

Report of the Directors

The directors submit their report together with the audited accounts of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st December 2004.

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 35 to the accounts.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2004 are set out in the consolidated profit and loss account on page 99 of this annual report.

The directors declared an interim dividend of HK17.4 cents (equivalent to US2.231 cents) per share, totalling HK\$377,426,000 (equivalent to US\$48,388,000), which was paid on 8th October 2004.

The directors recommend the payment of a final dividend of HK24.6 cents (equivalent to US3.165 cents) per share, totalling HK\$537,173,000 (equivalent to US\$69,111,000), payable on or before 2nd June 2005.

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 168 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 102 and 103 of this annual report.

Movement in the reserves of Company during the year are set out in note 22 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$2,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are shown in note 21 to the accounts.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 31st December 2004 calculated under Companies Act of Bermuda amounted to US\$582,804,000.

BORROWINGS

Details of the borrowings of the Group are set out in note 23 to the accounts.

RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in notes 1(n)(i) and 10 to the accounts.

DIRECTORS

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

Executive directors

Mr. WEI Jiafu (*Chairman*)
 Mr. LIU Guoyuan (*Vice Chairman*)
 Mr. ZHANG Fusheng
 Mr. WANG Futian
 Mr. CHEN Hongsheng
 Mr. LI Jianhong
 Mr. MA Zehua
 Mr. MA Guichuan
 Mr. LI Yunpeng
 Ms. SUN Yueying
 Mr. ZHOU Liancheng
 Mr. SUN Jiakang (*Managing Director*)
 Mr. XU Lirong
 Mr. HE Jiale
 Mr. WONG Tin Yau, Kelvin
 Mr. MENG Qinghui
 Mr. LU Chenggang
 Mr. QIN Fuyan
 Mr. GAO Weijie (resigned on 13th October 2004)
 Mr. LIANG Yanfeng (resigned on 13th October 2004)

Independent non-executive directors

Dr. LI Kwok Po, David
 Mr. LIU Lit Man
 Mr. Alexander Reid HAMILTON
 Mr. LEE Yip Wah, Peter (resigned on 30th September 2004)

Non-executive director

Mr. KWONG Che Keung, Gordon

In accordance with Clause 87(1) and (2) of the Company's Bye-laws, Mr. ZHOU Liancheng, Mr. XU Lirong, Mr. WONG Tin Yau, Kelvin, Mr. MENG Qinghui, Mr. LIU Lit Man and Mr. KWONG Che Keung, Gordon retire by rotation at the forthcoming annual general meeting. Mr. ZHOU Liancheng and Mr. MENG Qinghui do not seek for re-election. Mr. XU Lirong, Mr. WONG Tin Yau, Kelvin, Mr. LIU Lit Man and Mr. KWONG Che Keung, Gordon, being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS (Continued)

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 68 to 74 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. SUN Jiakang has entered into a service agreement with COSCO Pacific Management Company Limited, a wholly owned subsidiary of the Company, on 16th September 2002 for a term of three years commencing from 16th September 2002. 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 terminating at the end of the initial term or any renewed term of the service agreement.

Mr. 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.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable 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, 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").

The following is a summary of the principal terms of these two share option schemes:

(i) 1994 Share Option Scheme

The 1994 Share Option Scheme was designed to motivate the employees to enhance their performance and contribution to the Group. Under the 1994 Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares (each a "Share" or collectively the "Shares"), subject to the terms and conditions stipulated therein.

SHARE OPTIONS (Continued)

(i) 1994 Share Option Scheme (Continued)

Under the 1994 Share Option Scheme, the maximum number of Shares in respect of which options may be granted will not exceed 10% of the issued share capital of the Company from time to time. The maximum number of Shares issued to each employee or director in respect of which options may be granted shall not exceed 25% of the total Shares in issue or to be issued under the 1994 Share Option Scheme.

The period within which an option may be exercised will be determined by the board of directors of the Company (the "Board") in its absolute discretion, save that the exercise period shall not be more than ten years from the date on which the option is granted. The consideration on acceptance of an offer of the grant of an option is HK\$1.00 payable within 28 days from the offer date. The full amount of the subscription price for the Shares must be paid upon exercise of an option.

The exercise price of an option is determined by the Board and will not be less than 80% of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of the share option or the nominal value of the Shares, whichever is higher.

The 1994 Share Option Scheme was terminated on 23rd May 2003. No further options shall thereafter be offered under the 1994 Share Option Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 1994 Share Option Scheme shall remain in full force and effect.

As at the date of this report, a total of 2,342,000 Shares (representing approximately 0.11% 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 1994 Share Option Scheme.

(ii) 2003 Share Option Scheme

The 2003 Share Option Scheme is designed to attract, retain and motivate talented participants (the "Participants") (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.

Report of the Directors

SHARE OPTIONS (Continued)

(ii) 2003 Share Option Scheme (Continued)

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 seek 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 (including the 1994 Share Option Scheme) 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 104,811,229 Shares (representing approximately 4.79% 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 81,908,000 Shares (representing approximately 3.75% 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 12-month 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 Stock Exchange's daily quotation sheet 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 Stock Exchange's daily quotation sheets 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.

SHARE OPTIONS (Continued)

(ii) 2003 Share Option Scheme (Continued)

Notes:

- (1) As defined in the 2003 Share Option Scheme, “Participants” include:
- (i) any employee of the Group (including any executive director of the Group);
 - (ii) any management of COSCO (Hong Kong) Group Limited or China Ocean Shipping (Group) 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 Participant 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.

(iii) Movements of options under 1994 Share Option Scheme

Movements of the options, which have been granted under the 1994 Share Option Scheme, during the year are set out below:

Category	Exercise price HK\$	Number of share options			Outstanding at 31st December 2004	Percentage of total issued share capital	Note
		Outstanding at 1st January 2004	Exercised during the year	Lapsed during the year			
Directors							
Mr. WONG Tin Yau, Kelvin	8.80	5,000,000	(3,200,000)	-	1,800,000	0.082%	(2), (3)
Mr. QIN Fuyan	5.53	1,500,000	(1,500,000)	-	-	-	(1), (3)
Continuous contract employees	5.53	80,000	(80,000)	-	-	-	(1)
	8.80	5,600,000	(4,698,000)	-	902,000	0.041%	(2)
		<u>12,180,000</u>	<u>(9,478,000)</u>	<u>-</u>	<u>2,702,000</u>		

Report of the Directors

SHARE OPTIONS (Continued)

(iii) Movements of options under 1994 Share Option Scheme (Continued)

Notes:

- (1) The share options were granted on 1st July 1996 under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant (i.e. on or before 30th June 2006), subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)	Price level per Share at which the options can be exercised*
20% of the options	HK\$6.50 or above
40% of the options	HK\$7.00 or above
60% of the options	HK\$7.50 or above
80% of the options	HK\$8.00 or above
100% of the options	HK\$8.50 or above

* The price level refers to the closing price of the Shares on the Stock Exchange at the date prior to the exercise of the options.

- (2) The share options were granted on 20th May 1997 (the "Offer Date") under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant (i.e. on or before 19th May 2007), subject to the following conditions:
- (i) For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.
- (ii) For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.
- (3) These options represent personal interest held by the relevant director as beneficial owner.
- (4) The weighted average closing price of the Shares immediately before the date on which the options were exercised was HK\$13.57.
- (5) During the year, no share options were cancelled under the 1994 Share Option Scheme.

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme

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 2004	Percentage of total issued share capital	Exercisable period	Note
		Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year				
Directors									
Mr. WEI Jiafu	9.54	1,000,000	-	-	-	1,000,000	0.046%	30.10.2003- 29.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	3.12.2004- 2.12.2014	
Mr. LIU Guoyuan	9.54	1,000,000	-	(900,000)	-	100,000	0.005%	28.10.2003- 27.10.2013	(1), (2), (3), (4)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	29.11.2004- 28.11.2014	
Mr. ZHANG Fusheng	9.54	800,000	-	-	-	800,000	0.037%	29.10.2003- 28.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	3.12.2004- 2.12.2014	
Mr. WANG Futian	9.54	800,000	-	-	-	800,000	0.037%	29.10.2003- 28.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	3.12.2004- 2.12.2014	
Mr. CHEN Hongsheng	9.54	800,000	-	-	-	800,000	0.037%	28.10.2003- 27.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	3.12.2004- 2.12.2014	
Mr. LI Jianhong	9.54	800,000	-	-	-	800,000	0.037%	29.10.2003- 28.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	2.12.2004- 1.12.2014	
Mr. MA Zehua	9.54	800,000	-	-	-	800,000	0.037%	30.10.2003- 29.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	3.12.2004- 2.12.2014	

Report of the Directors

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme (Continued)

Category	Exercise price HK\$	Number of share options				Outstanding at 31st December 2004	Percentage of total issued share capital	Exercisable period	Note
		Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year				
Directors (Continued)									
Mr. MA Guichuan	9.54	800,000	-	-	-	800,000	0.037%	29.10.2003- 28.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	3.12.2004- 2.12.2014	
Mr. LI Yunpeng	9.54	800,000	-	-	-	800,000	0.037%	29.10.2003- 28.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	3.12.2004- 2.12.2014	
Ms. SUN Yueying	9.54	800,000	-	-	-	800,000	0.037%	29.10.2003- 28.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	3.12.2004- 2.12.2014	
Mr. ZHOU Liancheng	9.54	800,000	-	(400,000)	-	400,000	0.018%	29.10.2003- 28.10.2013	(1), (2), (3), (4)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	29.11.2004- 28.11.2014	
Mr. SUN Jiakang	9.54	1,000,000	-	(800,000)	-	200,000	0.009%	28.10.2003- 27.10.2013	(1), (2), (3), (4)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	1.12.2004- 30.11.2014	
Mr. XU Lirong	9.54	800,000	-	-	-	800,000	0.037%	31.10.2003- 30.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	2.12.2004- 1.12.2014	
Mr. HE Jiale	9.54	700,000	-	(624,000)	-	76,000	0.003%	31.10.2003- 30.10.2013	(1), (2), (3), (4)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	30.11.2004- 29.11.2014	
Mr. WONG Tin Yau, Kelvin	9.54	800,000	-	-	-	800,000	0.037%	28.10.2003- 27.10.2013	(1), (2), (3)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	2.12.2004- 1.12.2014	

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme (Continued)

Category	Exercise price HK\$	Number of share options				Outstanding at 31st December 2004	Percentage of total issued share capital	Exercisable period	Note
		Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year				
Directors (Continued)									
Mr. MENG Qinghui	9.54	800,000	-	(800,000)	-	-	-	28.10.2003- 27.10.2013	(1), (2), (3), (4)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	29.11.2004- 28.11.2014	
Mr. LU Chenggang	9.54	800,000	-	(800,000)	-	-	-	29.10.2003- 28.10.2013	(1), (2), (3), (4)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	29.11.2004- 28.11.2014	
Mr. QIN Fuyan	9.54	800,000	-	(800,000)	-	-	-	30.10.2003- 29.10.2013	(1), (2), (3), (4)
	13.75	-	1,000,000	-	-	1,000,000	0.046%	29.11.2004- 28.11.2014	
Ex-directors									
Mr. GAO Weijie	9.54	800,000	-	(800,000)	-	-	-	29.10.2003- 28.10.2013	(1), (3), (4)
Mr. LIANG Yanfeng	9.54	800,000	-	(800,000)	-	-	-	30.10.2003- 29.10.2013	(1), (3), (4)
Continuous contract employees	9.54	23,140,000	-	(13,726,000)	(20,000)#	9,394,000	0.430%		(1), (2), (4)
	13.75	-	35,990,000	-	-	35,990,000	1.648%		
Others	9.54	6,180,000	-	(4,860,000)	-	1,320,000	0.060%		(1), (2), (4)
	13.75	-	10,050,000	(300,000)	-	9,750,000	0.447%		
		<u>45,820,000</u>	<u>64,040,000</u>	<u>(25,610,000)</u>	<u>(20,000)</u>	<u>84,230,000</u>			

The share options lapsed during the year due to a grantee ceased to be an employee of the Group.

Report of the Directors

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme (Continued)

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 of the grantees 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, which represents the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered. The closing prices of the Shares immediately before the dates on which the options were granted were in the range of HK\$13.60 to HK\$14.75. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options of the grantees was from 25th November 2004 to 16th December 2004.

The Company adopted Black-Scholes Options Pricing Model (a common valuation methodology for option) to calculate the value of share options. The fair value of the options was HK\$4.56 at the dates of grant with assumptions as follows:

- (i) Interest rate of 10-year Exchange Fund Notes of 3.58% per annum as the risk-free interest rate;
- (ii) Expected life of 10 years;
- (iii) Expected dividend yield of 3.89%, being the average dividend yield of the Company for the five years from 1999 to 2003; and
- (iv) Expected volatility of 40.02%, being the annualised volatility of the closing price of the Shares from 25th November 2004 to 16th December 2004.

The value of the share options is subject to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

- (3) These options represent personal interest held by the relevant director as beneficial owner.
- (4) The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK\$13.01.
- (5) During the year, no share options were cancelled under the 2003 Share Option Scheme.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2004, 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 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 Companies (the "Model Code") were as follows:

(a) Long positions in shares of the Company

Name of director	Capacity	Nature of interest	Number of ordinary shares held	Percentage of total issued share capital
Mr. KWONG Che Keung, Gordon	Beneficial owner	Personal	250,000	0.011%
Dr. LI Kwok Po, David	Beneficial owner	Personal	258,000	0.012%

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

Share options were granted to certain directors of the Company pursuant to the 1994 Share Option Scheme and 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

**DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES
(Continued)****(c) Long positions in underlying shares of equity derivatives of associated corporation**

Movements of the share options 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 share options				Outstanding at 31st December 2004	Percentage of total issued share capital	Note
					Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year			
COSCO International Holdings Limited	Mr. WEI Jiafu	Beneficial owner	Personal	0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)
				1.37	-	1,200,000	-	-	1,200,000	0.085%	(2)
	Mr. LIU Guoyuan	Beneficial owner	Personal	0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)
				1.37	-	1,200,000	-	-	1,200,000	0.085%	(2)
	Mr. LI Jianhong	Beneficial owner	Personal	0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)
				1.37	-	1,200,000	-	-	1,200,000	0.085%	(2)
	Mr. ZHOU Liancheng	Beneficial owner	Personal	0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)
				1.37	-	1,200,000	-	-	1,200,000	0.085%	(2)
	Mr. SUN Jiakang	Beneficial owner	Personal	0.57	1,200,000	-	(300,000)	-	900,000	0.064%	(1)
				1.37	-	800,000	-	-	800,000	0.057%	(2)
	Mr. HE Jiale	Beneficial owner	Personal	0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)
				1.37	-	1,200,000	-	-	1,200,000	0.085%	(2)
	Mr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	0.57	800,000	-	-	-	800,000	0.057%	(1)
				1.37	-	500,000	-	-	500,000	0.035%	(2)
	Mr. MENG Qinghui	Beneficial owner	Personal	0.57	1,200,000	-	-	-	1,200,000	0.085%	(1)
				1.37	-	800,000	-	-	800,000	0.057%	(2)
Ex-director											
Mr. LIANG Yanfeng	Beneficial owner	Personal	owner	0.57	1,200,000	-	-	-	1,200,000	0.085%	(1)
					<u>13,400,000</u>	<u>8,100,000</u>	<u>(300,000)</u>	<u>-</u>	<u>21,200,000</u>		

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(c) Long positions in underlying shares of equity derivatives of associated corporation (Continued)

Notes:

- (1) The share options were granted by COSCO International Holdings Limited ("COSCO International"), a fellow subsidiary of the Company, on 26th November 2003 pursuant to the share option scheme approved by the shareholders of COSCO International on 17th May 2002 (the "Share Option Scheme of COSCO International"). The share options can be exercised at 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 can be exercised at HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.

Save as disclosed above, as at 31st December 2004, none of the directors or chief executives of the Company had any interest or short positions in any shares or underlying shares or interest 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' INTEREST IN COMPETING BUSINESS

China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries (excluding the Group) (collectively the "COSCO Group") 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. Such businesses may be in competition with similar businesses carried on by COSCO Logistics Co., Ltd. ("COSCO LOGISTICS"), its subsidiaries, jointly controlled entities and associated companies (collectively the "COSCO LOGISTICS Group"). As at 31st December 2004, COSCO and the Group has 51% and 49% equity interest in COSCO LOGISTICS respectively.

As at 31st December 2004, Mr. WEI Jiafu, Mr. LIU Guoyuan, Mr. ZHANG Fusheng, Mr. WANG Futian, Mr. CHEN Hongsheng, Mr. LI Jianhong, Mr. MA Zehua, Mr. MA Guichuan, Mr. LI Yunpeng, Ms. SUN Yueying, Mr. ZHOU Liancheng, Mr. SUN Jiakang, Mr. XU Lirong, Mr. HE Jiale and Mr. MENG Qinghui, all being directors of the Company, held directorships and/or senior management posts in the COSCO Group and/or other companies which carry on the business of container terminal operations ("Container Terminal Business", which may be in competition with the container terminal operation business carried on by the Group).

Report of the Directors

DIRECTORS' INTEREST IN COMPETING BUSINESS (Continued)

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 Business. When making decisions on the Logistics Businesses and/or the Container Terminal Business, 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 2004, 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						Note
			Long positions	%	Short positions	%	Lending pool	%	
COSCO Investments Limited	Beneficial owner	Beneficial interest	200,120,000	9.16	-	-	-	-	(1), (2)
COSCO (Hong Kong) Group Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,144,166,411	52.39	-	-	-	-	(1), (2)
China Ocean Shipping (Group) Company	Interest of controlled corporation	Corporate interest	1,144,166,411	52.39	-	-	-	-	(1), (2)
COSCO Pacific Investment Holdings Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,144,166,411	52.39	-	-	-	-	(2)
J.P. Morgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/ approved lending agent	Beneficial interest and corporate interest	128,628,509	5.89	-	-	58,430,047	2.68	(3)

Notes:

- (1) Since COSCO Investments Limited ("COSCO Investments"), a then wholly owned subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") which is in turn a wholly owned subsidiary of China Ocean Shipping (Group) Company ("COSCO"), the interests of COSCO Investments were recorded as the interests of COSCO Hong Kong and the interests of COSCO Hong Kong were recorded as the interests of COSCO.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (Continued)

- (2) Due to an internal reorganisation of COSCO, as of 28th December 2004, COSCO Hong Kong and COSCO Pacific Investment Holdings Limited (“COSCO Pacific Investment”), a wholly owned subsidiary of COSCO, entered into an agreement (the “Agreement”) pursuant to which COSCO Pacific Investment agreed to acquire from COSCO Hong Kong all its direct and indirect equity interest in the Company. The transfer of such equity interest was effected on 27th January 2005. The immediate controlling shareholder of the Company was changed from COSCO Hong Kong to COSCO Pacific Investment and COSCO Investments ceased to be a wholly owned subsidiary of COSCO Hong Kong and became a wholly owned subsidiary of COSCO Pacific Investment. Since the transfer of equity interest in the Company was not effected until 27th January 2005, therefore, COSCO Pacific Investment was regarded under the SFO as interested in the same batch of shares of 1,144,166,411 in which COSCO Hong Kong was interested as at 31st December 2004.
- (3) The corporate interest of J.P. Morgan Chase & Co. was attributable on account through a number of its wholly owned subsidiaries and non-wholly owned subsidiaries, including, Robert Fleming Asset Management Ltd. (99.96% control), Robert Fleming Holdings Ltd. (96% control) and JF Asset Management Limited (99.99% control).

Save as disclosed above, as at 31st December 2004, the Company has not been notified of any interests and 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 of the date of this report, there is sufficient public float of the Shares 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 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.

Report of the Directors

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	23.04%
Percentage of container purchases attributable to the Group's five largest suppliers	61.01%
Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO	47.20%
Percentage of leasing income attributable to the Group's five largest lessees	64.03%

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

One of the Group's largest suppliers attributes 6.99% of container purchases of the Group. During the period from 1st January 2004 to 30th December 2004, COSCO has an equity interest of 17.18% in China International Marine Containers (Group) Co., Ltd. ("CIMC"), the shareholding company of the aforesaid supplier. On 31st December 2004, COSCO transferred its 16.23% equity interest in CIMC to the Group (note 30(j) to the accounts) and as at 31st December 2004, COSCO still has a 0.95% equity interest in CIMC.

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 has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (which was in force prior to 1st January 2005) throughout the year ended 31st December 2004.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions of the Company require disclosures in the annual report of the Company:

(i) Rental of office premises

On 12th January 2004, COSCO Pacific Management Company Limited ("COSCO Pacific Management") as tenant entered into two tenancy agreements with Wing Thye Holdings Limited ("Wing Thye") as landlord in respect of the leasing of office premises in 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong ("COSCO Tower") (the "4901 Tenancy Agreement" and the "4902A Tenancy Agreement" and collectively, the "Tenancy Agreements").

CONNECTED TRANSACTIONS (Continued)

(i) Rental of office premises (Continued)

Pursuant to the 4901 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4901 situate at COSCO Tower ("Unit 4901") for a term of 23 months and 25 days commencing with retrospective effect from 4th December 2003 at a monthly rental of HK\$267,564, exclusive of rates and management fees.

Pursuant to the 4902A Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4902A situate at COSCO Tower ("Unit 4902A") for a term of 24 months commencing with retrospective effect from 29th November 2003 at a monthly rental of HK\$72,436, exclusive of rates and management fees.

COSCO Hong Kong provided two guarantees in the respective sums of HK\$802,692 and HK\$217,308 representing rentals for three months of Unit 4901 and Unit 4902A respectively to Wing Thye as security for the due payment of rentals and other monies payable by COSCO Pacific Management under the Tenancy Agreements (the "Guarantees").

The Company takes up Unit 4901 and Unit 4902A 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 rentals under the Tenancy Agreements, the directors of the Company made reference to an independent opinion given by DTZ Debenham Tie Leung Limited, a professional valuer jointly engaged by the Company and COSCO International, that the total rentals agreed for Unit 4901 and Unit 4902A are at market levels and are fair and reasonable.

Wing Thye is a wholly owned subsidiary of COSCO International. COSCO Pacific Management is a wholly owned subsidiary of the Company. COSCO Hong Kong is the controlling shareholder of COSCO International and the then controlling shareholder of the Company. As COSCO Hong Kong, COSCO International, the Company, Wing Thye and COSCO Pacific Management are all connected persons, the transactions contemplated under the Tenancy Agreements and the Guarantees therefore constituted connected transactions of the Company under the Listing Rules.

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

(ii) Acquisition of interest in Yingkou Container Terminals Company Limited

On 15th June 2004, COSCO Ports (Yingkou) Limited (“COSCO Ports Yingkou”), an indirect wholly owned subsidiary of the Company, as purchaser entered into a share transfer agreement (the “Agreement”) with COSCO as vendor whereby upon the terms and conditions set out in the Agreement, COSCO Ports Yingkou agreed to acquire from COSCO its entire 50% equity interest in Yingkou Container Terminals Company Limited (“Yingkou CTL”) at a cash consideration of RMB22,500,000 (equivalent to approximately US\$2,710,000) (the “Acquisition”). Yingkou CTL, a limited liability company established in Yingkou, Liaoning, the People’s Republic of China (the “PRC”), is primarily engaged in terminal related businesses such as loading and unloading of containers, transshipment, storage and transportation, vanning and devanning of containers, repair of containers, equipment leasing and business solicitation. Subsequent to the Acquisition, each of COSCO Ports Yingkou and Yingkou Port Group Corp., a limited liability company established in the PRC, have a 50% direct equity interest in Yingkou CTL.

COSCO is the ultimate parent company of the Company and is therefore a connected person of the Company. The Acquisition constituted a connected transaction of the Company under the Listing Rules.

(iii) Acquisition of interest in China International Marine Containers (Group) Co., Ltd.

On 19th August 2004, COSCO Container Industries Limited (“COSCO Container Industries”), a wholly owned subsidiary of the Company, as purchaser entered into an agreement with COSCO as vendor whereby COSCO Container Industries agreed to acquire from COSCO its 163,701,456 non-publicly tradable State-owned legal person shares (非流通國有法人股) in China International Marine Containers (Group) Co., Ltd. (“CIMC”), representing approximately 16.23% of the issued share capital of CIMC, at a consideration of RMB1,056,384,000 (equivalent to approximately US\$127,240,000). CIMC, whose A shares (the RMB-denominated domestic A shares) and B shares (the domestically listed foreign shares) are listed and traded on the Shenzhen Stock Exchange, is primarily engaged in the manufacturing and sale of modern traffic and transport equipment such as containers, modern road transport vehicles and airport ground equipment.

COSCO is the ultimate parent company of the Company and is therefore a connected person of the Company. The acquisition of CIMC’s equity interest from COSCO constituted a discloseable and connected transaction of the Company under the Listing Rules. A circular for the transaction had been despatched to shareholders of the Company. This transaction was approved by the shareholders of the Company in the special general meeting held on 5th October 2004, in which COSCO Hong Kong and its associates abstained from voting.

CONNECTED TRANSACTIONS (Continued)

(iv) Connected transactions with waivers granted by the Stock Exchange

During the year, the following connected transactions have been entered into by the Company and its subsidiaries to which the Stock Exchange has, subject to certain conditions, granted waivers to the Company from compliance with certain requirements 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 "Waivers").

Transaction	Parties to the transaction	Date on which the Waivers were granted by the Stock Exchange
Long term container leasing	the COSCO Group and the Group	14th December 1994
Container related services	COSCO Hong Kong and/or its subsidiaries and Plangreat Limited and/or its subsidiaries	13th December 1996
Shipping related services	the COSCO Group and Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	15th April 1997
Short term container leasing (container leasing for a term less than 10 years)	the COSCO Group and the Group	12th September 2001

The independent non-executive directors of the Company 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, i.e. based on the average leasing rates quoted from three of the top ten independent container leasing companies;
- (ii) the container related service transactions had been entered into in the ordinary and usual course of business of the Group and on terms no less favourable than terms available to (or from) independent third parties, and the aggregate monetary value of these transactions for the year had not exceeded 3% of the audited book value of the net tangible assets of the Company as disclosed in the audited accounts for the year ended 31st December 2003;
- (iii) the shipping related service transactions had been entered into in accordance with the terms of the agreements governing the transactions and the amount of business of these transactions received therefrom had not exceeded 5% of the gross consolidated turnover of the Group for the year ended 31st December 2004;

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

(iv) Connected transactions with waivers granted by the Stock Exchange (Continued)

- (iv) the short term container leasing transactions had been conducted in the ordinary and usual course of business of the Group and on terms no less favourable than terms available to or from independent third parties, and the aggregate rental of these transactions for the year had not exceeded 3% of the consolidated net tangible assets of the Group as at 31st December 2004; and
- (v) all the transactions as set out above were fair and reasonable so far as the independent shareholders of the Company were concerned.

The auditors of the Company have performed certain procedures on the above continuing connected transactions and reported 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, i.e. based on the average leasing rates quoted from three of the top ten independent container leasing companies;
- (ii) the container related service transactions had been approved by the board of directors of the Company, conducted on terms no less favourable than terms available to independent third parties and the aggregate monetary value of the related transactions for the year did not exceed 3% of the audited book value of the net tangible assets of the Company as disclosed in the audited accounts for the year ended 31st December 2003;
- (iii) the shipping related service transactions had been approved by the board of directors of the Company, entered into in accordance with the terms of the agreements governing the transactions and the aggregate monetary value of the related transactions did not exceed 5% of the gross consolidated turnover of the Group for the year ended 31st December 2004; and
- (iv) the short term container leasing transactions had been approved by the board of directors of the Company, conducted in accordance with the pricing policy set by the Group and the aggregate rental of the related transactions for the year did not exceed 3% of the consolidated net tangible assets of the Group as at 31st December 2004.

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 2004 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	US\$'000
Non-current assets	744,160
Current assets	53,576
Current liabilities	(124,243)
Non-current liabilities	(389,106)
	<hr/>
Net assets	284,387
	<hr/>
Share capital	200,589
Reserves	83,798
	<hr/>
Capital and reserves	284,387
	<hr/>

As at 31st December 2004, the Group's consolidated attributable interest in these affiliated companies amounted to US\$105,489,000.

AUDIT COMMITTEE

The Company has an audit committee consisting of three independent non-executive directors. The committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its accounts and liaises on behalf of the Board with external auditors and the Group's internal auditors. The committee members met regularly with management, external auditors and the Group's internal auditors and reviewed the internal and external audit reports and the interim and annual accounts of the Group.

AUDITORS

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

On behalf of the Board

SUN Jiakang
Managing Director

Hong Kong, 4th March 2005