

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 2001.

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 performance for the year by business segments and geographical areas is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2001 are set out in the consolidated profit and loss account on page 54 of this annual report.

The directors declared an interim dividend of US1.218 cents (HK9.5 cents) per share, totalling US\$26,094,000 (HK\$203,533,000), which was paid on 5th October 2001.

The directors recommend the payment of a final dividend of US1.795 cents (HK14.0 cents) per share, totalling US\$38,456,000 (HK\$299,956,000), payable on or before 5th June 2002.

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 pages 110 and 111 of this annual report.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 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 21 to the accounts.

BORROWINGS

Details of the bank loans and other loans of the Group and the Company are set out in note 23 to the accounts.

RETIREMENT BENEFITS 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*)

Mr. LIU Guoyuan (*Vice Chairman*)

Mr. LI Jianhong

Ms. SUN Yueying (appointed on 12th March 2002)

Mr. ZHOU Liancheng

Mr. SHI Qin (*Managing Director*)

Mr. KWONG Che Keung, Gordon

Mr. XU Lirong

Mr. LU Zhiming

Mr. LIANG Yanfeng (appointed on 12th March 2002)

Mr. WONG Tin Yau, Kelvin

Mr. MENG Qinghui (appointed on 12th March 2002)

Mr. LU Chenggang

Mr. QIN Fuyan

Mr. YANG Bin (resigned on 12th March 2002)

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, Ms. SUN Yueying, Mr. LIANG Yanfeng and Mr. MENG Qinghui 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. XU Lirong, Mr. KWONG Che Keung, Gordon, Mr. WONG Tin Yau, Kelvin and Mr. LIU Lit Man 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 38 to 40 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 company 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 2001, 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 (the "Stock Exchange") 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

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

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (continued)

Interests in share options granted by the Company

On 30th November 1994, a share option scheme (the “Share Option Scheme”) was approved by the shareholders of the Company under which 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, subject to the terms and conditions stipulated therein.

The purpose of the Share Option Scheme is to motivate the employees to enhance their performance and contribution to the Group.

Under the Share Option Scheme, the maximum number of the Company’s shares in respect of which options may be granted will not exceed 10 per cent 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 per cent of the total shares in issue or to be issued under the Share Option Scheme.

The period within which an option may be exercised will be determined by the board of directors of the Company in its absolute discretion, save that the exercise period is not more than ten years from the date on which the option is granted. The consideration on acceptance 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 of directors of the Company and will not be less than 80% of the average of the closing prices of the Company’s shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the share option or the nominal value of the Company’s shares, whichever is higher.

The Share Option Scheme will expire on 30th November 2004.

The Stock Exchange amended the requirements for share option schemes under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The new requirements have come into effect from 1st September 2001. The Company is required to comply with the new requirements in granting of new share options under the Share Option Scheme from the said date.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS *(continued)*

A summary of the movement of directors' share options for the year ended 31st December 2001 is as follows:

Name of director	Exercise price HK\$	Number of share options			Outstanding at 31st December 2001	Note
		Outstanding at 1st January 2001	Granted during the year	Exercised during the year		
Mr. LI Jianhong	3.584	250,000	—	—	250,000	(3)
Mr. SHI Qin	3.584	500,000	—	—	500,000	(3)
Mr. KWONG Che Keung, Gordon	3.584	250,000	—	—	250,000	(3)
Mr. XU Lirong	3.584	250,000	—	—	250,000	(3)
Mr. LU Zhiming	5.53	1,500,000	—	—	1,500,000	(1)
	3.584	250,000	—	—	250,000	(3)
Mr. WONG Tin Yau, Kelvin	8.80	5,000,000	—	—	5,000,000	(2)
	3.584	350,000	—	(200,000)	150,000	(3)
Mr. LU Chenggang	3.584	350,000	—	—	350,000	(3)
Mr. QIN Fuyan	5.53	1,500,000	—	—	1,500,000	(1)
	3.584	350,000	—	—	350,000	(3)
Mr. YANG Bin #	3.584	250,000	—	—	250,000	(3)

The share options of Mr. YANG Bin were lapsed on 12th March 2002 due to his resignation as a director of the Company on 12th March 2002.

Notes:

- (1) The share options were granted on 1st July 1996 under the Share Option Scheme. The options are exercisable 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 any time within ten years from the date of grant, subject to certain conditions as set out in note 21 to the accounts.
- (3) The share options were granted on 6th April 2000 under the Share Option Scheme. The options are exercisable 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.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS *(continued)*

Interests in share options granted by associated corporation

Name of director	Name of associated corporation	Exercise price HK\$	Number of share options			
			Outstanding at 1st January 2001	Granted during the year	Exercised during the year	Outstanding at 31st December 2001
Mr. KWONG Che Keung, Gordon	COSCO International Holdings Limited ("COSCO International")	0.656	4,500,000	—	—	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 and were exercisable at any time between the period from 20th March 2001 and 16th January 2002. These options were expired and lapsed on 17th January 2002.

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 2001, 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 2001, according to the register of substantial shareholders kept by the Company under Section 16(1) of the SDI Ordinance, the following companies had notified the Company that they were interested in 10% or more of the issued share capital of the Company:

Name of shareholders	Number of ordinary shares	Percentage of total issued shares
COSCO Investments Limited	220,120,000	10.27%
COSCO (Hong Kong) Group Limited*	1,179,962,411	55.07%
China Ocean Shipping (Group) Company*	1,179,962,411	55.07%

* Since COSCO Investments Limited ("COSCO Investments") is a 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 are recorded as the interests of COSCO Hong Kong and in turn the interests of COSCO Hong Kong 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

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

Category	Exercise price HK\$	Number of share options					Note
		Outstanding at 1st January 2001	Granted during the year	Exercised during the year*	Lapsed during the year	Outstanding at 31st December 2001	
Directors #	5.53	3,000,000	—	—	—	3,000,000	(1)
	8.80	5,000,000	—	—	—	5,000,000	(2)
	3.584	2,800,000	—	(200,000)	—	2,600,000	(3)
Continuous contract employees	5.53	80,000	—	—	—	80,000	(1)
	8.80	7,550,000	—	—	—	7,550,000	(2)
	3.584	11,340,000	—	(3,114,000)	(590,000)	7,636,000	(3)

* The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised is HK\$5.25.

Details of the Directors' interests in the share options are set out in the section "Directors' interests in shares and share options".

Notes:

- (1) The share options were granted on 1st July 1996 under the Share Option Scheme. The options are exercisable 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 any time within ten years from the date of grant, subject to certain conditions as set out in note 21 to the accounts.
- (3) The share options were granted on 6th April 2000 under the Share Option Scheme. The options are exercisable 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.
- (4) As at the date of the annual report, a total of 23,504,000 shares (representing approximately 1.1% of the issued share capital of the Company) are available for issue under the Share Option Scheme.

During the year, no share option was granted nor cancelled.

Particulars and movements of the Company's share options during the year are also set out in note 21 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 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 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	12.6%
Percentage of container purchases attributable to the Group's five largest suppliers	43.2%
Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO	64.9%
Percentage of leasing income attributable to the Group's five largest lessees	73.3%

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

COSCO, the ultimate holding company of the Company, has an equity interest of 21.2% in the shareholding company of the Group's three largest suppliers which attribute 19.6% 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 Listing Rules throughout the year ended 31st December 2001.

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:

(i) Rental of office premises

Pursuant to a tenancy agreement dated 7th March 2001 (the "Tenancy Agreement"), 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\$465,023.20, 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.

CONNECTED TRANSACTIONS *(continued)*

(i) Rental of office premises *(continued)*

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 constituted a connected transaction of the Company under the Listing Rules.

(ii) Short term container leasing transaction

On 22nd August 2001, the Group entered into an arrangement with COSCO and its subsidiaries (other than the Group) ("COSCO Group") in respect of short term container leasing transaction whereby the Group agreed to lease the 10-year old containers to COSCO Group on a short term basis (for a term less than 10 years) (the "Short Term Leases") in addition to the existing 10-year leases with effect from 1st January 2002. Such transaction constituted a variation to the Undertaking provided by COSCO to the Company in 1994, in which COSCO undertook to the Group that it would extend any then existing container leasing contracts with the Group to a total term of 10 years and would enter into new container leasing contracts for fixed terms of 10 years (the "Undertaking").

As COSCO Group is a connected person within the meaning of the Listing Rules, a variation to the Undertaking in relation to the Short Term Leases constituted a connected transaction of the Company under the Listing Rules.

Since the Group will continue to enter into Short Term Leases with COSCO Group from time to time in future, the Company has applied to the Stock Exchange for a waiver, and the Stock Exchange has granted a waiver to the Company, subject to certain conditions, from strict compliance with the disclosure requirements as stipulated under Rule 14.25(1) of the Listing Rules in connection with Short Term Leases on each occasion they arise.

(iii) Formation of a joint stock limited company in China mainland

On 28th December 2001, the Company, through its wholly owned subsidiary, COSCO Pacific (China) Investments Co., Ltd. ("CPCI"), entered into a Promoters' Agreement (the "Promoters' Agreement") with China Dalian Ocean Shipping Agency ("DOSA"), an indirect wholly owned subsidiary of COSCO, Port of Dalian Authority, Shanghai Port Container Co. Ltd. and P.G. Logistics Group Co. Ltd. in relation to the promotion and setting up of a joint stock limited company, Dalian Port Container Co., Ltd. (the "JV Co."), in Dalian, China mainland, to engage in container terminal operations, container storage, vanning and devanning, transportation, transshipment, intermodal, freight forwarding, shipping agent and related business in Dalian.

The registered capital of the JV Co. is RMB320 million. The total investment is approximately RMB469 million. CPCI had subscribed for 8% and DOSA had subscribed for 0.5% of the equity interest in the JV Co. at approximately RMB37.52 million and approximately RMB2.35 million respectively.

CONNECTED TRANSACTIONS *(continued)*

(iii) Formation of a joint stock limited company in China mainland (continued)

The promotion and the establishment of the JV Co. and the execution of the Promoters' Agreement and other ancillary documents in relation thereto constituted a connected transaction of the Company as DOSA, an indirect wholly owned subsidiary of COSCO which is a controlling shareholder of the Company, is an associate of a connected person of the Company, and is also a promoter and shareholder of the JV Co.

(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 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").

<u>Transaction</u>	<u>Parties to the transaction</u>	<u>Date on which the Waivers were granted by the Stock Exchange</u>
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 2000;
- 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 2001; 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% throughout the relevant loan borrowing period. As at 31st December 2001, the outstanding loan balances under such covenant included in note 23 to the accounts amounted to US\$206,700,000.

AUDIT COMMITTEE

The Company has an audit committee consisting of three independent non-executive directors of the Company. The committee 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 the external auditors and the Group's internal auditor. It met regularly with management, the external auditors and the internal auditor to review the internal and external audit reports and the interim and final financial statements 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

SHI Qin

Managing Director

Hong Kong, 27th March 2002