



**Corporate
Governance Report and
Directors' Report**

Corporate Governance Report

The Board believes that high standards and appropriately rigorous corporate governance practices are essential for the Company to enhance its accountability and transparency, and achieve a balance of the interests of the public and the interests of its stakeholders, inter alia, shareholders, customers, employees, and our investment partners. In this connection, the Company has published on its website the related materials so that the stakeholders are aware of the standards which they can expect from the Company and can let us know whether these standards, and the manner in which the Company conducts ourselves in practice, meet their expectations.

Shareholders

The Company conducts ongoing dialogue with our shareholders and potential shareholders. The Board is committed to providing clear and updated performance information of the Group to all shareholders, as soon as it becomes available, through the publication of interim and annual reports, which are also made accessible on the Company's website at www.coscointl.com. In addition to sending out circulars, notices, financial reports to shareholders, the Company also arrange information and services for shareholders on its website for the purpose of keeping direct communication with shareholders and investors.

The Company's website provides our shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. The "Corporate Governance" section of our website including Corporate Governance Policy, biographical data on Directors and Senior Management, Directors' interests in the securities of the Company and Terms of reference of Board Committees.

The Annual General Meeting not only deals with the regular business of the Company but also acts as a forum for Directors' dialogue with shareholders at which shareholders may ask questions on the Company's operations or related financial information. The Directors and the chairmen of the Board Committees will usually attend the Annual General Meeting and answer questions.

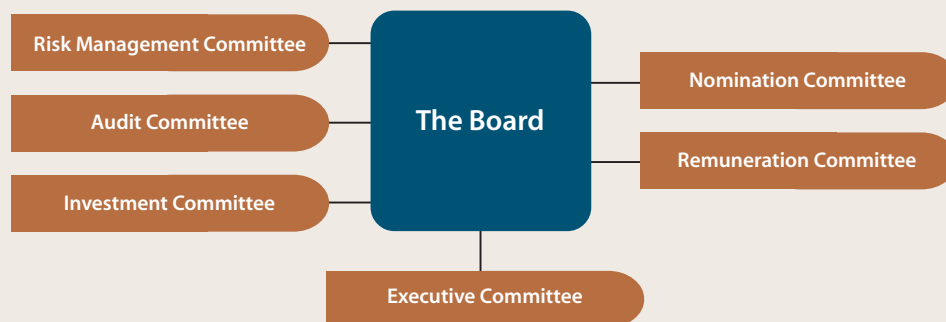
The Company had demanded poll voting on all proposed resolutions in relation to the connected transactions at the general meetings in 2004. Poll voting results were announced by way of paid advertisement at the newspapers next date to the relevant general meeting and were also made available on the Company's website so as to provide shareholders with information regarding the level of support and opposition to each resolution.

For the sake of good corporate governance practice, the Board intends to demand poll voting at future general meetings for all resolutions set out in the relevant notice of meeting so as to allow shareholders to have one vote for every share held.

In addition, the Company Secretarial Department respond to letters and telephone enquires from shareholders and potential shareholders throughout the year.

The Board

The Board is accountable to the shareholders for leading the Group in a responsible and effective manner. The Directors are aware of their collective and individual responsibilities to the shareholders for the manner in which the affairs of the Company are managed and operated. Each Director must act in good faith in the best interests of the Company. The Board structure is as follows:-



Board Functions and Composition

The Board is responsible for overseeing the Company's strategies development and determines the objectives, targets with a view to enhancing shareholder value and to monitoring and providing guidance to our Senior Management. The Board also monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives.

Of the fourteen members on the Board, three are Independent Non-executive Directors and eleven are Executive Directors. The primary function of Independent Non-executive Directors is to provide independent scrutiny and to ensure the interests of all shareholders (majority and minority shareholders) are taken into account by the Board. The biographical details of the Directors are given on "Profile of Directors and Senior Management" of this Annual Report.

The positions and roles of the Chairman and the Vice-chairman are separate from that of the Managing Director and have been clearly set out in writing. The Chairman and the Vice-chairman are responsible for formulating the overall strategies and policies of the Company. The Managing Director, supported by the Executive Committee and the Senior Management, is authorized by the Board to manage the day-to-day business operations of the Company in accordance with objectives and targets set by the Board and the Company's internal control policies and procedures.

Both the Board and the Senior Management have clearly defined authorities and responsibilities under various internal controls and check and balance mechanisms. Matters reserved to the full Board for decision include group strategy formulation, matters involving a conflict of interest for a substantial shareholder or a Director, material acquisitions and disposals of assets, delegation of authorities, treasury and risk management policies and key human resources issues.

The Board has implemented appropriate measures and internal control procedures to ensure that the Company run the business within all applicable legal and regulatory requirements with prudence and integrity. The Senior Management are obliged to supply the Board and Board Committees with adequate information in a timely manner to enable them to make informed decisions. Each of the Directors has right to access to the Group's management for further information.

A list of the brief biographical details of senior management is set out on "Profile of Directors and Senior Management" of this Annual Report.

Independent Non-executive Directors

The Independent Non-executive Directors are highly experienced with appropriate professional qualifications. They assist the Board for an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and ensure the maintenance of a high standard of financial and other mandatory reporting, providing adequate checks and balances to safeguard the interests of shareholders and the Company as a whole.

Independent Non-executive Directors have expressly identified as such in all corporate communications that disclose the names of directors of the Company.

Each of the Independent Non-executive Directors has confirmed their independence on 28th January 2005 and Mr. Kwong Che Keung, Gordon ("Mr. Kwong") was re-designated as an Independent Non-executive Director on 28th September 2004.

Mr. Kwong was employed as the Managing Director of the Company from 1st May 1998 to 31st December 2001. He was then re-designated as an Executive Director of the Company from 1st January 2002 to 12th March 2003. Mr. Kwong was further re-designated as a Non-executive

Director of the Company from 13th March 2003 to 27th September 2004. Ever since he stepped down as the Managing Director of the Company, Mr. Kwong have not been involved in the management and operation of the Company notwithstanding that he was not officially re-designated as the Non-executive Director of the Company until 13th March 2003 and had only attended the full Board Meetings in his professional capacity to oversee the interest of the public shareholders as a whole. Mr. Kwong had not received any salary from the Company since 1st May 2002.

Furthermore, Mr. Kwong was an executive director of COSCO Pacific Limited, from 18th May 1998 to 12th March 2003 and later re-designated as a non-executive director of COSCO Pacific Limited from 13th March 2003 onwards. Although Mr. Kwong was the named executive director of COSCO Pacific Limited for the period from 1st January 2002 to 12th March 2003, his actual function in COSCO Pacific Limited was the same as that of a non-executive director. He has not participated in the management and operation of COSCO Pacific Limited.

In view of the above, the Board considers that Mr. Kwong did not at any time during the last two years immediately prior to the date of this re-designation of Independent Non-executive Directors functioned as a management or an Executive Director of the Company, of its holding company or of any of their respective subsidiaries or of any connected person of the Company.

Directors' Retirement

According to the Bye-laws of the Company, all Directors including the Independent Non-executive Directors retire from office but shall be eligible for re-election at the Annual General Meeting.

Board Meetings

Full Board Meetings take place at least twice a year and will take place four times from 2005 onward to review the financial, internal control, risk management, company strategy and operating performance of the Group. The Financial Controller, Company Secretary and head of

Internal Audit Department also attend all Board Meetings to advise on statutory compliance, internal control, accounting and financial matters. At least 14 days notice will be given of a Board Meeting. Directors are requested to declare their direct or indirect interests (if any) in any proposals or transactions to be considered by the Board at Board Meetings and withdraw from the meetings as appropriate.

Two Board Meetings were held in 2004 with an average attendance rate of 67%. All businesses transacted at the meetings were documented and maintained in accordance with applicable laws and regulations.

The Company Secretary is responsible for providing detailed board papers to be circulated normally three working days in advance of Board Meetings with the aim of ensuring the Directors be able to make informed decisions on matters put before them. Queries raised by Directors will be responded promptly with appropriate steps taken. All Directors have access to the services of Company Secretary who is responsible for ensuring the Board procedures are complied with and for advising the Board on compliance matters. Orientations are also organized for providing induction to new Directors.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions of directors and employees (the "Company's Code") no less exacting than the required standard set out in the Model Code for Securities transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. To ensure directors' dealing in the securities of the Company are conducted in accordance with the Model Code and the Company's Code, a committee (the "Securities Committee") comprising the Chairman, the Vice-chairman, the Managing Director and the Deputy Managing Directors was set up to deal with such transactions. Prior to any dealing in the securities of the Company, a Director is required to notify the Chairman or the Vice-chairman in writing and obtain a written acknowledgement from the Committee. The Company

has made specific enquiry of all Directors regarding any non-compliance with the Model Code or the Company's Code during the year of 2004 and all Directors confirmed that they have fully complied with the required standard set out in the Model Code and the Company's Code during the year 2004.

Board Committees

The Board has established five committees including the Audit Committee established in 1999; Executive Committee, Remuneration Committee, Nomination Committee, Risk Management Committee and Investment Committee established on 3rd March 2005. Each of them has defined terms of reference covering its duties, powers and functions.

The chairmen of the respective committees report regularly to the Board and, as appropriate, make recommendations on matters discussed. The Board and the committees may retain outside advisors at the Company's expense, as they deem necessary. The list of members and the chairman of the respective committees are set out on "Corporate Information" of this Annual Report.

The Executive Committee

Executive Committee consists of three Executive Directors and meets regularly and operates as a general management committee with overall delegated authority from the Board. The Executive Committee is responsible for executing the strategy of the Group reviewing the business performance, ensuring adequate funding and monitoring performance of the management.

The Audit Committee

The Audit Committee consists of three Independent Non-executive Directors. It meets at least two times a year. Special meetings may be called at the discretion of the Chairman of the Audit Committee or the request of the Managing Director or Head of Internal Audit Department to review significant control or financial issues. The

functions of Audit Committee are reviewing important accounting policies and supervising the preparation of the financial reports of the Company, monitoring the performance of both the internal and external auditors, reviewing and examining the effectiveness of the Company's financial reporting procedures and internal controls, ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedures approved by the Board.

The Head of Internal Audit Department reports directly to the Board and the Audit Committee. Two committee meetings were held in 2004 with an attendance rate of 100%. All businesses transacted at these meetings are documented and maintained in accordance with applicable laws and regulations.

After each Audit Committee meeting, the Audit Committee chairman will present a written report to the Board which highlights any significant issues discussed in the meeting.

The Investment Committee

The Investment Committee consists of four Executive Directors. It meets at least four times a year, and provides market expertise and advice to the Board on the investment of the Company, including advice on investment policies, asset allocation and new investment proposal.

The Nomination Committee

The Nomination Committee consists of three Independent Non-executive Directors and a Deputy Managing Director. It meets at least once a year, and is responsible for making the recommendations to shareholders on directors standing for re-election as directors. It is also responsible for making recommendations to the Board on the nomination of candidates to fill casual vacancies of Directors.

The Remuneration Committee

The Remuneration Committee consists of three Independent Non-executive Directors and the Managing Director. It meets at least once a year, and determine the policy for the remuneration (including that of Executive Directors and Senior Management) and approving the terms of their service contracts. The Remuneration Committee ensures that the remuneration offered is appropriate for the duties and in line with market practice.

Risk Management Committee

The Risk Management Committee consists of four Executive Directors. It meets at least twice a year. It aimed at managing risk and controlling its operation and financial activities so as to avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations. The Committee is responsible for formulating the written policies and procedures to distinguish and manage risk including operational risk, liquidity risk, regulatory risk, and credit risk.

Internal Audit

We have implemented appropriate policies and procedures for all our major operations. The Head of Internal Audit Department is responsible for monitoring compliance with these policies and procedures. The primary objective of our Internal Audit Department is to

assist the Board and the Senior Management in risk management and in monitoring compliance with applicable regulatory requirements and guidelines with a view to enhancing the effectiveness of our internal control mechanisms. All audit missions set out in the 2004 Internal Audit Plan were accomplished. The recommendations made by Internal Audit Department in connection with these audit missions were widely accepted and rectification measures have been put in place. Internal Audit Department also actively participate in the review and enhancement of our internal policies and procedures on a continuing basis.

External Auditors

The Company's independent external auditors are PricewaterhouseCoopers. The Audit Committee is responsible for considering the appointment of the external auditors and also reviews any non-audit functions performed by the external auditors for the Group. In particular, the Audit Committee will consider, in advance of their being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest.

A comparative analysis of remuneration (and associated remuneration) in respect of the audit and non-audit services provided by PricewaterhouseCoopers to the Group for the year ended 2003 and 2004 was as follows :

	2004 HK\$'000	2003 HK\$'000
Audit	1,533	950
Taxation services	51	12
Due diligence services	512	532

Financial Reporting

The Board is responsible for preparing the financial statements of the Group and the external auditors are responsible for reporting in the auditors' report on the financial statements of the Group.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Company aims to present a clear and balanced assessment of its financial position and prospects. The financial statements are prepared so as to give a true and fair value of the financial status of the Group. Audited financial statements are published within four months after the end of the financial year. For the announcement relating to the price-sensitive information and other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

Management Meetings

Executive Committee and the Senior Management meet together on a weekly basis to review, discuss and make decisions on financial and operational matters. These meetings, chaired by the Managing Director, enhance and strengthen departmental communications and co-operation within the Group.

Connected Transactions

We remain committed to ensuring compliance with regulatory requirements under the Listing Rules and applicable laws and regulations in handling connected transactions. Accordingly, we implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are approved by Independent Non-executive Directors, conducted under normal commercial

terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by independent shareholders in accordance with the Listing Rules. The connected persons or shareholders of transactions were requested to abstain from voting in the general meeting. Details of the connected transactions during the year are set out in Directors' Report and in Notes 33 to the Financial Statements of this Annual Report.

Incentive Scheme and Corporate Culture

The Group maintains an employee handbook providing guidance to employees on matters such as employee dealings on the Company's securities, ethical standards, business conduct and employees conduct. The employee handbook applies to all employees of the Group who must ensure strict compliance with the policies therein.

Through the establishment of a performance charter for our Senior Management, appropriate appraisal mechanisms, and the granting of share options, we have been able to align the interests of our Senior Management and entire staff with the growth and performance of the Company. We pay particular attention to the establishment of an optimal corporate culture. With the support of all staff, we have identified, designed and implemented a corporate culture that is considered appropriate for the special circumstances of the Company, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Group.

By order of the Board

WAI Ching Sum

Company Secretary

Hong Kong, 3rd March 2005

Directors' Report

The directors of COSCO International Holdings Limited (the "Company") present this Directors' Report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December 2004.

Principal Activities

The Company's principal activity is investment holding. The principal activities of the Group include ship trading & supply services, property investment & development, infrastructure investment and building construction.

An analysis of the Group's turnover, revenue and segment information for the year by principal activities is set out in note 2 to the financial statements.

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 78 of this Annual Report.

The board of directors of the Company (the "Board") recommended the payment of a final dividend for the year ended 31st December 2004 of HK2.5 cents (2003: nil) per share, approximately HK\$35,361,000, payable on or before 31st May 2005.

Fixed Assets

Details of the movements in fixed assets of the Group and the Company during the year are set out in note 11 to the financial statements.

Distributable Reserves

The distributable reserves of the Company as at 31st December 2004 calculated under Companies Act of Bermuda amounted to HK\$903,379,000.

Borrowings and Interest Capitalised

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the borrowings are set out in notes 25 and 28 to the financial statements. Interest and other borrowing costs capitalised by the Group during the year are set out in note 4 to the financial statements.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

Share Capital

Details of the movements on share capital of the Company are shown in note 26 to the financial statements.

Donations

The donations made by the Group during the year amounted to HK\$121,000 (2003: HK\$85,000).

Five-year Financial summary

A five-year financial summary of the Group is set out on pages 142 and 143.

Directors

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

Executive Directors

Mr. Wei Jiafu	<i>(Chairman)</i>
Mr. Liu Guoyuan	<i>(Vice-chairman)</i>
Mr. Li Jianhong	
Mr. Zhou Liancheng	
Mr. Liu Hanbo	<i>(Managing Director)</i>
Mr. He Jiale	
Mr. Guo Huawei	<i>(appointed on 16th April 2004)</i>
Mr. Chen Pisen	
Mr. Meng Qinghui	
Mr. Zhao Kaiji	<i>(appointed on 5th February 2004)</i>
Mr. Lin Libing	<i>(appointed on 5th February 2004)</i>
Mr. Liang Yanfeng	<i>(resigned on 16th April 2004)</i>

Non-executive Directors

Mr. Kwong Che Keung, Gordon	<i>(redesignated as Independent Non-executive Director on 28th September 2004)</i>
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Independent Non-executive Directors

Mr. Chan Cheong Foon, Andrew	
Mr. Kwong Che Keung, Gordon	<i>(redesignated as Independent Non-executive Director on 28th September 2004)</i>
Mr. Tsui Yiu Wa, Alec	<i>(appointed on 5th February 2004)</i>
Mr. Alexander Reid Hamilton	<i>(retired on 3rd June 2004)</i>

In accordance with Bye-laws 99 and 102B of the Company's Bye-laws, all the remaining directors of the Company retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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 Competing Business

During the year and up to the date of this report, the following directors of the Company are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as set out below:

Name of director	Name of business which are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of director's interest in the entity
Mr. Wei Jiafu	companies controlled by 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company) ("COSCO")	- Property investment and development - Ship trading and supply services	Director
Mr. Liu Guoyuan	COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") and its associated companies	- Property investment and development - Ship trading and supply services	Director
Mr. Li Jianhong	companies controlled by COSCO	- Property investment and development - Ship trading and supply services	Director
Mr. Zhou Liancheng	COSCO Hong Kong and its associated companies	- Property investment and development - Ship trading and supply services	Director
Mr. Liu Hanbo	Soundwill Holdings Limited	- Property investment and development	Non-executive Vice-chairman
Mr. He Jiale	COSCO Hong Kong and its associated companies	- Property investment and development - Ship trading and supply services	Director
Mr. Guo Huawei	companies controlled by COSCO	- Property investment and development - Ship trading and supply services	Director
Mr. Chen Pisen	companies controlled by COSCO Hong Kong	- Property investment and development - Ship trading and supply services	Director
Mr. Meng Qinghui	companies controlled by COSCO Hong Kong	- Property investment and development - Ship trading and supply services	Director
	Soundwill Holdings Limited	- Property investment and development	Non-executive Director
Name of Ex-director			
Mr. Liang Yanfeng*	companies controlled by COSCO	- Property investment and development - Ship trading and supply services	Director

* Mr. Liang Yanfeng resigned as a director of the Company on 16th April 2004.

As the Board is independent from the board of directors of the aforesaid companies, and as none of the above directors of the Company control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these companies.

Connected Transactions

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions require disclosure in the annual report of the Company. The connected transactions which also constitute significant related party transactions are set out in note 33 to the financial statements.

1. On 29th May 2002, the Stock Exchange granted the Company conditional waivers from strict compliance with the Listing Rules to the connected transactions for the provision of agency services by COSCO International Ship Trading Company Limited and its subsidiaries ("COSCO Ship Trading Group"), a 60% owned subsidiary of the Company, to COSCO and its subsidiaries (other than the Group) (the "COSCO Group") in respect of (a) the sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) the sale and purchase of marine equipment for new ship-building projects, which were of a regular and ongoing nature (the "Ship Trading Ongoing Connected Transactions") not exceeding HK\$52,000,000 ("Ship Trading Cap Amount") for each of the Group's three financial years ended 31st December 2002, 2003 and 2004. The Ship Trading Ongoing Connected Transactions for the financial year ended 31st December 2004 amounted to US\$6,520,000 (equivalent to HK\$50,856,000).

The Independent Non-Executive Directors of the Company reviewed the Ship Trading Ongoing Connected Transactions and were of the opinion that

- (a) the Ship Trading Ongoing Connected Transactions were approved by the Independent Shareholders at a special general meeting held on 18th June 2002, at which COSCO and its associates abstained from voting;
- (b) the Ship Trading Ongoing Connected Transactions for the financial year ended 31st December 2004 had been:
 - (i) carried out in the ordinary and usual course of business of the Group;
 - (ii) conducted on normal commercial terms; and

- (iii) entered into in accordance with the terms of the relevant engagement/commission agreements; and

- (c) the aggregate amount of the Ship Trading Ongoing Connected Transactions for the financial year ended 31st December 2004 did not exceed the Ship Trading Cap Amount.

The auditors of the Company was instructed to perform specific procedures on the Ship Trading Ongoing Connected Transactions and reported on the actual finding of those procedures as follows:

- (a) the Ship Trading Ongoing Connected Transactions for the financial year ended 31st December 2004 had been approved by the Board;
 - (b) the Ship Trading Ongoing Connected Transactions for the financial year ended 31st December 2004 had been entered into in accordance with the terms of the relevant agreements; and
 - (c) the aggregate amount of the Ship Trading Ongoing Connected Transactions for the financial year ended 31st December 2004 did not exceed the Ship Trading Cap Amount.
2. On 12th January 2004, eleven tenancy agreements (the "Tenancy Agreements") were entered into between Tian Lee Property Limited, Velu Exports Limited, Wing Thye Holdings Limited, Year Of The Rat Corp. and 99 Prove Finance Limited, wholly-owned subsidiaries of the Company, as landlords, and COSCO Hong Kong and certain subsidiaries of COSCO Hong Kong as tenants for the leasing of portions of the 47th-51st floors of COSCO Tower for a term of about 3 years (except for the term of COSCO Pacific Management Company Limited which was for 2 years) and an option to renew for a further 3 years (except for COSCO Pacific Management Company Limited which had a renewable option for a further 1 year), at an aggregate monthly rental of HK\$2,428,744. COSCO Hong Kong provide guarantees for its subsidiaries in respect of the ten tenancy agreements at an amount equivalent to 3 times of the monthly rent respectively.

3. The Stock Exchange granted to the Company conditional waivers on 5th February 2004 from strict compliance with connected transaction provisions of the Listing Rules in respect of the rent receivable by the Group during the initial term and subsequent renewed term (if applicable) of the Tenancy Agreements (the "Tenancy Ongoing Connected Transactions") not exceeding HK\$30,054,000 (the "Tenancy Cap Amount") for each of the Group's three financial years ending 31st December 2004, 2005 and 2006. The Tenancy Ongoing Connected Transactions for the financial year ended 31st December 2004 amounted to HK\$28,418,000.

The Independent Non-executive Directors reviewed the Tenancy Ongoing Connected Transactions and were of the opinion that

- (a) the Tenancy Ongoing Connected Transactions for the financial year ended 31st December 2004 had been:
- (i) entered into by the Group in the ordinary and usual course of business;
 - (ii) conducted on normal commercial terms; and
 - (iii) entered into in accordance with the terms of the relevant agreements that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (b) the aggregate amount of rent payable pursuant to the Tenancy Ongoing Connected Transactions under the initial term for the financial year ended 31st December 2004 of the Group did not exceed the Tenancy Cap Amount.

The auditors of the Company was instructed to perform specific procedures on the Tenancy Ongoing Connected Transactions and reported on the actual finding of those procedures as follows:

- (a) the Tenancy Ongoing Connected Transactions for the financial year ended 31st December 2004 had received the approval of the Board;
- (b) the Tenancy Ongoing Connected Transactions for the financial year ended 31st December 2004

had been entered into in accordance with the terms of the relevant agreements; and

- (c) the aggregate amount of the Tenancy Ongoing Connected Transactions for the financial year ended 31st December 2004 did not exceed the Tenancy Cap Amount.
4. On 14th August 2003, a conditional sale and purchase agreement was entered into between the Company as purchaser and 中遠工業公司 (COSCO Industry Company) ("COSCO Industry") as vendor for the sale and purchase of a 10% equity interest in International Paint of Shanghai Co., Ltd. ("Shanghai International") at a consideration of RMB17,138,000. The acquisition was completed on 30 June 2004, whereupon Shanghai International officially became an investment security of the Company.
5. On 14th August 2003, two conditional sale and purchase agreements were entered into between the Company as purchaser, and COSCO Industry and Shen-John Investment Company L.L.C. ("Shen-John") as vendors, for the sale and purchase of an aggregate 34.19% equity interest in each of Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. (the "COSCO Kansai Companies").

Subsequently on 25th November 2003, a further four conditional sale and purchase agreements were entered into between the Company as purchaser, and 中遠太平洋(中國)投資有限公司 (COSCO Pacific (China) Investments Co., Ltd) ("COSCO Pacific China"), Florens Industrial Holdings Limited ("Florens") and 天津遠洋運輸公司 (Tianjin COSCO Ocean Shipping Company) ("Tianjin COSCO Transport") as vendors, for the sale and purchase of an aggregate 28.88% equity interest in each of the COSCO Kansai Companies. COSCO Industry, Shen-John, COSCO Pacific China, Florens and Tianjin COSCO Transport are subsidiaries of COSCO. The total consideration for the acquisition of an aggregate of the 63.07% equity interest in the COSCO Kansai Companies was RMB116,830,990. Completion of the transactions took place on 7th January 2004.

6. The Stock Exchange granted the Company conditional waivers on 18th February 2004 from strict compliance with connected transaction provisions of the Listing Rules in respect of transactions (the "COSCO Kansai Ongoing Connected Transactions") of a regular and ongoing nature entered into between the COSCO Kansai Companies on the one hand and COSCO Group and Kansai Paint Co., Ltd. ("Japan Kansai") on the other hand such that (a) the annual technology usage fee payable by the COSCO Kansai Companies to Japan Kansai shall not exceed HK\$4,000,000, (b) the annual purchase of raw materials by the COSCO Kansai Companies from Japan Kansai and its subsidiaries (the "Kansai Group") should not exceed HK\$44,000,000, (c) the annual commission paid by the COSCO Kansai Companies to the Kansai Group shall not exceed HK\$5,000,000, (d) the annual sale of container paints and vessels paints by the COSCO Kansai Companies to COSCO Group shall not exceed HK\$178,000,000, and (e) the annual commission paid by the COSCO Kansai Companies to COSCO Group shall not exceed HK\$11,000,000 (collectively the "COSCO Kansai Cap Amount") for each of the Group's three financial years ending 31st December 2003, 2004 and 2005.

For the financial year ended 31st December 2004, the COSCO Kansai Ongoing Connected Transactions amounted in aggregate to: (a) HK\$5,780,000 as the technology usage fee payable by the COSCO Kansai Companies to Japan Kansai, (b) HK\$6,800,075 as the purchase of raw materials by the COSCO Kansai Companies from the Kansai Group, (c) HK\$1,703,920 as the commission paid by the COSCO Kansai Companies to the Kansai Group, (d) HK\$17,856,306 as the sale of container paints and vessels paints by the COSCO Kansai Companies to COSCO Group, and (e) HK\$1,192,599 as the commission paid by the COSCO Kansai Companies to COSCO Group.

As the technology usage fee payable by the COSCO Kansai Companies to Japan Kansai for the financial year ended 31st December 2004 has exceeded the relevant category of the COSCO Kansai Cap Amount of HK\$4,000,000, the Company has made an announcement pursuant to the requirements Rule 14A.34 of the Listing Rules on 24th February 2005.

The Stock Exchange has stated that the waiver dated 18th February 2004 granted by the Stock Exchange to the Company has been revoked in all respects with effect from 24th February 2005. The Company is currently working on the proposed cap for the continuing connected transactions of COSCO Kansai Companies for the year ending 31st December 2005, 2006 and 2007 and will make appropriate disclosures in compliance with the Listing Rules as soon as practicable.

The Independent Non-executive Directors reviewed the COSCO Kansai Ongoing Connected Transactions and were of the opinion that

- (a) the COSCO Kansai Ongoing Connected Transactions for the financial year ended 31st December 2004 had been:
 - (i) entered into by the Group in the ordinary and usual course of its business;
 - (ii) conducted on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (iii) entered into in accordance with the terms of the relevant agreements governing the COSCO Kansai Ongoing Connected Transactions; and
- (b) the aggregate value of each of the categories of COSCO Kansai Ongoing Connected Transactions for the financial year ended 31st December 2004 did not exceed the COSCO Kansai Cap Amount except the technology usage fee payable by the COSCO Kansai Companies to Japan Kansai and appropriate disclosure by way of announcement has been made on 24th February 2005.

The auditors of the Company was instructed to perform specific procedures on the COSCO Kansai Ongoing Connected Transactions and reported on the actual finding of those procedures as follows:

- (a) the COSCO Kansai Ongoing Connected Transactions for the financial year ended 31st December 2004 had been approved by the Board;
- (b) Certain of the COSCO Kansai Ongoing Connected Transactions (the "Selected COSCO

Kansai Ongoing Connected Transactions") for the financial year ended 31st December 2004 had been checked and ensured that they were entered into in accordance with the terms of the relevant agreements governing the Selected COSCO Kansai Ongoing Connected Transactions; and

(c) the COSCO Kansai Ongoing Connected Transactions for the financial year ended 31st December 2004 did not exceed the COSCO Kansai Cap Amount except that the annual technology usage fee payable by the COSCO Kansai Companies to Japan Kansai exceeded the relevant Kansai Cap Amount.

7. On 14th May 2004, Promise Keep Limited, a wholly-owned subsidiary of the Company, as purchaser and COSCO Hong Kong and G. W. Maritime Pte. Ltd as vendors entered into a conditional sale and purchase agreement ("COSCO Insurance S&P Agreement") for the sale and purchase of 100% interest in COSCO (Hong Kong) Insurance Brokers Limited ("COSCO Insurance"). COSCO Hong Kong is the holding company of the Group and G. W. Maritime Pte. Ltd. is an associate of COSCO. The total consideration for the acquisition was US\$6,056,000. The transaction was completed on 1st July 2004, whereupon COSCO Insurance became a wholly-owned subsidiary of the Company.

8. Pursuant to the COSCO Insurance S&P Agreement, COSCO Insurance agrees to continue to provide COSCO Group with marine and general insurance brokerage services (the "COSCO Insurance Continuing Connected Transactions") for the three financial years ending 31st December 2004, 2005 and 2006.

Pursuant to the COSCO Insurance S&P Agreement, COSCO Hong Kong and the Company will procure that for a term of three years, the COSCO Insurance Continuing Connected Transactions will be conducted during COSCO Insurance's usual and ordinary course of business on normal commercial terms or terms no less favourable than terms available to or from independent third parties, as well as terms in accordance with the COSCO Insurance S&P Agreement being fair and reasonable as far as

the interests of the Company and its shareholders as a whole are concerned.

Pursuant to the COSCO Insurance S&P Agreement, the Company undertakes that aggregate amount of the COSCO Insurance Continuing Connected Transactions for each of the financial years ending 31st December 2004, 2005 and 2006 will not exceed relevant caps set out below (the "Insurance Cap Amount"):

Cap for the year ending 31st December 2004	Cap for the year ending 31st December 2005	Cap for the year ending 31st December 2006
US\$/ HK\$	US\$/ HK\$	US\$/ HK\$
3,697,000/ 28,837,000	4,252,000/ 33,166,000	4,890,000/ 38,142,000

The aggregate amount of COSCO Insurance Continuing Connected Transactions for the period commencing on the date when COSCO Insurance became the subsidiary of the Company and ended on 31st December 2004 was US\$1,938,000 (equivalent to HK\$15,116,000).

The Independent Non-executive Directors of the Company had reviewed the COSCO Insurance Continuing Connected Transactions for the financial year ended 31st December 2004 and were of the opinion that:

- (i) entered into by the Group in the ordinary and usual course of its business;
- (ii) conducted on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) entered into in accordance with the terms of the relevant agreements governing them terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company was instructed to perform specific procedures on the COSCO Insurance Continuing Connected Transactions and reported on the actual finding of those procedures as follows:

- (a) the COSCO Insurance Continuing Connected Transactions for the financial year ended 31st

- December 2004 had been approved by the Board;
- (b) Certain of the COSCO Insurance Continuing Connected Transactions (the "Selected COSCO Insurance Continuing Connected Transactions") for the financial year ended 31st December 2004 had been checked and ensured that they were entered into in accordance with the terms of the relevant agreements governing the Selected COSCO Insurance Continuing Connected Transactions; and
- (c) the aggregate amount of the COSCO Insurance Continuing Connected Transactions for the financial year ended 31st December 2004 did not exceed the Insurance Cap Amount.
9. On 4th November 2004, a conditional share transfer agreement was entered into by the Company as buyer and 廣州經濟技術開發區廣遠海運服務有限公司 (Guangzhou Economy & Technology Development Zone COSCO Marine Service Co. Limited) ("CMSC") as vendor for the sale and purchase of 49% equity interest in Guangzhou Jotun Ocean Paint Co. Ltd ("JOP"). CMSC is a subsidiary of COSCO and the total consideration for the acquisition was RMB17,310,000 (approximately HK\$16,263,000). The transaction was completed in February 2005 and JOP became an associated company of the Company.
10. On 28th December 2004, a conditional sales and purchase agreement (the "Yuantong S&P Agreement") was entered into by Leadfull Investments Limited, a wholly-owned subsidiary of the Company as purchaser and COSCO Trading and Supply Investments Limited ("COSCO Trading and Supply") as vendor for the sale and purchase of 100% equity interest in Yuantong Marine Service Company Limited ("Yuantong"). COSCO Trading and Supply is a subsidiary of COSCO Hong Kong and the total consideration for the acquisition was HK\$53,750,000. The acquisition of the entire equity interest in Yuantong and the Yuantong S&P Agreement were approved by the independent shareholders during

the special general meeting held on 24th February 2005. COSCO and their respective associates abstained from voting on ordinary resolutions proposed in the special general meeting.

11. Pursuant to the Yuantong S&P Agreement, Yuantong agrees to continue to provide COSCO Group with ship supply and installation services (the "Yuantong Continuing Connected Transactions") for the three financial years ending 31st December 2005, 2006 and 2007.

Pursuant to the Yuantong S&P agreement, COSCO Hong Kong and the Company will procure that for a term of three years, the Yuantong Continuing Connected Transactions will be conducted during Yuantong's usual and ordinary course of business on normal commercial terms or terms no less favourable than terms available to or from independent third parties, as well as terms in accordance with the Yuantong S&P Agreement being fair and reasonable as far as the interests of the Company and its shareholders as a whole are concerned.

Pursuant to the Yuantong S&P Agreement, the Company undertakes that the aggregate amount of the Yuantong Continuing Connected Transactions for each of the financial years ending 31st December 2005, 2006 and 2007 will not exceed relevant caps set out below (the "Yuantong Cap Amount"):

Cap for the year ending 31st December 2005 HK\$	Cap for the year ending 31st December 2006 HK\$	Cap for the year ending 31st December 2007 HK\$
229,000,000	249,000,000	270,000,000

The Yuantong Continuing Connected Transactions were approved by the independent shareholders at the special general meeting held on 24th February 2005. COSCO and their respective associates abstained from voting on relation to the ordinary resolutions proposed in the special general meeting.

12. On 28th December 2004, an agreement (the "Master Agreement") was entered into by the Company, COSCO Hong Kong and COSCO Ship Trading, pursuant to which COSCO Ship Trading Group agrees

to continue to provide COSCO Group with Ship Trading Ongoing Connected Transactions for the three financial years ending 31st December 2005, 2006 and 2007 (the "Ship Trading Continuing Connected Transactions").

Pursuant to the Master Agreement, COSCO Hong Kong and the Company will procure that for a term of three years, the Ship Trading Continuing Connected Transactions will be conducted during COSCO Ship Trading's usual and ordinary course of business, on normal commercial terms or terms no less favourable than terms available to or from independent third parties, as well as terms in accordance with the Master Agreement being fair and reasonable as far as the interests of the Company and its shareholders as a whole are concerned.

Pursuant to the Master Agreement, the Company undertakes that the aggregate amount of the Ship Trading Continuing Connected Transactions for each of the financial years ending 31st December 2005, 2006 and 2007 will not exceed relevant caps set out below (the "Ship Trading Continuing Connected Transactions Cap Amount"):

Cap for the year ending 31st December 2005 HK\$	Cap for the year ending 31st December 2006 HK\$	Cap for the year ending 31st December 2007 HK\$
58,500,000	60,300,000	63,200,000

The Ship Trading Continuing Connected Transactions were approved by the independent shareholders during the special general meeting held on 24th February 2005. COSCO and their respective associates abstained from voting on the ordinary resolutions proposed in the special general meeting.

Specific Performance Obligations of The Controlling Shareholder

Under paragraph 13.18 of Chapter 13 of the Listing Rules, the Company discloses the following loan agreement which contain covenants requiring specific performance obligations of the controlling shareholder:

1. A HK\$700,970,000 secured term loan facility was granted by Bank of China (Hong Kong) Limited to the Company in August 1998 and subsequently amended on 9th June, 2001 and 20th October 2003 to finance the acquisition of the eight floors of COSCO Tower. The secured term loan facility is repayable on or before 19th October 2008. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that:
 - (i) it will procure that COSCO will maintain an equity or shareholding interest, either directly or indirectly, giving rise to more than 50% of the voting rights attached to the issued share capital of COSCO Hong Kong and will ensure that such equity or shareholding interest is not disposed of in any way by COSCO and remains free from any security interest (save for any of such existing thereon prior to the date of the guarantee);
 - (ii) it will procure that the ultimate holding company will maintain an equity interest, either directly or indirectly, of not less than 35% in the Company and such equity or shareholding interest being the single largest equity or shareholding interest in the Company.
2. An un-secured loan and credit facility of US\$45,000,000 to finance the general working capital and corporate funding requirement of the Company was granted by China Merchants Bank, Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited, Shanghai Branch to the Company on 8th March 2004. The un-secured loan and credit facility will be repayable on or before 8th March 2009. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that:
 - (i) it shall directly or indirectly beneficially maintain an equity or shareholding interest of not less than 35% of the voting rights attached to the issued share capital of the Company, which shall maintain its listing status on the Stock Exchange.
 - (ii) it shall be more than 50% beneficially owned by COSCO.

3. An un-secured loan of HK\$150,000,000 to finance the general working capital and corporate funding requirement of the Company was granted by Wing Hang Bank Limited to the Company on 26th August 2004. The un-secured loan will be repayable on or before 20th August 2005. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes that it shall directly or indirectly beneficially maintain an equity or shareholding interest of not less than 35% of the voting rights attached to the issued share capital of the Company.

Share Options

Pursuant to the Company's share option scheme (the "Share Option Scheme") approved and adopted by the shareholders on 17th May 2002, the following is a summary of the Scheme disclosed in accordance with the Listing Rules:

1. Purpose of the Share Option Scheme:
 - (a) The purpose of the Share Option Scheme is for the Group to attract, retain and motivate talented participants to strive for future development and expansion of the Group.
 - (b) The Share Option Scheme shall be an incentive to encourage the participants and allow the participants to enjoy the results of the Company attained through their efforts and contributions.
2. Participants of the Share Option Scheme:
 - (a) any director of the Group;
 - (b) any director of the substantial shareholder of the Company;
 - (c) any employee of the Group;
 - (d) any employee of the Company's substantial shareholder or any employee of such substantial shareholder's subsidiaries or associated companies;
 - (e) any business associate of the Group; and
 - (f) any business associate of any substantial shareholder of each member of the Group.
3. Total number of share options available for issue under the Share Option Scheme and percentage of issued share capital as at 31st December 2004:

The number of share options available for issue under the Share Option Scheme is 139,438,929 shares representing 9.86% of the issued share capital at 31st December 2004.

The Board had resolved on 3rd March 2005 proposing the refreshment of the 10% share option scheme limit and other terms of the Share Option Scheme. The resolutions in relation to the proposal will be submitted to the special general meeting to be held on 5th May 2005 for approval.
4. Maximum entitlement of each participant under the Share Option Scheme:

The maximum entitlement for each participant is that the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the Share Option Scheme.
5. The period within which the shares must be taken up under an option:

Not applicable.
6. The minimum period for which an option must be held before it can be exercised:

There is and shall be no minimum period for which an option must be held before it can be exercised.
7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid:

The option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant

thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocably declined.

8. The basis of determining the exercise price:

The exercise price is determined by the Board and shall be the highest of:

- (a) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the offer date;

- (b) the average closing price of shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date; and

- (c) the nominal value of a share of the Company.

9. The remaining life of the Share Option Scheme:

The Scheme is valid and effective for a period of 10 years, it commenced on 17th May 2002 and will expire on 16th May 2012.

Details of the share options to subscribe for shares of the Company granted to eligible persons pursuant to the Share Option Scheme and their movements during the year under review are as follows:

(i) Share options granted in 2003

	Number of share options					
	Outstanding as at 1st January 2004	Exercised during the year	Lapsed during the year	Changed category during the year	Outstanding as at 31st December 2004	Percentage of total issued share capital
Directors						
Mr Wei Jiafu	1,800,000	-	-	-	1,800,000	0.127%
Mr Liu Guoyuan	1,800,000	-	-	-	1,800,000	0.127%
Mr Li Jianhong	1,800,000	-	-	-	1,800,000	0.127%
Mr Zhou Liancheng	1,800,000	-	-	-	1,800,000	0.127%
Mr Liu Hanbo	1,800,000	-	-	-	1,800,000	0.127%
Mr He Jiale	1,800,000	-	-	-	1,800,000	0.127%
Mr Chen Pisen	1,200,000	-	-	-	1,200,000	0.085%
Mr Meng Qinghui	1,200,000	-	-	-	1,200,000	0.085%
Mr Zhao Kaiji	1,200,000	-	-	-	1,200,000	0.085%
Mr Lin Libing	1,200,000	-	-	-	1,200,000	0.085%
Ex-director						
Mr Liang Yanfeng	1,200,000	-	-	-	1,200,000	0.085%
Continuous contract employees of the Group	28,000,000	(9,802,000)	(1,000,000)	(1,000,000)	16,198,000	1.145%
Other participants	34,200,000	(10,250,000)	-	1,000,000	24,950,000	1.764%

Notes:

- * These share options were granted on 26th November 2003 and are exercisable at HK\$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.
- * The share options represent personal interest held by the relevant participants as beneficial owner.
- * Other participants include employees of COSCO Group (other than the directors of the Company and the continuous contract employees of the Group).
- * The closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on 25th November 2003, being the trading day immediately preceding the date of grant of the relevant share options, was HK\$0.58 per share.

(ii) Share options granted in 2004

	Number of share options				Outstanding as at 31st December 2004	Percentage of total issued share capital
	Outstanding as at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year		
Directors						
Mr Wei Jiafu	-	1,200,000	-	-	1,200,000	0.085%
Mr Liu Guoyuan	-	1,200,000	-	-	1,200,000	0.085%
Mr Li Jianhong	-	1,200,000	-	-	1,200,000	0.085%
Mr Zhou Liancheng	-	1,200,000	-	-	1,200,000	0.085%
Mr Liu Hanbo	-	1,200,000	-	-	1,200,000	0.085%
Mr He Jiale	-	1,200,000	-	-	1,200,000	0.085%
Mr Guo Huawei	-	800,000	-	-	800,000	0.057%
Mr Chen Pisen	-	800,000	-	-	800,000	0.057%
Mr Meng Qinghui	-	800,000	-	-	800,000	0.057%
Mr Zhao Kaiji	-	800,000	-	-	800,000	0.057%
Mr Lin Libing	-	800,000	-	-	800,000	0.057%
Continuous contract employees of the Group	-	21,450,000	-	-	21,450,000	1.516%
Other participants	-	23,250,000	-	-	23,250,000	1.644%

Note:

- * These share options were granted on 2nd December 2004 and are exercisable at HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.
- * The share options represent personal interest held by the relevant participants as beneficial owner.
- * Other participants include employees of COSCO Group (other than the directors of the Company and the continuous contract employees of the Group).
- * The closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on 1st December 2004, being the trading day immediately preceding the date of grant of the relevant share options, was HK\$1.35 per share.

During the year, the aggregate number of share options exercised was 20,052,000 and the weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised can be calculated as HK\$1.32.

The Company adopted Black-Scholes Options pricing Model (a common valuation methodology for share options) to calculate the value of share options.

The fair value for the share options granted in 2004 was HK\$0.89 at the date of grant with assumptions as follows:

- (i) interest rate of 10-year Stock Exchange Fund Notes of 4.21% per annum as the risk-free interest rate;
- (ii) expected life of 10 years; and
- (iii) expected volatility of 50%, being the annualised

volatility of the closing price of the shares from 2nd September 2004 to 1st 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. Particulars and movements of the Company's share options during the year are also set out in note 26 to the financial statements.

Directors' Interests In Securities

As at 31st December, 2004, the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) 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 and short positions which the Director has 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 were as follows:

1. Long positions in shares of associated corporation

Name of associated corporation	Name of director	Number of shares held	Personal interests
COSCO Pacific Limited	Mr Kwong Che Keung, Gordon	250,000	0.011%

2. Long positions in underlying shares of equity derivatives of associated corporation

(i) Movements of share options granted by associated corporation in 2003

Name of associated corporation	Director	Number of share options			Outstanding as at 31st December 2004	Percentage of total issued share capital
		Outstanding as at 1st January 2004	Exercised during the year	Lapsed during the year		
COSCO Pacific Limited	Mr Wei Jiafu	1,000,000	-	-	1,000,000	0.046%
COSCO Pacific Limited	Mr Liu Guoyuan	1,000,000	(900,000)	-	100,000	0.005%
COSCO Pacific Limited	Mr Li Jianhong	800,000	-	-	800,000	0.037%
COSCO Pacific Limited	Mr Zhou Liancheng	800,000	(400,000)	-	400,000	0.018%
COSCO Pacific Limited	Mr Liu Hanbo	700,000	-	-	700,000	0.032%
COSCO Pacific Limited	Mr He Jiale	700,000	(624,000)	-	76,000	0.003%
COSCO Pacific Limited	Mr Chen Pisen	250,000	(200,000)	-	50,000	0.002%
COSCO Pacific Limited	Mr Meng Qinghui	800,000	(800,000)	-	-	-
Ex-director						
COSCO Pacific	Mr Liang Yanfeng	800,000	(800,000)	-	-	-

Note:

* Pursuant to the share option scheme of COSCO Pacific Limited ("Share Option Scheme of COSCO Pacific Limited") adopted on 23rd May 2003, these share options were granted during the period from 28th October 2003 to 6th November 2003 and are exercisable at HK\$9.54 per share for 10 years from their respective date of grant of the share options.

* The share options represent personal interest held by the relevant participants as beneficial owner.

(ii) Movements of share options granted by associated corporation in 2004

Name associated corporation	Director	Number of share options				Outstanding as at 31st December 2004	Percentage of total issued share capital
		Outstanding as at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year		
COSCO Pacific Limited	Mr Wei Jiafu	-	1,000,000	-	-	1,000,000	0.046%
COSCO Pacific Limited	Mr Liu Guoyuan	-	1,000,000	-	-	1,000,000	0.046%
COSCO Pacific Limited	Mr Li Jianhong	-	1,000,000	-	-	1,000,000	0.046%
COSCO Pacific Limited	Mr Zhou Liancheng	-	1,000,000	-	-	1,000,000	0.046%
COSCO Pacific Limited	Mr Liu Hanbo	-	800,000	-	-	800,000	0.037%
COSCO Pacific Limited	Mr He Jiale	-	1,000,000	-	-	1,000,000	0.046%
COSCO Pacific Limited	Mr Chen Pisen	-	600,000	-	-	600,000	0.027%
COSCO Pacific Limited	Mr Meng Qinghui	-	1,000,000	-	-	1,000,000	0.046%

Note:

* These share options were granted pursuant to the Share Option Scheme of COSCO Pacific Limited during the period from 29th November 2004 to 6th December 2004 and are exercisable at HK\$13.75 per share at any time within ten years from their respective date of grant of the share options.

* The Share Options represent personal interest held by the relevant participants as beneficial owner.

Save as disclosed above and in the section headed "Share Options", as at 31st December, 2004, none of the directors and the chief executive of the Company had any interest in the share capital of the Company or any associated corporations (within the meaning of the SFO) which (a) 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 and short positions which the Director has 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.

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.

Substantial Shareholders

As at 31st December 2004, the interests of those persons in the share capital of the Company as recorded in the register kept under Section 16(1) of the SDI Ordinance were as follows:

Name of Shareholder	Capacity	Nature of interest	Number of shares held Long Positions	Percentage of total issued share capital
COSCO	Interest of controlled corporation	Corporate interest	829,360,511	58.64%
COSCO Hong Kong *	Interest of controlled corporation	Corporate interest	829,360,511	58.64%
True Smart International Limited *	Beneficial owner	Beneficial interest	829,360,511	58.64%

* These companies are wholly-owned subsidiaries of COSCO and their interests in the shares of the Company were included in the interests held by COSCO.

Public Float

As at the date of this report, the Board acknowledge that 41.39% of the issued capital of the Company are held by the public.

Purchase, Sale or Redemption of Listed Shares

During the year ended 31st December 2004, neither the Company nor any of its subsidiaries had redeemed, purchased or sold any of the Company's listed shares.

Compliance with the Code of Best Practice

The Company has complied throughout the year ended 31st December 2004 with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules of which is effective before 31st December 2004.

Pre-emptive Rights

No pre-emptive rights exist in Bermuda being the jurisdiction in which the Company is incorporated.

Auditors

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

On behalf of the Board

LIU Hanbo
Managing Director

Hong Kong, 3rd March 2005