

# Report of the Directors

The Directors present their report together with the audited Accounts of the Company for the year ended 31st December 2003.

## Principal Activities

The principal activity of the Company is investment holding and the activities of its principal subsidiaries and jointly controlled entities are shown on pages 114 to 123.

## Group Results

The consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") are shown on page 65.

## Dividends

The Directors have recommended a dividend for the year ended 31st December 2003 of US12.8 cents (HK\$1) per ordinary share to be paid on 11th May 2004 to the shareholders of the Company whose names appear on the Register of Members of the Company on 27th April 2004. Shareholders who wish to receive dividend in US Dollars should complete the US Dollars Election Form and return it to the Branch Registrar on or before 4th May 2004.

## Proposed Bonus Issue

The Directors have recommended a bonus share issue (the "Proposed Bonus Issue") of new shares (individually a "Bonus Share" and collectively the "Bonus Shares") to the shareholders of the Company on the basis of one (1) Bonus Share of US\$0.10 for every ten (10) issued ordinary shares held by such shareholders whose names appear on the Register of Members of the Company on 27th April 2004. The Bonus Shares will be fully paid at par and will rank pari passu with the existing issued ordinary shares of the Company in all respects from the date of issue, except that they will not rank for the recommended final dividend or the Proposed Bonus Issue. The Proposed Bonus Issue is conditional upon

- (i) an ordinary resolution being passed to approve the Proposed Bonus Issue at the 2004 Annual General Meeting being duly passed; and
- (ii) the listing of and permission to deal in the Bonus Shares being granted by the Listing Committee of The Stock Exchange of Hong Kong Limited.

Application will be made to the Listing Committee of The Stock Exchange of Hong Kong Limited for listing of, and permission to deal in, the Bonus Shares to be issued pursuant to the Proposed Bonus Issue after the ordinary resolution referred in (i) above has been duly passed at the 2004 Annual General Meeting.

A circular setting out further details of the Proposed Bonus Issue will be despatched to shareholders as soon as practicable.

## Change of Board Lot Size

The Directors have resolved to change the board lot size for trading the shares of the Company from 2,000 to 1,000. Further announcement will be made by the Company setting out the time table, trading arrangement and other details of the change in the board lot size.

## Directors

The Directors of the Company are shown on pages 40 to 43.

## Report of the Directors

Mr Philip Chow and Prof Richard Wong were appointed Directors of the Company with effect from 1st December 2003. They retire at the forthcoming Annual General Meeting under the provisions of the Company's Bye-laws and, being eligible, offer themselves for re-election.

The Directors retiring by rotation at the forthcoming Annual General Meeting in accordance with the Company's Bye-laws are Dr Victor Fung and Mr Roger King, who, being eligible, offer themselves for re-election.

Mr Nicholas D Sims has a service contract with the Company which expires on 21st October 2004. There are no other service contracts between any of the Directors of the Company and the Company or any of its subsidiaries.

### Directors' and Chief Executive's Rights to Acquire Shares and Debt Securities

During the year and as at 31st December 2003, none of the Directors nor the Chief Executive of the Company (or any of their spouses or children under 18 years of age) had been granted any right to acquire shares in or debt securities of the Company.

### Directors' Interest

#### 1. Significant Contracts

The Group continues to share the rental of offices at Harbour Centre, Hong Kong and at Shin Osaki Kangyo Building, Shinagawa-ku, Tokyo, Japan on an actual cost reimbursement basis with Island Navigation Corporation International Limited ("INCIL") and Island Navigation Corporation ("INC") respectively, both owned by a Tung family trust. The total amount of rental on an actual cost reimbursement basis paid by INCIL and INC to the Group for the year ended 31st December 2003 was approximately US\$545,169.

Except for the above (other than contracts amongst Group companies), no other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the year end or at any time during the year.

#### 2. Shares

As at 31st December 2003, the issued share capital of the Company (the "Issued Capital") consisted of 470,184,544 ordinary shares (the "Shares") and the interests and short positions of the Directors and the Chief Executive of the Company in the Shares, and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the Company's register kept under section 352 of the SFO were as follows:

Name	Direct Interests	Other Interests		Total Number of Shares Interested (in Long Position)	Percentage
		Beneficial	Voting		
Mr C C Tung	—	80,835,548 (Note 1)	269,158,908 (Notes 2 & 3)	349,994,456	74.44%
Mr Roger King	—	80,835,548 (Note 1)	—	80,835,548	17.19%
Mr T R Chang	506,390	—	—	506,390	0.11%
Mr Nicholas D Sims	46,000	—	—	46,000	0.01%
Mr Philip Y W Chow	60,000	—	—	60,000	0.01%

**Notes:**

1. Mr C C Tung and Mr Roger King have an interest in a trust which, through Springfield Corporation ("Springfield"), holds 80,835,548 Shares. Of such Shares, Springfield has an indirect interest in 25,425,972 Shares in which Monterrey Limited ("Monterrey"), a wholly-owned subsidiary of Springfield, has a direct interest, and Springfield has a direct interest in 55,409,576 Shares.
2. Wharnclyff Limited ("Wharnclyff"), a company owned by a discretionary trust established by Mrs Shirley S P Peng, a sister of Mr C C Tung and sister-in-law of Mr Roger King, holds 229,107,662 Shares and the voting rights in respect of such holdings are held by Mr C C Tung through Tung Holdings (Trustee) Inc. Gala Way Company Inc. ("Gala Way"), a company owned by the discretionary trust established by Mrs Shirley S P Peng, holds 40,051,246 Shares and the voting rights in respect of such holdings are held by Mr C C Tung through Tung Holdings (Trustee) Inc.
3. Wharnclyff, Gala Way, Springfield and Monterrey together are referred to as the controlling shareholders.

Save as disclosed above, as at 31st December 2003, none of the Directors or the Chief Executive of the Company had any interest or short position in the Shares and underlying Shares of the Company or any of its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director or the Chief Executive is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

## Substantial Shareholders

### 1. Shares

As at 31st December 2003, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, the following substantial shareholders (other than a Director or Chief Executive of the Company) had interests in the Issued Capital (including short positions) representing 5% or more of the Issued Capital:

Name	Nature of Interest	Number of Shares Interested (in Long Position)	Percentage
Bermuda Trust Company Limited	Trustee	349,994,456 (Note 1)	74.44%
Mrs Shirley S P Peng	Founder of a discretionary trust	269,158,908 (Note 2)	57.25%
Winfield Investment Limited	Indirect	269,158,908 (Notes 2 & 3)	57.25%
Tung Holdings (Trustee) Inc.	Voting	269,158,908 (Note 4)	57.25%
Wharnclyff Limited	Direct	229,107,662 (Notes 2 & 5)	48.73%
Mr C H Tung	Indirect	80,856,401 (Note 6)	17.20%
Springfield Corporation	Direct and Indirect	80,835,548 (Note 6)	17.19%

## Report of the Directors

Name	Nature of Interest	Number of Shares Interested (in Long Position)	Percentage
Archduke Corporation	Beneficiary of a trust	80,835,548 (Note 7)	17.19%
Phoenix Corporation	Beneficiary of a trust	80,835,548 (Note 7)	17.19%
Gala Way Company Inc.	Direct	40,051,246 (Notes 2 & 5)	8.52%
Monterrey Limited	Direct	25,425,972 (Note 8)	5.41%

### Notes:

1. Bermuda Trust Company Limited has an indirect interest in the same Shares in which Winfield Investment Limited ("Winfield") and Springfield, wholly-owned subsidiaries of Bermuda Trust Company Limited, have an interest.
2. Mrs Shirley S P Peng, a sister of Mr C C Tung and sister-in-law of Mr Roger King, established the discretionary trust which, through Winfield, holds 269,158,908 Shares, 229,107,662 of which are owned by Wharnclyff, a wholly-owned subsidiary of Winfield, and 40,051,246 of which are owned by Gala Way, a wholly-owned subsidiary of Winfield.
3. Winfield has an indirect interest in the same Shares in which Wharnclyff and Gala Way, wholly-owned subsidiaries of Winfield, have an interest.
4. Tung Holdings (Trustee) Inc. is a company wholly-owned by Mr C C Tung.
5. Wharnclyff and Gala Way are wholly-owned subsidiaries of Winfield.
6. Mr C H Tung, a brother of Mr C C Tung and brother-in-law of Mr Roger King, has an interest in the trust which, through Springfield, holds 80,835,548 Shares. Of such Shares, Springfield has an indirect interest in the same 25,425,972 Shares in which Monterrey, a wholly-owned subsidiary of Springfield, has a direct interest, and Springfield has a direct interest in 55,409,576 Shares. Mrs Betty Tung, the wife of Mr C H Tung, owns 20,853 Shares.
7. Archduke Corporation and Phoenix Corporation, companies which are wholly-owned by Mr C C Tung, have an interest in the trust which, through Springfield, holds 80,835,548 Shares.
8. Monterrey is a wholly-owned subsidiary of Springfield.

Save as disclosed herein, as at 31st December 2003, no other person was recorded in the Company's register kept pursuant to Section 336 of the SFO as having an interest in the Issued Capital (including short positions) representing 5% or more of the Issued Capital.

Save as disclosed herein, the Directors are not aware of any person, other than the persons (including his personal, family and corporate interests) as aforementioned, who had, directly or indirectly, an interest in the Issued Capital (including short positions) representing 5% or more of the Issued Capital as at 31st December 2003.

## 2. Disclosure

As at 31st December 2003, the Group had the following bank borrowings requiring the controlling shareholders of the Company to retain sufficient voting power in the Company to pass ordinary resolutions during the tenure of the respective loans.

### Aggregate outstanding loan

amount as at 31st December 2003

Tenure

US\$194,250,000

12 years from April 1997

US\$20,741,666.66

12 years and 7 months from February 1998

## Connected Transactions

During the year, companies within the Group entered into the following transactions on normal commercial terms, and in the ordinary and usual course of the Group's activities:

- 1) OOCL (Taiwan) Co, Ltd ("OTWL"), the Group's Taiwan subsidiary, has been in full operation since 1st July 2000, acting as the general agent for the carrier of the Group (the "Carrier") in Taiwan. In order to provide a stable customer familiar environment, OTWL's former sub-agent CMT International Inc. ("CMT", previously known as Chinese Maritime Transport Limited), has continued to provide office services, administrative and other supporting functions to OTWL. The aggregate amount of fees paid to CMT for these services during the year were approximately US\$466,000.
- 2) OTWL has replaced CMT in contracts for certain chassis, trucks, tractors and equipment with a company associated with Mr John Peng in Taiwan. The aggregate amount paid by the Group during the year was approximately US\$12,934,000.
- 3) There was no slot chartering on the vessels operated by CMT during the year.
- 4) There was no staff secondment between CMT and the Group during the year.
- 5) No containers were purchased by the Group from Associated Industries China, Inc. ("AIC") during the year.
- 6) Companies associated with Mr John Peng have provided the Group with services for equipment freight station depot and storage, IT support and maintenance for cranes, container inspection and crew manning services in Taiwan. The aggregate amount paid by the Group during the year was approximately US\$2,917,000.

Mr John Peng is the controlling shareholder of CMT, AIC and the companies associated with Mr Peng. He is a brother-in-law of Mr C C Tung, the Chairman and Chief Executive Officer of the Company. Mr Peng's wife is the sister of the wife of Mr Roger King, who is also a Director of the Company. The above transactions therefore constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## Report of the Directors

The Independent Non-executive Directors of the Company, Mr Simon Murray, Dr Victor K Fung and Prof Richard Wong, have reviewed the above transactions and confirm that such transactions have complied with the conditions set by the Stock Exchange in 1997 in granting the waiver to the Company from the requirement of disclosure by press notice and circular to shareholders on each occasion they arise and that they were conducted on normal commercial terms, in the ordinary and usual course of business of the Group, and also within the annual limit of 6% of the consolidated net tangible assets of the Company for the year ended 31st December 2003 and the transactions were fair and reasonable so far as the shareholders of the Company were concerned. PricewaterhouseCoopers, the Auditors, have also reviewed the transactions as disclosed above.

### Purchase, Sale or Redemption of Shares

On 7th August 2003, the Company entered into agreements with Fortwin Investment Limited and Sixpence Holdings Limited, under which the Company agreed to repurchase 15,922,000 shares and 31,035,088 shares respectively, at the price of HK\$9.80 per share. The share repurchase was completed on 25th September 2003 and all the shares repurchased were then cancelled. The total number of issued ordinary shares of the Company was reduced from 517,141,632 to 470,184,544.

### Share Capital

Pursuant to a Placing Agreement dated 13th February 2004, the Company issued 47,000,000 new shares at a price of HK\$25.75 per share. Following the placing, the total number of issued ordinary shares of the Company is 517,184,544.

### Pre-emptive Rights

No pre-emptive rights exist under Bermudan law in relation to issue of new shares by the Company.

### Company's Compliance with Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by this Annual Report except that the Non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Bye-laws.

### Amendments to Bye-laws

Due to the recent changes to the requirements of the Listing Rules, the Board of Directors of the Company proposes to put forward to the shareholders for approval at the Annual General Meeting of a Special Resolution to amend the Bye-laws of the Company, among other things, in the following manner:

- (a) to require that the minimum seven-day period for lodgment by shareholders of the notice to nominate a Director to commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting;
- (b) to prohibit Directors from voting at and being counted towards the quorum of the Board meeting on any matter in which any of his associates has a material interest; and
- (c) to exclude the votes cast by a shareholder in contravention of a requirement or restriction under the Listing Rules.

The amendments to the Bye-laws of the Company that are being proposed are set out in the notice of the Annual General Meeting in the Special Resolution set out on pages 52 to 55 of this Annual Report.

## Property, Plant and Equipment

Particulars of the movements in Property, plant and equipment are set out in note 12 to the accounts.

## Donations

Donations made by the Group during the year amount to US\$74,000.

## Annual General Meeting

The notice of Annual General Meeting is set out on pages 50 to 56. A circular, which accompanies this Annual Report, gives details of the general mandate to authorise the allotment of and otherwise dealing with shares of all classes in the capital of the Company and securities convertible into shares and options, warrants or similar rights to subscribe for shares or such convertible securities (the "Securities") and the general mandate to authorise the repurchase of Securities (all as set out in the Notice of Annual General Meeting).

## Auditors

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

On behalf of the Board

**C C Tung**

*Chairman*

Hong Kong, 19th March 2004