

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 2000.

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 12 to the accounts.

An analysis of the Group’s turnover and contribution to operating profit after finance costs for the year by principal activities and market is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2000 are set out in the consolidated profit and loss account on page 57 of this annual report.

The directors declared an interim dividend of US1.055 cents (HK8.2 cents) per share, totalling US\$22,562,000 (HK\$175,417,000) which was paid on 5th October 2000.

The directors recommend the payment of a final dividend of US1.410 cents (HK11.0 cents) per share, totalling US\$30,169,000 (HK\$235,315,000), payable on or before 8th June 2001.

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 109 of this annual report.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are shown in note 22 to the accounts.

BORROWINGS

Details of the bank loans and other loans of the Group and the Company are set out in notes 21 and 24 to the accounts.

RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in note 9 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)	(appointed on 28th June 2000)
Mr. LIU Guoyuan (Vice Chairman)	(appointed on 1st November 2000)
Mr. LI Jianhong	
Mr. ZHOU Liancheng	(appointed on 1st November 2000)
Mr. SHI Qin (Managing Director)	
Mr. XU Lirong	(appointed on 6th March 2000)
Mr. LU Zhiming	
Mr. KWONG Che Keung, Gordon	
Mr. YANG Bin	(appointed on 6th March 2000)
Mr. WONG Tin Yau, Kelvin	
Mr. LU Chenggang	
Mr. QIN Fuyan	
Mr. CHEN Zhongbiao	(resigned on 28th June 2000)
Mr. DONG Jiufeng	(resigned on 1st November 2000)
Mr. JIN Zhongming	(resigned on 6th March 2000)

DIRECTORS (Continued)

Independent Non-Executive Directors

Dr. LI Kwok Po, David

Mr. LIU Lit Man

Mr. Alexander Reid HAMILTON

Mr. LEE Yip Wah, Peter

In accordance with Clause 86(2) of the Company's bye-laws, Mr. LIU Guoyuan and Mr. ZHOU Liancheng retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Clause 87(1) and (2) of the Company's bye-laws, Mr. LU Zhiming, Mr. LI Jianhong, Mr. QIN Fuyan and Mr. LI Kwok Po, David retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out in pages 40 to 44 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. SHI Qin has entered into a service agreement with the Company on 1st July 1996 for a term of three years commencing from 1st July 1996. The agreement is renewable automatically for successive terms of three years subject to termination by either party giving not less than six 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 Company'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.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31st December 2000, the interests of the Company's directors in the share capital and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Interests in ordinary shares of the Company

Name of directors	Nature of interests	Number of ordinary shares held
Dr. LI Kwok Po, David	Personal	258,000
Mr. LEE Yip Wah, Peter	Personal	100,000

Interests in share options granted by the Company

Name of directors	Number of share options held		
	Note 1	Note 2	Note 3
Mr. CHEN Zhongbiao #	2,000,000	—	500,000
Mr. DONG Jiufeng #	—	—	500,000
Mr. SHI Qin	—	—	500,000
Mr. YANG Bin	—	—	250,000
Mr. LU Zhiming	1,500,000	—	250,000
Mr. LI Jianhong	—	—	250,000
Mr. XU Lirong	—	—	250,000
Mr. KWONG Che Keung, Gordon	—	—	250,000
Mr. WONG Tin Yau, Kelvin	—	5,000,000	350,000
Mr. LU Chenggang	—	—	350,000
Mr. QIN Fuyan	1,500,000	—	350,000

No share option was exercised by the directors to subscribe for shares in the Company during the year ended 31st December 2000.

Interests in share options granted by the Company (Continued)

Notes:

- 1 The share options were granted on 1st July 1996 under the share option scheme adopted by the Company on 30th November 1994 (the "Share Option Scheme"). The options are exercisable at HK\$5.53 per share at any time within ten years from the date of grant.
 - 2 The share options were granted on 20th May 1997 under the Share Option Scheme. The options are exercisable at HK\$8.80 per share at any time within ten years from the date of grant.
 - 3 The share options were granted on 6th April 2000 under the Share Option Scheme. The options are exercisable at HK\$3.584 per share at any time from the first day of the thirteenth month from the date of grant to the end of the twenty-fourth month from the date of grant.
- # Mr. CHEN Zhongbiao and Mr. DONG Jiufeng resigned as directors of the Company on 28th June 2000 and 1st November 2000 respectively. The share options granted to Mr. CHEN Zhongbiao and Mr. DONG Jiufeng were lapsed on 28th June 2000 and 1st November 2000 respectively as a result of their resignations.

Interests in share options granted by associated corporation

Name of directors	Name of associated corporation	Number of share options held
CHEN Zhongbiao #	COSCO International Holdings Limited ("COSCO International")	2,000,000
DONG Jiufeng #	COSCO International	1,500,000
KWONG Che Keung, Gordon	COSCO International	4,500,000

The share options were granted on 20th March 2000 under the share option scheme adopted by COSCO International on 17th January 1992. These options are exercisable at HK\$0.656 per share at any time between 20th March 2001 and 16th January 2002.

No share option was exercised by the directors to subscribe for shares of COSCO International during the year ended 31st December 2000.

- # Mr. CHEN Zhongbiao and Mr. DONG Jiufeng resigned as directors of COSCO International on 28th June 2000 and 1st November 2000 respectively. The share options granted to Mr. CHEN Zhongbiao and Mr. DONG Jiufeng were lapsed on 28th September 2000 and 1st February 2001 respectively as a result of their resignations.

Interests in share options granted by associated corporation (Continued)

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, as at 31st December 2000, none of the directors and chief executives had any interests in the share capital of the Company and its associated corporations required to be disclosed pursuant to the SDI Ordinance and the Model Code, and none of the directors and chief executives or their respective spouses or children under 18 years of age, had any right to subscribe for the shares of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2000, the interests of every person representing 10% or more of the Company's issued share capital as recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance were as follows:

Name of shareholders	Number of ordinary shares	Percentage of total issued shares
COSCO (Hong Kong) Group Limited	1,149,866,411	53.75%
China Ocean Shipping (Group) Company*	1,149,866,411	53.75%

* Since COSCO (Hong Kong) Group Limited ("COSCO (Hong Kong)") is a wholly owned subsidiary of China Ocean Shipping (Group) Company ("COSCO"), COSCO (Hong Kong)'s interests are recorded as the interests of COSCO.

Saved as disclosed above, the Company has not been notified of any interests representing 10% or more of the issued share capital of the Company.

SHARE OPTIONS

Particulars and movements of the Company's share options during the year are set out in note 22 to the accounts.

PURCHASE, SALE OR REDEMPTION OF LISTED 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 listed shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws although there are no restrictions against such rights under the laws in Bermuda.

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 LESSEES AND SUPPLIERS

The percentages 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	11.7%
Percentage of container purchases attributable to the Group's five largest suppliers	48.4%
Percentage of leasing income attributable to the Group's largest lessee, which is a fellow subsidiary of the Company	67.7%
Percentage of leasing income attributable to the Group's five largest lessees	75.8%

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

The ultimate holding company has an equity interest of 27.75% in the shareholding company of the Group's two largest suppliers which attribute to 16.4% of container purchases 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 share capital) has interest in any of the suppliers and lessees of the Company.

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31st December 2000.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14 of the Listing Rules, the following connected transactions of the Company require disclosure in the annual report of the Company. Summary of these connected transactions is also set out in note 30 to the accounts.

i Rental of Office Premises

Pursuant to a tenancy agreement (the “Tenancy Agreement”) dated 7th March 2001, COSCO Pacific Management Company Limited (“COSCO Pacific Management”) agreed to rent from Wing Thye Holdings Limited (“Wing Thye”) a portion of the premises situate at 49th Floor of COSCO Tower, 183 Queen’s Road Central, Hong Kong (the “Property”) for a term of three years commencing with retrospective effect from 4th December 2000 at a monthly rental of HK\$465,023.02, exclusive of rates and management fees. COSCO (Hong Kong) provided a guarantee in the sum of HK\$1,395,069.60 representing rentals for three months to Wing Thye as security for the due payment of rental and other monies by COSCO Pacific Management. The Group takes up the Property as its head office and the principal place of business of the Company in Hong Kong.

The rental payable under the Tenancy Agreement and the terms and conditions of the Tenancy Agreement were arrived at after arm’s length negotiations. In negotiating the rental under the Tenancy Agreement, the directors of the Company made reference to an independent opinion given by DTZ Debenham Tie Leung Limited, a professional valuer engaged by the Company, that the rental agreed for the Property is at market level and is 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 both COSCO International and the Company. As COSCO (Hong Kong), COSCO International, the Company, Wing Thye and COSCO Pacific Management are all connected persons, the transaction contemplated under the Tenancy Agreement therefore constitutes a connected transaction of the Company under the Listing Rules.

CONNECTED TRANSACTIONS (Continued)

ii Connected transactions with Waivers granted by The Stock Exchange of Hong Kong Limited

During the year, the following connected transactions have been entered into by the Company and its subsidiaries to which The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has, subject to certain conditions, granted waivers to the Company from compliance with the requirements stipulated in 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 “Waivers”).

Transaction	Parties to the transaction	Dates on which the Waivers were granted by the Stock Exchange
Container leasing	COSCO and its subsidiary 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	COSCO and its subsidiaries and Zhangjiagang Win Hanverky Container Terminal Co. Ltd.	15th April 1997

The independent non-executive directors of the Company reviewed the above transactions and opined that:

- i the 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 four 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, on normal commercial terms or 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 1999;
- iii the shipping related service transactions had been entered into in accordance with the terms of the agreement 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 2000; and
- iv all the transactions as set out above were fair and reasonable so far as the independent shareholders of the Company were concerned.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER UNDER PRACTICE NOTE 19 OF THE LISTING RULES

Pursuant to Practice Note 19 of the Listing Rules, the following disclosures of the Group are required in the annual report of the Company:

The Group has provided undertakings regarding certain loan facilities that equity interest held by its controlling shareholder, COSCO (Hong Kong), in the Company will not be less than 35% or 51% throughout the relevant loan borrowing period. As at 31st December 2000, the outstanding loan balances under such covenants included in note 24 to the accounts amounted to US\$273,400,000 and US\$11,800,000 respectively.

AUDIT COMMITTEE

The audit committee of the Board reviews the system of internal controls throughout the Group, the completeness and accuracy of its financial statements, and liaises on behalf of the Board with external and internal auditors. The Committee comprises three independent non-executive directors. It met regularly with management and auditors, to review internal and external audit reports and the interim and final financial statements of the Group. In 2000, the Group has set up an internal audit department which reports directly to the chairman of the audit committee.

AUDITORS

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

The accounts for the year ended 31st December 1998 were audited by Price Waterhouse. PricewaterhouseCoopers replaced Price Waterhouse in 1999 following its merger with Coopers & Lybrand.

On Behalf of the Board

SHI Qin

Managing Director

Hong Kong, 29th March 2001