there was a causal vacancy in the remuneration committee. During the period from 15th May 2008 to 31st December 2008, the remuneration committee comprises four members, half of whom are independent non-executive directors. This constituted a deviation from the code provision B.1.1 of the Corporate Governance Code.

On 1st January 2009, Dr. FAN HSU Lai Tai, Rita was appointed as an independent non-executive director and a member of the remuneration committee. The remuneration committee now comprises five members, a majority of whom are independent non-executive directors.

Code provision E.1.2

The code provision E.1.2 of the Corporate Governance Code provides that the chairman of the board shall attend the annual general meeting of the Company. Due to business commitment, Dr. WEI Jiafu, the ex-Chairman of the Board who resides in Beijing, was unable to attend the annual general meeting of the Company held on 15th May 2008. This constituted a deviation from the code provision E.1.2 of the Corporate Governance Code.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 63 to 81 of this annual report.

CONNECTED TRANSACTIONS

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

(a) Connected transactions

Entering into the Capital Increase and Amendment Agreement with Qingdao Port (Group) Co., Ltd. and PTS Holdings Limited

On 26th August 2008, COSCO Ports (Qianwan) Limited ("COSCO Ports Qianwan"), a wholly-owned subsidiary of the Company, entered into a capital increase and amendment agreement (the "Capital Increase and Amendment Agreement") with Qingdao Port (Group) Co., Ltd. ("QPC") and PTS Holdings Limited ("PTS Holdings") in relation to the increase in each of the total amount of investment and registered capital of Qingdao Qianwan Container Terminal Co., Ltd. ("QQCT") by US\$78,000,000 (i.e. from US\$887,000,000 to US\$965,000,000 and from US\$230,000,000 to US\$308,000,000 respectively), to be contributed by COSCO Ports Qianwan, QPC and PTS Holdings as to 20%, 31% and 49% respectively (i.e. in proportion to their respective then existing equity interests in QQCT) (the "Capital Increase"). The joint venture contract and articles of association in respect of QQCT were amended and restated in accordance with the provisions of the Capital Increase and Amendment Agreement.

The Capital Increase and Amendment Agreement took effect when it has been executed by each of the joint venture parties and approved by the approval authority of the People's Republic of China (the "PRC").

APM Terminals Invest Company Limited ("APMT"), which is a subsidiary of A.P. Møller-Mærsk A/S ("APM"), is a substantial shareholder of a subsidiary of the Company. APM held approximately 40.82% interest in PTS Holdings then, which had an equity interest of 49% in QQCT. Accordingly, QQCT is an associate of APM and is therefore a connected person of the Company. Hence, the contribution by COSCO Ports Qianwan under Capital Increase constituted a connected transaction of the Company under the Listing Rules.

The Capital Increase was made mainly for the purpose of raising the funds required to fulfill the obligation of QQCT to contribute registered capital to an equity joint venture in the PRC owned by QQCT as to 80%.

Entering into the loan agreement with, and capital injection to, Suez Canal Container Terminal S.A.E.

On 7th November 2008, COSCO Ports (Port Said) Limited ("CPPS"), a wholly-owned subsidiary of the Company, entered into a shareholder loan agreement (the "Loan Agreement") with Suez Canal Container Terminal S.A.E. ("SCCT") pursuant to which CPPS agreed to make available to SCCT a shareholder's loan of up to US\$16,000,000 (the "Shareholder's Loan"), which would serve as a short term bridging loan to SCCT before it obtains permanent financing from third party commercial banks.

SCCT is owned as to 55% by Egyptian International Container Terminal S.A. ("EICT"), 20% by the Company and 25% by other shareholders who are independent third parties. SCCT would borrow a total short term loan of up to US\$80,000,000 to satisfy its short term capital needs before permanent financing could be arranged, and the Shareholder's Loan was proportional to CPPS' 20% equity interest in SCCT.

EICT is an indirect wholly-owned subsidiary of APM, which in turn is a substantial shareholder of a subsidiary of the Company. As SCCT is an associate of APM, therefore it is a connected person of the Company. Accordingly, the transactions contemplated under the Loan Agreement and the provision of the Shareholder's Loan to SCCT would constitute connected transactions of the Company under the Listing Rules.

The management of SCCT later decided that this bridging loan was not required as certain payments in respect of the construction and equipment contracts were able to be postponed in favour of SCCT. The bridging loan arrangement was terminated and the same was disclosed in the announcement of the Company dated 11th December 2008.

On 28th April 2008, the Group took part in the capital contribution of SCCT pursuant to which the share capital of SCCT was increased from US\$68,750,000 to US\$137,500,000 by way of the shareholders of SCCT making pro rata contribution in accordance with their respective interests in SCCT (the "April Contribution"). CPPS subscribed for 137,501 shares of US\$100 each in the issued share capital of SCCT (the "SCCT Share(s)"). The consideration of US\$13,750,100 was satisfied by cash and was financed by internal resources of the Group.

On 11th December 2008, the Company announced that CPPS agreed to take part in a capital contribution of SCCT due on 13th December 2008. The share capital of SCCT was proposed to be increased from US\$137,500,000 to US\$185,625,000 by way of the shareholders of SCCT making pro rata contribution in accordance with their respective interests in SCCT (the "December Contribution"). CPPS subscribed for 96,251 SCCT Shares. The consideration of US\$9,625,100 was satisfied by cash and was financed by internal resources of the Group.

The April Contribution and the December Contribution increased the share capital of SCCT to US\$185,625,000 and were intended to support the Phase 2 expansion plan of the East Port Said Container Terminal which, upon completion, was expected to double the current capacity of the terminal to 5,100,000 TEUs per annum.

The April Contribution and the December Contribution constituted connected transactions of the Company under the Listing Rules.

(b) Continuing connected transactions

Rental of office premises

On 27th March 2006, COSCO Pacific Management Company Limited ("COSCO Pacific Management"), a wholly-owned subsidiary of the Company, as tenant entered into two tenancy agreements with Wing Thye Holdings Limited ("Wing Thye") as landlord in respect of the leasing of certain office premises situated at 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong ("COSCO Tower") (the "4901 and 4902A Tenancy Agreement" and the "4903 Tenancy Agreement", collectively the "2006 Tenancy Agreements").

Pursuant to the 4901 and 4902A Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye portions of the premises known as Unit 4901 and Unit 4902A situate at COSCO Tower ("Units 4901 and 4902A") for a term of three years commencing with retrospective effect from 29th November 2005 at a monthly rental of HK\$420,000, exclusive of rates and management fees payable by COSCO Pacific Management. The monthly management fees payable to Wing Thye was HK\$50,746.60. The maximum aggregate annual value of the rental and the management fees was HK\$5,648,959.20.

Pursuant to the 4903 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4903 situate at COSCO Tower ("Unit 4903") for a term of two years ten months and thirteen days commencing with retrospective effect from 16th January 2006 at a monthly rental of HK\$150,000 (including rent-free period from 16th January 2006 to 15th March 2006 (both days inclusive)) exclusive of rates and management fees payable by COSCO Pacific Management. The monthly management fees payable to Wing Thye was HK\$18,170. The maximum aggregate annual value of the rental and the management fees was HK\$2,018,040.

On 28th November 2008, COSCO Pacific Management as tenant entered into a tenancy agreement with Wing Thye as landlord (the "2008 Tenancy Agreement") in respect of the leasing of Units 4901 and 4902A and Unit 4903 (the "Premises").

Pursuant to the 2008 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye the Premises for a term of three years commencing from 29th November 2008 at a monthly rental of HK\$846,846.00 exclusive of government rent, rates and management fees payable to Wing Thye. The monthly management fees payable to Wing Thye is HK\$72,586.80. During the subsistence of the 2008 Tenancy Agreement, the maximum aggregate annual value of the rental and the management fees is HK\$11,033,193.60. The 2008 Tenancy Agreement does not provide for renewal clauses.

The Company intended to continue to occupy the Premises on a long term basis as the head office of itself and its subsidiaries and as its principal place of business in Hong Kong. In negotiating the respective rentals under the 2006 Tenancy Agreements and the 2008 Tenancy Agreement, the directors of the Company made reference to the professional opinion given by DTZ Debenham Tie Leung Limited ("DTZ"), an independent professional valuer engaged by COSCO Pacific Management and Wing Thye. DTZ opined that the monthly rental agreed for the Premises as respectively provided in the 2006 Tenancy Agreements and the 2008 Tenancy Agreement were at market levels and were fair and reasonable.

Wing Thye is a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"). China Ocean Shipping (Group) Company ("COSCO") is a controlling shareholder of both the Company and COSCO Hong Kong. Accordingly, COSCO, COSCO Hong Kong and Wing Thye are all connected persons of the Company. The 2006 Tenancy Agreements and the 2008 Tenancy Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

Container related services and shipping related services transactions

COSCO is the ultimate controlling shareholder of the Company. COSCO Container Lines Company Limited ("COSCON") is a subsidiary of COSCO. Accordingly, COSCO and COSCON and their respective associates (excluding the Group) are connected persons of the Company. APMT, which is a subsidiary of APM, has been a substantial shareholder of a subsidiary of the Company since 5th September 2006. Entities trading under the names of Maersk Line, Safmarine, MCC or any other future names with majority ownership by APM (collectively the "Line") are majority-owned by APM and are therefore associates of APMT. Accordingly, the Line is a connected person of the Company. Each of the Master Agreements referred to below and the transactions contemplated thereunder constituted continuing connected transactions (the "Continuing Connected Transactions") for the purpose of the Listing Rules and are subject to the reporting, announcement and independent shareholders approval requirements set out in Chapter 14A of the Listing Rules. The Continuing Connected Transactions for the years 2007 to 2009 were approved by the independent shareholders at the Special General Meeting held on 17th May 2007.

- (1) The Shipping Services Master Agreement entered into between COSCO, COSCON and COSCO Ports (Holdings) Limited ("COSCO Ports", a wholly-owned subsidiary of the Company) on 23rd March 2007 in respect of provision of the shipping related services provided by COSCO Ports and its subsidiaries to COSCO and COSCON and their respective associates (excluding the Group but including COSCON) for a term of three years from 1st January 2007 to 31st December 2009 at rates no less favourable than that at which COSCO Ports and its subsidiaries charge independent third parties for the relevant services. The annual caps of the shipping related services transactions for the years ended/ending 31st December 2007, 2008 and 2009 are US\$34,929,000, US\$51,272,000 and US\$52,629,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2008 was US\$34,102,022.
- (2) The Shipping Services Master Agreement entered into between COSCO Ports and the Line on 23rd March 2007, in respect of provision of the shipping related services provided by COSCO Ports and its subsidiaries to the Line for a term of three years from 1st January 2007 to 31st December 2009 on normal commercial terms. The annual caps of the shipping related services transactions for the years ended/ending 31st December 2007, 2008 and 2009 are US\$15,000,000, US\$34,000,000 and US\$46,000,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2008 was US\$9,281,255.
- (3) The Container Services Master Agreement (as amended on 23rd March 2007) entered into between COSCO, COSCON and Plangreat Limited ("Plangreat", a wholly-owned subsidiary of the Company) commencing from 1st January 2005 and which was effectively renewed from 23rd March 2007 to expire on 31st December 2009, in respect of provision of the container related services by Plangreat and its subsidiaries to COSCO, COSCON and their respective associates (excluding the Group but including COSCON) at rates no less favourable to Plangreat and its subsidiaries than that at which Plangreat and its subsidiaries charge independent third parties for the relevant services. The annual cap of the container related services transactions for each of the years ended/ending 31st December 2007, 2008 and 2009 is US\$7,501,000. The total amount of the aforesaid transactions for the year ended 31st December 2008 was US\$5,252,563.

Logistics services provided by Yangzhou Ports Modern Logistics Centre

On 20th April 2007, Yangzhou Yuanyang International Ports Co. Ltd ("Yangzhou Yuanyang"), a subsidiary of the Company, entered into a new Ancillary Loading and Unloading Transportation Services Agreement with Yangzhou Ports Modern Logistics Centre ("Yangzhou Ports Modern Logistics"), a wholly-owned subsidiary of Yangzhou Port of Jiangsu Province Group Co., Ltd. (江蘇省揚州港務集團有限公司) which holds 40% equity interest in Yangzhou Yuanyang, in respect of the provision of logistics services by Yangzhou Ports Modern Logistics to Yangzhou Yuanyang for the period from 1st March 2007 to 31st December 2009. The services fees charged by Yangzhou Ports Modern Logistics were payable monthly by reference to the volume of work handled by Yangzhou Ports Modern Logistics. The annual caps of the aforesaid transactions for the years ended/ending 31st December 2007, 2008 and 2009 are US\$3,735,000, US\$4,109,000 and US\$4,518,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2008 was US\$3,544,322.

REPORT OF THE DIRECTORS

As Yangzhou Ports Modern Logistics is a connected person of the Company by virtue of its being a subsidiary of a substantial shareholder of Yangzhou Yuanyang, its provision of logistics services to Yangzhou Yuanyang constituted continuing connected transactions of the Company.

Transactions entered into by Guangzhou South China Oceangate Container Terminal Company Limited

(1) Purchase of diesel oil from China Marine Bunker Supply Guangzhou Company

On 1st January 2008, Guangzhou South China Oceangate Container Terminal Company Limited (“GZ South China”), a subsidiary of the Company (as defined under the Listing Rules), entered into an agreement with China Marine Bunker Supply Guangzhou Company (“CM Supply”) in respect of the purchase of diesel oil by GZ South China from CM Supply for the period from 1st January 2008 to 31st December 2008. The total amount of the aforesaid transactions for the year ended 31st December 2008 was approximately US\$1,740,000.

As CM Supply is owned as to 50% by COSCO, CM Supply is a connected person of the Company. Accordingly, the purchase of diesel oil by GZ South China from CM Supply constituted continuing connected transactions of the Company.

(2) Purchase of diesel oil from Guangzhou Port Group Co., Ltd. Resources Branch Co

On 1st January 2008, GZ South China entered into an agreement with Guangzhou Port Group Co., Ltd. Resources Branch Co (廣州港集團有限公司物資分公司) (“GZ Port Resources”) in respect of the purchase of diesel oil by GZ South China from GZ Port Resources for the period from 1st January 2008 to 31st December 2008. The total amount of the aforesaid transactions for the year ended 31st December 2008 was approximately US\$2,450,000.

GZ Port Resources is a branch of Guangzhou Port Holding Company Limited (廣州港集團有限公司) (“GZ Port Holding”), which in turn is a substantial shareholder of GZ South China holding 41% equity interest in GZ South China. As GZ Port Resources is an associate of GZ Port Holding, therefore it is a connected person of the Company. Accordingly, the purchase of diesel oil by GZ South China from GZ Port Resources constituted continuing connected transactions of the Company.

(3) Port related services between GZ South China and GZ Port Holding and its subsidiaries (the “GZ Port Group”)

On 15th June 2008, GZ South China entered into an agreement (“First GZ Port Related Services Agreement”) with Guangzhou Port Nansha Port Affairs Company Limited (廣州港南沙港務有限公司) (“GZ Port Nansha Affairs”), a subsidiary of GZ Port Holding, in respect of the mutual provision of port related services by the parties to the other party at their respective terminals at the Nansha Port in the PRC for the period from 1st January 2007 to 30th June 2008. The service fees charged were determined according to the agreed fee scale applicable to the types of services provided and the types and number of containers handled.

In July 2008, GZ South China entered into another agreement (“Second GZ Port Related Services Agreement”) with GZ Port Nansha Affairs and GZ Port Holding in respect of the mutual provision of port related services by GZ South China and GZ Port Nansha Affairs to the other at their respective terminals at the Nansha Port for the period from 1st July 2008 to 31st December 2008. The service fees charged were determined according to the agreed fee scale applicable to the types of services provided and the types and number of containers handled.

In April 2008, GZ South China entered into an agreement (“Third GZ Port Related Services Agreement”) with Guangzhou Port Holding Logistics Company Limited (廣州港集團物流有限公司) (“GZ Port Logistics”), a subsidiary of GZ Port Holding, in respect of the provision of port related services by GZ South China to GZ Port Logistics (and its branch companies) at the terminal owned by GZ South China at the Nansha Port for the period from 1st January 2008 to 31st December 2008. The service fees charged by GZ South China to GZ Port Logistics were determined according to the agreed fee scales applicable to the types of services provided and the volume of work handled.

The total amount of fees received by GZ South China from GZ Port Nansha Affairs and GZ Port Logistics under the First GZ Port Related Services Agreement, the Second GZ Port Related Services Agreement and the Third GZ Port Related Services Agreement (collectively, "GZ Port Related Services Agreements") in respect of the year ended 31st December 2008 was approximately US\$950,000. The total amount of fees paid by GZ South China to GZ Port Nansha Affairs under the First GZ Port Related Services Agreement and the Second GZ Port Related Services Agreement in respect of the year ended 31st December 2008 was approximately US\$12,000.

As GZ Port Holding is a substantial shareholder of GZ South China, and GZ Port Nansha Affairs and GZ Port Logistics are subsidiaries of GZ Port Holding, they are connected persons of the Company. Accordingly, the transactions under the GZ Port Related Services Agreements constituted continuing connected transactions of the Company.

(4) "Shuttle bus" services cooperation agreements between GZ South China and GZ Port Group

On 15th January 2008, GZ South China entered into an agreement ("GZ Port "Shuttle Bus" Services Cooperation Agreement") with GZ Port Holding and GZ Port Nansha Affairs in respect of the cooperation in the management and operation of "shuttle bus" services in connection with the transportation services provided at the Nansha Port terminals for the period from 1st January 2008 to 31st December 2008.

Pursuant to the GZ Port "Shuttle Bus" Services Cooperation Agreement, GZ South China and GZ Port Nansha Affairs should bear their own expenses incurred for cargo handling in respect of "shuttle buses" using services at their own terminal at Nansha Port. GZ South China and GZ Port Nansha Affairs should charge the relevant shipping companies using the "shuttle bus" services the loading and unloading fees incurred in respect of the use of such services at their respective terminals; and should not charge Guangzhou Port Holding Shipping Affairs Company Limited (廣州港集團船務有限公司)("GZ Port Shipping Affairs"), the shipping company of GZ Port Holding, any fee. GZ South China and GZ Port Nansha Affairs should pay GZ Port Shipping Affairs subsidies for the containers transported between the Pearl River Delta region and the Nansha Port terminals at the rate of RMB100 per container.

On 28th April 2008, GZ South China entered into another agreement ("HK Route "Shuttle Bus" Services Cooperation Agreement") with GZ Port Nansha Affairs and GZ Port Shipping Affairs in respect of the cooperation in the management and operation of Hong Kong route of the "shuttle bus" services in connection with the transportation services provided at the Nansha Port terminals for the period from 28th April 2008 to 31st December 2008.

Pursuant to the HK Route "Shuttle Bus" Services Cooperation Agreement, cargo handling expenses arising from the Hong Kong route "shuttle buses" using the terminals of GZ Port Holding and GZ South China at Nansha Port should be the responsibility of GZ Port Nansha Affairs and GZ South China respectively and if according to the mode of transportation, GZ Port Shipping Affairs was responsible for the loading and unloading fees incurred in respect of the use of the respective terminals of GZ Port Nansha Affairs and GZ South China in connection with the Hong Kong route of the "shuttle bus" services, GZ Port Shipping Affairs should pay such loading and unloading fees to GZ Port Nansha Affairs or GZ South China (as the case may be) at the agreed fee scales applicable to the types and number of the containers handled. GZ Port Nansha Affairs and GZ South China should not charge any berthing fees in relation to the Hong Kong route of the "shuttle bus" services.

The total amount of subsidies paid by GZ South China to GZ Port Shipping Affairs under the GZ Port "Shuttle Bus" Services Cooperation Agreement in respect of the year ended 31st December 2008 was approximately US\$436,000. The total amount of loading and unloading fee received by GZ South China from GZ Port Shipping Affairs under the HK Route "Shuttle Bus" Services Cooperation Agreement in respect of the year ended 31st December 2008 was approximately US\$79,000.

As GZ Port Holding is a substantial shareholder of GZ South China, and GZ Port Nansha Affairs and GZ Port Shipping Affairs are subsidiaries of GZ Port Holding, they are connected persons of the Company. Accordingly, the transactions under the GZ Port "Shuttle Bus" Services Cooperation Agreement and the HK Route "Shuttle Bus" Services Cooperation Agreement constituted continuing connected transactions of the Company.

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

During the year, long term container leasing transactions were entered into between COSCO Group and the Group in respect of the provision of long term container leases by the Group to COSCO Group to which the Stock Exchange had, subject to certain conditions, granted waiver dated 14th December 1994 to the Company from strict compliance with the requirements stipulated in the then Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval. The total consideration of the aforesaid transactions for the year ended 31st December 2008 amounted to US\$142,428,122. In the opinion of the directors of the Company, the aforesaid transactions were conducted in the ordinary course of business of the Group and using average market rates by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies.

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

Pursuant to the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the above continuing connected transactions and opined that:

- (i) the long term container leasing transactions had been conducted in the ordinary course of business of the Group and using average market rates by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies and were fair and reasonable so far as the shareholders of the Company were concerned; and
- (ii) the rental of the office premises transactions, container related services transactions, shipping related services transactions, logistics services transactions and the transactions entered into by GZ South China were:
 - entered into in the ordinary and usual course of the Group's businesses;
 - entered into on terms no less favourable to the Group than terms available from/to independent third parties; and
 - entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Report from the auditor on the continuing connected transactions

For the purposes of the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.38 of the Listing Rules in relation to the other continuing connected transactions, the Board engaged the auditor of the Company to perform certain agreed-upon procedures on the above continuing connected transactions as identified by management for the year ended 31st December 2008 (the "Relevant Year") in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and the auditor reported that:

- (i) the long term container leasing transactions for the Relevant Year had been conducted in the ordinary course of business of the Group and by reference to, if applicable, the average of the available leasing rates quoted from four of the top ten independent container leasing companies; and
- (ii) the rental of the office premises transactions, container related services transactions, shipping related services transactions, logistics services transactions and the transactions entered into by GZ South China for the Relevant Year:
 - had been approved by the Executive Committee on behalf of the Board;
 - had been conducted in accordance with the pricing policies of the Group, if applicable (for the samples selected);
 - had been entered into in accordance with the terms of the relevant agreements governing the other continuing connected transactions (for the samples selected); and
 - had not exceeded the respective annual caps (as revised where applicable) as set out in the Company's announcements published in that regard, other than the transactions entered into by GZ South China for which the Company disclosed only the actual amounts incurred and did not set any cap for the Relevant Year in the relevant announcement and accordingly no work has been performed on whether the transactions entered into by GZ South China exceeded the relevant cap.

DISCLOSURE UNDER RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31st December 2008 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

| | US\$'000 |
|-------------------------|----------------|
| Non-current assets | 2,199,951 |
| Current assets | 149,493 |
| Current liabilities | (576,982) |
| Non-current liabilities | (1,164,732) |
| Net assets | <u>607,730</u> |
| Share capital | 487,297 |
| Reserves | 32,513 |
| Minority interest | <u>87,920</u> |
| Capital and reserves | <u>607,730</u> |

As at 31st December 2008, the Group's attributable interests in these affiliated companies amounted to US\$321,753,000.

AUDIT COMMITTEE

During the year ended 31st December 2008, Mr. LIU Lit Man resigned as a member of the audit committee. Dr. FAN HSU Lai Tai, Rita was appointed as a member of the audit committee on 1st January 2009. As at the date of this report, the audit committee of the Company consists of four independent non-executive directors.

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

AUDITOR

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

On behalf of the Board

XU Minjie

Vice Chairman and Managing Director

Hong Kong, 8th April 2009