

Directors' Report

The Directors present this Directors' Report (the "Report") together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding. The principal activities of the Company and its subsidiaries include ship trading and supplying services, property development and investment and building construction. An analysis of the turnover and segment information of the Company and its subsidiaries for the year is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Company and its subsidiaries for the year ended 31st December 2005 are set out in the consolidated income statement on page 70 of this Annual Report. The Board recommended the payment of a final dividend of HK\$0.021 (2004: HK\$0.025) per Share and a special dividend of HK\$0.014 (2004: Nil) per Share for the year ended 31st December 2005 subject to the shareholders' approval in the annual general meeting of the Company to be held on 25th May 2006. Approximately HK\$49,638,000 will be payable on or before 8th June 2006 to the shareholders of the Company whose names appear on the register of members on 25th May 2006.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company and its subsidiaries during the year are set out in note 16 to the financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2005 calculated under Companies Act of Bermuda amounted to HK\$1,263,568,000.

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 note 32 to the financial statements. Interest and other borrowing costs capitalised by the Company and its subsidiaries during the year are set out in note 8 to the financial statements.

RESERVES

Details of the movements in reserves of the Company and its subsidiaries during the year are set out in note 31 to the financial statements.

SHARE CAPITAL

Details of the movements on share capital of the Company are set out in note 30 to the financial statements.

DONATIONS

The Company and its subsidiaries did not make any donations during the year (2004: HK\$121,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Company and its subsidiaries is set out on pages 30 and 31.

DIRECTORS

The Directors during the year and up to the date of the Report were:

Executive Directors

Mr. Wei Jiafu (*Chairman*)
Mr. Liu Guoyuan (*Vice-chairman*)
Mr. Li Jianhong
Mr. Zhou Liancheng
Mr. Liu Hanbo (*Managing Director*)
Mr. Jia Lianjun (*appointed on 25th January 2006*)
Mr. Wang Xiaoming (*appointed on 25th January 2006*)
Mr. Chen Pisen
Mr. Meng Qinghui
Mr. Lin Libing
Mr. Wang Xiaodong (*appointed on 25th January 2006*)
Mr. He Jiale (*resigned on 25th January 2006*)
Mr. Guo Huawei (*resigned on 25th January 2006*)
Mr. Zhao Kaiji (*resigned on 25th January 2006*)

Independent Non-executive Directors

Mr. Chan Cheong Foon, Andrew
Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec

In accordance with Bye-Laws 99 and 102(B) of the Company's Bye-Laws, all Directors shall retire from office at the forthcoming annual general meeting and be eligible 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 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 are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries 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 businesses which are considered to compete or likely to compete with the businesses of the Company and its subsidiaries	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Company and its subsidiaries	Nature of Director's interest in the entity
Mr. Wei Jiafu	companies controlled by China Ocean Shipping (Group) Company ("COSCO")	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director
Mr. Liu Guoyuan	COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") and its associated companies	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director
Mr. Li Jianhong	companies controlled by COSCO	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director
Mr. Zhou Liancheng	COSCO Hong Kong and its associated companies	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director
Mr. Liu Hanbo	Soundwill Holdings Limited	<ul style="list-style-type: none"> - Property investment and development 	non-executive vice-chairman
Mr. Jia Lianjun*	COSCO Hong Kong and its associated companies	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director
Mr. Wang Xiaoming*	COSCO Hong Kong and its associated companies	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director
Mr. Chen Pisen	companies controlled by COSCO Hong Kong	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director
Mr. Meng Qinghui	companies controlled by COSCO Hong Kong	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director
	Soundwill Holdings Limited	<ul style="list-style-type: none"> - Property investment and development 	non-executive director
Mr. He Jiale ^Δ	COSCO Hong Kong and its associated companies	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director
Mr. Guo Huawei ^Δ	companies controlled by COSCO	<ul style="list-style-type: none"> - Property investment and development - Ship trading and supplying services 	director

* appointed as Executive Director on 25th January 2006

^Δ resigned as Executive Director on 25th January 2006

As the Board is independent from the board of directors of the aforesaid companies, and as none of the above Directors controls the Board, the Company and its subsidiaries are capable of carrying on their business 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 this Annual Report. The connected transactions which also constitute significant related party transactions are set out in note 38 to the financial statements.

1. Ship Trading Continuing Connected Transactions

On 28th December 2004, an agreement (the "Master Agreement") was entered into between the Company, COSCO Hong Kong and COSCO International Ship Trading Company Limited ("COSCO International Ship Trading"), pursuant to which COSCO International Ship Trading and its subsidiaries (collectively "COSCO Ship Trading Group") agrees to continue to provide the COSCO and its subsidiaries ("COSCO Group") with the agency services ("Ship Trading Continuing Connected Transactions") for the three financial years ending 31st December 2005, 2006 and 2007. Pursuant to the Master Agreement, COSCO Hong Kong and the Company procure that the Ship Trading Continuing Connected Transactions will be conducted in 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 the Shareholders as a whole are concerned. Pursuant to the Master Agreement, the Company undertakes for a term of three years that it will ensure 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 HK\$58,500,000, HK\$60,300,000 and HK\$63,200,000 respectively (the "Ship Trading Cap Amounts"). The Ship Trading Continuing Connected Transactions Cap Amounts were approved by independent shareholders of the Company at the special general meeting held on 24th February 2005.

In order to meet the increasing demands of Ship Trading Continuing Connected Transactions, the Company has entered into a supplemental agreement (the "Supplemental Agreement") on 27th October 2005 with COSCO Hong Kong and COSCO International Ship Trading, to amend the relevant terms of the Master Agreement in order to reflect the changes in the Ship Trading Cap Amounts while the annual cap amount for the Ship Trading Continuing Connected Transactions for the financial year ending 31st December 2005 as previously approved by the independent shareholders of the Company, being HK\$58,500,000, and other terms of the Master Agreement will remain unchanged. The annual caps amounts of the Ship Trading Continuing Connected Transactions were revised to HK\$73,000,000 and HK\$80,000,000 for each of the two financial years ending 31st December 2006 and 2007 respectively ("ST Revised Cap Amounts"). The ST Revised Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 8th December 2005. COSCO and their respective associates abstained from voting on the ordinary resolutions proposed in the special general meeting. The annual cap amount for the Ship Trading Continuing Connected Transactions for financial year ending 31st December 2005 and the ST Revised Cap Amounts are as below:

Cap for the year ending 31st December 2005	Cap for the year ending 31st December 2006	Cap for the year ending 31st December 2007
HK\$58,500,000	HK\$73,000,000	HK\$80,000,000

The Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 amounted to HK\$52,680,000.



The Independent Non-executive Directors reviewed the Ship Trading Continuing Connected Transactions and were of the opinion that the Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

- (i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
- (ii) conducted on normal commercial terms; and
- (iii) entered into in accordance with the terms of the relevant agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

- (a) the Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;
- (b) the Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
- (c) the aggregate amount of the Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the Ship Trading Cap Amount.

2. Yuantong Continuing Connected Transactions

On 28th December 2004, a conditional sale and purchase agreement (the "Yuantong S&P Agreement") was entered into by Leadfull Investments Limited ("Leadfull"), 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 Co. Limited ("Yuantong"). COSCO Trading and Supply is a subsidiary of COSCO Hong Kong. Pursuant to the Yuantong S&P Agreement, Yuantong agrees to continue to provide the COSCO Group with supply and installation of marine, equipment, spare parts, communications and navigation

equipment (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 procure the Yuantong Continuing Connected Transactions will be conducted in 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 the 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 HK\$229,000,000, HK\$249,000,000 and HK\$270,000,000 respectively (the "Yuantong Cap Amounts").

In order to meet the increasing demands of Yuantong Continuing Connected Transactions, the Company has entered into a supplemental agreement on 27th October 2005 with Leadfull, COSCO Trading and Supply and COSCO Hong Kong to amend the relevant terms of the Yuantong S&P Agreement in order to reflect the changes in the Yuantong Cap Amounts while other terms of the Yuantong S&P Agreement will remain unchanged. The Yuantong Cap Amounts were revised to HK\$313,000,000, HK\$406,000,000 and HK\$446,000,000 for each of the three financial years ending 31st December 2005, 2006 and 2007 respectively (the "YT Revised Cap Amounts"). The YT Revised Cap Amounts as set out below were approved by the independent shareholders of the Company at the special general meeting held on 8th December 2005. COSCO and their respective associates abstained from voting on the ordinary resolutions proposed in the special general meeting.

Cap for the year ending 31st December 2005	Cap for the year ending 31st December 2006	Cap for the year ending 31st December 2007
HK\$313,000,000	HK\$406,000,000	HK\$446,000,000

The Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 amounted to HK\$266,080,000.

The Independent Non-executive Directors reviewed the Yuantong Continuing Connected Transactions and were of the opinion that the Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

- (i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
- (ii) conducted on normal commercial terms; and
- (iii) entered into in accordance with the terms of the relevant agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

- (a) the Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;
- (b) the Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
- (c) the aggregate amount of the Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the YT Revised Cap Amount.

3. Kansai Continuing Connected Transactions

In order to comply with the requirement of the Listing Rules, Shanghai COSCO Kansai & Chemicals Co., Ltd ("Shanghai COSCO Kansai") and Tianjin COSCO Kansai & Chemicals Co., Ltd ("Tianjin COSCO Kansai") (collectively "the COSCO

Kansai Companies") had on 31st March 2005 entered into an agreement with NKM Coatings Co Ltd. ("NKM"), a company registered in Kyoto, Japan and Kansai Paint Co., Ltd ("Japan Kansai") holds more than 30% of its equity interest, in relation to their purchase of raw material and had on 25th May 2005 entered into written agreements with Japan Kansai and its subsidiaries and associates (the "Kansai Group") and the COSCO Group in relation to (a) the purchase of raw material by the COSCO Kansai Companies from Japan Kansai; (b) the introduction of businesses by NKM to the COSCO Kansai Companies; (c) the sale of container coatings and marine coatings by the COSCO Kansai Companies to NKM; (d) the sale of container coatings and marine coatings by the COSCO Kansai Companies to the COSCO Group; and (e) the introduction of businesses by the COSCO Group to COSCO Kansai Companies (collectively "the Written Agreements"), other than (a) a technology transfer contract entered into between Shanghai COSCO Kansai and Japan Kansai in relation to the provision of technology and know-how on 19th January 1996 and (b) a technology transfer contract entered into between Tianjin COSCO Kansai and Japan Kansai in relation to the provision of technology and know-how on 18th December 1991 (collectively called the "Technology Agreements"), to the COSCO Kansai Companies (hereinafter referred to as "Kansai Continuing Connected Transactions").

Pursuant to the Written Agreements, the Company will procure the Kansai Continuing Connected Transactions will be conducted in the ordinary and usual 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 Written Agreements being fair and reasonable as far as the interests of the Company and the Shareholders as a whole are concerned.



The Company undertakes that the aggregate amount of the Kansai Continuing Connected Transactions for each of the financial years ending 31st December 2005, 2006 and 2007 will not exceed relevant cap amounts set out below (the “COSCO Kansai Cap Amounts”):

	Cap for the year ending 31st December 2005 RMB	Cap for the year ending 31st December 2006 RMB	Cap for the year ending 31st December 2007 RMB
Technology usage fee payable to Japan Kansai	8,000,000	8,000,000	8,000,000
Purchase of raw materials from Japan Kansai and NKM	52,000,000	52,000,000	52,000,000
Sale of container coatings and marine coatings to NKM	10,000,000	–	–
	(for the financial year ending 31st December 2005 only)		
Sale of container coatings and marine coatings to the COSCO Group	29,000,000	29,000,000	29,000,000
Commission payable to NKM for business referral	9,000,000	9,000,000	9,000,000
Commission payable to the COSCO Group for business referral	4,000,000	4,000,000	4,000,000

The Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 were as follows:

	RMB
Technology usage fee payable to Japan Kansai	5,622,000
Purchase of raw materials from Japan Kansai and NKM	5,871,000
Sale of container coatings and marine coatings to NKM	5,084,000
Sale of container coatings and marine coatings to the COSCO Group	17,483,000
Commission payable to NKM for business referral	969,000
Commission payable to the COSCO Group for business referral	1,959,000

The COSCO Kansai Continuing Connected Transactions were approved by the independent shareholders of the Company at the special general meeting held on 21st July 2005.

The Independent Non-executive Directors reviewed the COSCO Kansai Continuing Connected Transactions and were of the opinion that the COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

- (i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
- (ii) conducted on normal commercial terms; and

- (iii) entered into in accordance with the terms of the relevant agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

- (a) the COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;

- (b) the COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
- (c) the aggregate amount of the COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the COSCO Kansai Cap Amounts.

4. Formation of Zhuhai Kansai Joint Venture

On 28th November 2005, the Company entered into an agreement with Japan Kansai ("Zhuhai JV Agreement") in relation to the setting up and the operation of a wholly foreign-owned enterprise under a proposed name, Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd (the "Zhuhai COSCO Kansai") to be established under the laws of the People's Republic of China ("PRC").

According to the Zhuhai JV Agreement, Zhuhai JV will have a registered capital of US\$5,700,000 of which the Company will contribute approximately US\$3,688,470 representing 64.71% of the registered capital and Japan Kansai will contribute approximately US\$2,011,530 representing 35.29% of the registered capital. The approval for setting up Zhuhai COSCO Kansai has been granted by the relevant PRC approving authority. It is expected that the incorporation of Zhuhai COSCO Kansai will be completed in the first half of 2006. The Zhuhai COSCO Kansai will become a non wholly-owned subsidiary of the Company upon completion of incorporation.

5. COSCO Insurance Brokers Continuing Connected Transactions

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 Brokers S&P Agreement") for the sale and purchase of 100% interest in COSCO (Hong Kong) Insurance Brokers Limited ("HK COSCO Insurance Brokers"). The transaction was completed on 1st July 2004, whereupon HK COSCO Insurance Brokers became a wholly-owned subsidiary of the Company.

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

Pursuant to the COSCO Insurance Brokers S&P Agreement, COSCO Hong Kong and the Company will procure that the

COSCO Insurance Brokers Continuing Connected Transactions will be conducted in the HK COSCO Insurance Broker'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 Brokers S&P Agreement being fair and reasonable as far as the interests of the Company and the Shareholders as a whole are concerned.

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

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\$3,697,000	US\$4,252,000	US\$4,890,000
HK\$28,837,000	HK\$33,166,000	HK\$38,142,000

The aggregate amount of COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 was US\$4,024,698 (equivalent to HK\$31,209,000).

The Independent Non-executive Directors had reviewed the COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 and were of the opinion that the COSCO Insurance Brokers Continuing Connected Transactions had been:

- (i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
- (ii) conducted on normal commercial terms; and
- (iii) entered into in accordance with the terms of the relevant agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

- (a) the COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;



- (b) the COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
- (c) the aggregate amount of the COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the Insurance Cap Amount.

6. Formation of SZ COSCO Insurance Brokers

On 28th November 2005, HK COSCO Insurance Brokers and Xiang Li Yuan (Shanghai) Property Management Co., Ltd. ("Xiang Li Yuan"), both being wholly-owned subsidiaries of the Company, entered into a joint venture agreement ("Shenzhen JV Agreement") with Shenzhen Ocean Shipping Co., Ltd. ("Shenzhen Ocean"), a subsidiary of COSCO in relation to the setting up and operation of joint venture under the proposed name, Shenzhen COSCO Insurance Brokers Limited ("SZ COSCO Insurance Brokers").

According to the Shenzhen JV Agreement, SZ COSCO Insurance Brokers will have a registered capital of RMB5,000,000 of which HK COSCO Insurance Brokers will contribute RMB1,200,000 representing 24% of the registered capital, Xiang Li Yuan will contribute RMB1,550,000 representing 31% of the registered capital and Shenzhen Ocean will contribute approximately RMB2,250,000 representing 45% of the registered capital. Upon the completion of the incorporation, SZ COSCO Insurance Brokers will become a non wholly-owned subsidiary of the Company.

7. Eleven Tenancy Agreements

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 Ltd., the then wholly-owned subsidiaries of the Company before the disposal (details as described below), as landlords, and COSCO Hong Kong and certain subsidiaries of COSCO Hong Kong as tenants for the leasing of portions of the 47th to 51st floors of COSCO Tower for a term of 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, a wholly-owned subsidiary of COSCO Pacific Limited, being the fellow subsidiary of the Company which had a

renewable option for a further 1 year), at an aggregate monthly rental of approximately HK\$2,429,000. COSCO Hong Kong provided guarantees for its subsidiaries in respect of the ten tenancy agreements at an amount equivalent to 3 times of the monthly rental respectively.

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 rental receivable by the Company during the initial term and subsequent renewed term (if applicable) of the Tenancy Agreements (the "1st Tenancy Continuing Connected Transactions") not exceeding HK\$30,054,000 (the "1st Tenancy Cap Amount") for each of the three financial years ending 31st December 2004, 2005 and 2006. The 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 amounted to HK\$13,846,000.

The Independent Non-executive Directors reviewed the 1st Tenancy Continuing Connected Transactions and were of the opinion that the 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

- (i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
- (ii) conducted on normal commercial terms; and
- (iii) entered into in accordance with the terms of the relevant agreements that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company was instructed to perform specific procedures on the 1st Tenancy Continuing Connected Transactions and reported on the actual finding of those procedures as follows:

- (a) the 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;
- (b) the 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
- (c) the aggregate amount of the 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the 1st Tenancy Cap Amount.

8. Very Substantial Disposal of COSCO Tower

On 30th May 2005, Monoland Assets Limited, a wholly-owned subsidiary of the Company, as vendor and Wealthocean Investments Limited ("Wealthocean") as purchaser, a wholly-owned subsidiary of COSCO Hong Kong entered into a conditional sale and purchase agreement ("Modern Capital S&P Agreement") for the sale and purchase of 100% interest in, and loan to, Modern Capital Investment Limited ("Modern Capital") for a total consideration of HK\$1,402,000,000. Upon completion, Wealthocean will own the entire issued share capital of Modern Capital. Modern Capital is an investment holding company which owns Cash In Hand Inc. ("Cash In Hand"), Gwee Brothers Limited ("Gwee Brothers"), Malayan Corporations Limited ("Malayan"), Tian Lee Property Limited ("Tian Lee"), Velu Exports Limited ("Velu Exports"), Wing Thye Holdings Limited ("Wing Thye"), Year of The Rat Corp. ("Year of the Rat") and 99 Prove Finance Ltd. ("99 Prove Finance"). Each of Cash In Hand, Gwee Brothers, Malayan, Tian Lee, Velu Exports, Wing Thye, Year of the Rat and 99 Prove Finance, all principally engaged in the business of property letting and are owners of 39th, 40th, 42nd, 47th, 48th, 49th, 50th and 51st floors of COSCO Tower (the "Properties") respectively. The transaction was completed on 3rd August 2005 where upon Modern Capital became an indirect wholly-owned subsidiary of COSCO Hong Kong. After the disposal of the Properties, the Company used part of the consideration received to repay the bank loan and to provide further resources for the businesses of the Company and subsidiaries', in particular, the ship trading and supplying services businesses. The Modern Capital S&P Agreement were approved by the independent shareholders of the Company at the special general meeting held on 21st July 2005.

9. Tenancy Agreements relating to 47th Floor and Unit 4802 of COSCO Tower and supplemental agreement of 47th Floor of COSCO Tower

Pursuant to the terms of Modern Capital S&P Agreement, the following two tenancies were entered into at completion:

- (1) a tenancy agreement ("47th Floor Tenancy Agreement") between the Company (as tenant) and Tian Lee (as landlord) in respect of the whole 47th floor of COSCO Tower ("Premises"); and
- (2) a tenancy agreement ("4802 Tenancy Agreement") between COSCO Ship International Trading (as tenant) and Velu Exports (as landlord) in respect of Unit 4802 of COSCO Tower.

In order to comply with the Listing Rules, the rental payable by the Company in accordance with 47th Floor Tenancy Agreement (2nd Tenancy Continuing Connected Transactions) should not be exceeding HK\$3,700,000, HK\$7,300,000 and HK\$7,300,000 for each of the three financial years ending 31st December 2005, 2006 and 2007 respectively (the "2nd Tenancy Cap Amounts"). In order to comply with the Listing Rules, the rental payable by the Company's subsidiary in accordance with 4802 Tenancy Agreement (3rd Tenancy Continuing Connected Transactions) should be not exceeding HK\$1,200,000, HK\$2,300,000 and HK\$2,300,000 for each of the three financial years ending 31st December 2005, 2006 and 2007 respectively (the "3rd Tenancy Cap Amounts").

The 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 amounted to HK\$2,306,000 and HK\$995,000 respectively.

The Independent Non-executive Directors reviewed the 2nd and 3rd Tenancy Continuing Connected Transactions and were of the opinion that the 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

- (i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
- (ii) conducted on normal commercial terms; and
- (iii) entered into in accordance with the terms of the relevant agreements that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company was instructed to perform specific procedures on the 2nd and 3rd Tenancy Continuing Connected Transactions and reported on the actual finding of those procedures as follows:

- (a) the 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;
- (b) the 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
- (c) the aggregate amount of the 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the 2nd and 3rd Tenancy Cap Amounts respectively.



On 5th January 2006, a supplemental agreement was entered into between the Company and Tian Lee to amend certain terms of the 47th Floor Tenancy Agreement to exclude Unit 4705 of the 47th floor COSCO Tower from the 47th Floor Tenancy Agreement (“Supplemental Agreement”).

Pursuant to the Supplemental Agreement, certain terms of the 47th Floor Tenancy Agreement have been amended with effect from the date of the Supplemental Agreement as follows:

1. the subject premises of the 47th Floor Tenancy Agreement has been changed from the Premises to Units 4701-3 and 4706 of the 47th floor of COSCO Tower, Grand Millennium Plaza, Hong Kong by excluding Unit 4705 of the 47th floor of COSCO Tower, Grand Millennium Plaza, Hong Kong;
2. the monthly rental (exclusive of air-conditioning and management charges, Government rates and all other outgoings of a recurring and non-capital nature but inclusive of Government rent) payable by the Company to Tian Lee has been reduced proportionally by reference to the size of the Unit 4705 of the 47th floor of COSCO Tower, Grand Millennium Plaza, Hong Kong and the Premises;
3. the monthly management fee (including air-conditioning charges) has been reduced proportionally by reference to the size of the Unit 4705 of the 47th floor of COSCO Tower, Grand Millennium Plaza, Hong Kong and the Premises; and
4. a corresponding compensation shall be payable by Tian Lee to the Company.

10. Sale and purchase agreement in respect of the Construction Material

On 31st March 2005, Shenyang COSCO Yihe Property Development Co., Ltd. (“Shenyang COSCO Yihe”), a non wholly-owned subsidiary of the Company entered into an agreement with COSCO International Trading Company (“COSCO Trading”), a subsidiary of COSCO for the sale and purchase of certain steel, cement and other construction materials with a maximum purchase and credit limits of RMB30,000,000 (“S&P Agreement”). Pursuant to the S&P Agreement, Shenyang COSCO Yihe has agreed to purchase the construction materials from COSCO Trading on a non-

exclusive basis. Upon receipt of purchase order(s) from Shenyang COSCO Yihe, COSCO Trading shall source the construction materials from the relevant supplier(s) as suggested by Shenyang COSCO Yihe and sell the construction materials to Shenyang COSCO Yihe at cost together with a management fee equivalent to 3% of the aggregate cost of the construction materials. As a term of the S&P Agreement, the Company as one of the guarantors provided guarantee guaranteeing Shenyang COSCO Yihe’s due performance of the obligations under the S&P Agreement.

11. Provision of guarantee to COSCO Finance in respect of loan facilities to Shenyang COSCO Yihe

On 4th April 2005, Shenyang COSCO Yihe as Borrower, a 51% owned subsidiary of the Company, entered into the loan agreement (the “Loan Agreement”) with COSCO Finance Limited (“COSCO Finance”) in respect of a loan facility (the “Loan Facility”) of up to RMB150,000,000 for a term up to 5th April 2007.

Pursuant to the terms of the Loan Agreement, the Company, Guangzhou COSCO Construction Industry Company (“COSCO GZ”), a wholly-owned subsidiary of COSCO and Guangzhou Yihe Group Co., Ltd (“Guangzhou Yihe”) entered into the guarantee dated 4th April 2005 (the “Guarantee”) whereby the Company, COSCO GZ and Guangzhou Yihe (collectively called the “Guarantors”) agreed to provide a guarantee to COSCO Finance on a joint and several basis to secure the performance of the obligations of Shenyang COSCO Yihe under the Loan Agreement. The Guarantee will be effective from 5th April 2005 to 5th April 2009. The maximum exposure of the Company will be the principal, interest accrued, penalty payment (up to 3.8% of the amount of loan facility, i.e. RMB5,700,000), fees and/or otherwise which are payable under the Loan Agreement.

A commitment agreement dated 4th April 2005 was entered into between the Company, COSCO GZ, Guangzhou Yihe and Shenyang COSCO Yihe setting out the commitments of the parties as set out in the announcement dated 4th April 2005.

The Guarantee and Commitment Agreement was approved by the independent Shareholder on 8th June 2005.

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. An unsecured 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 unsecured 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.
2. An unsecured 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 ("Wing Hang Loan") under a loan agreement dated 12th September 2002 ("Loan Agreement") and supplemented by first supplement to Loan Agreement. The repayment of Wing Hang Loan has been extended from 10th September 2005 to 9th September 2006 and at reduced interest rate under second supplement to Loan Agreement. The Wing Hang 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

The following is a summary of the Company's share option scheme approved and adopted by the shareholders of the Company (the "Share Option Scheme") on 17th May 2002 and 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 Company and its subsidiaries to attract, retain and motivate talented participants to strive for future development and expansion of the Company and its subsidiaries.
 - (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 Company and its subsidiaries;
 - (b) any director of the substantial shareholder of the Company;
 - (c) any employee of the Company and its subsidiaries;
 - (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 Company and its subsidiaries; and
 - (f) any business associate of any substantial shareholder of each member of the Company and its subsidiaries.
3. Total number of share options available for issue under the Share Option Scheme and percentage of issued share capital of the Company as at 31st December 2005:

The number of share options available for issue under the Share Option Scheme is 139,244,129 shares representing 9.82% of the issued share capital of the Company at 31st December 2005.



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 issued shares of the Company. 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.

There is and shall be no minimum period for which an option must be held before it can be exercised 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 Share Option 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 movements of the share options granted under the Share Option Scheme of the Company during the year are set out below:

Name of Director	Exercise Price (HK\$)	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Changed category during the year	Outstanding as at 31st December 2005	Percentage of total issued share capital	Exercisable period	Note
Mr. Wei Jiafu	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Liu Guoyuan	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Li Jianhong	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Zhou Liancheng	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Liu Hanbo	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Chen Pisen	0.57	1,200,000	-	-	-	-	1,200,000	0.085%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Meng Qinghui	0.57	1,200,000	-	-	-	-	1,200,000	0.085%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)



Name of Director	Exercise Price (HK\$)	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Changed category during the year	Outstanding as at 31st December 2005	Percentage of total issued share capital	Exercisable period	Note
Mr. Lin Libing	0.57	1,200,000	-	-	-	-	1,200,000	0.085%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. He Jiale ^a	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Guo Huawei ^b	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Zhao Kaiji ^a	0.57	1,200,000	-	-	-	-	1,200,000	0.085%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)
Ex-Director	0.57	1,200,000	-	-	-	(1,200,000)	-	-	23.12.2003-22.12.2008	(1),(3),(4)
Continuous contract employees of the Company and its subsidiaries	0.57	16,198,000	-	(2,400,000)	-	note (6)	13,798,000	0.973%	23.12.2003-22.12.2008	(1),(3)
	1.37	21,450,000	-	-	(2,750,000)	-	18,700,000	1.319%	29.12.2004-28.12.2014	(2),(3)
	1.21	-	2,400,000	-	-	-	2,400,000	0.169%	06.06.2005-05.06.2015	(3),(5)
Other participants	0.57	24,950,000	-	(1,400,000)	-	1,200,000	24,750,000	1.745%	23.12.2003-22.12.2008	(1),(3)
	1.37	23,250,000	-	-	-	-	23,250,000	1.639%	29.12.2004-28.12.2014	(2),(3)

^a resigned as Executive Director on 25th January 2006

Note:

- (1) Pursuant to the Share Option Scheme, 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.
- (2) These share options were granted on 2nd December 2004 pursuant to the Share Option Scheme and are exercisable at HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.

- (3) These share options represent personal interest held by the relevant participants as beneficial owner.
- (4) During the year ended 31st December 2005, none of the share options of the above Directors were cancelled or lapsed.
- (5) These share options were granted on 10th May 2005 pursuant to the Share Option Scheme of the Company and are exercisable at HK\$1.21 per share at any time between 6th June 2005 and 5th June 2015.
- (6) Clerical mistake

During the year ended 31st December 2005, the aggregate number of share options exercised was 3,800,000 and the weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK\$1.26.

The share options entitled to be exercised will be recorded by the Company as staff cost in the income statement at the fair value of the relevant share options. Upon the exercise of the share options, the shares to be issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Share options which have lapsed or been cancelled will be deducted from the outstanding options. Save for the share options referred to in the above table which have lapsed during the year ended 31st December 2005, no share option has lapsed or been cancelled during the year ended 31st December 2005.

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 each of the share options granted during the period was HK\$0.58 at the date of grant with assumptions as follows:-

- (i) interest rate of 10-year Exchange Fund Notes of 3.806% per annum as the risk-free interest rate;
- (ii) expected life of 10 years; and
- (iii) expected volatility of 50.2%, being the annualized volatility of the closing price of the share from 1st August 2004 to 30th November 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 30 to the financial statements.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2005, 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 corporations

Name of Director	Name of associated corporations	Nature of interest and capacity	Total number of shares held	Percentage of total issued share capital
Mr. Kwong Che Keung, Gordon	COSCO Pacific Limited ("COSCO Pacific")	Beneficial owner	250,000	0.012%
Mr. Wei Jiafu	COSCO Corporation (Singapore) Limited ("COSCO SGP")	Beneficial owner	1,400,000	0.128%
Mr. Li Jianhong	COSCO SGP	Beneficial owner	950,000	0.087%
Mr. Zhou Liancheng	COSCO SGP	Beneficial owner	700,000	0.064%

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

(a) Share Options

Name of Director	Name of associated corporation	Exercise price	Outstanding		Granted during the year	Exercised during the year	Outstanding		Percentage of total issued share capital	Exercisable period	Note
			as at 1st January 2005	as at 31st December 2005			Lapsed during the year	as at 31st December 2005			
Mr. Wei Jiafu	COSCO Pacific	HK\$9.54	1,000,000	-	(500,000)	-	500,000	0.023%	30.10.2003-29.10.2013	(1),(3),(4)	
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	03.12.2004-02.12.2014	(2),(3),(4)	
	COSCO SGP	SGD0.2	350,000	-	(350,000)	-	-	-	12.08.2003-11.08.2007	(3),(4),(5)	
	COSCO SGP	SGD0.2	350,000	-	(350,000)	-	-	-	01.04.2004-31.03.2008	(3),(4),(6)	
	COSCO SGP	SGD0.735	700,000	-	(700,000)	-	-	-	24.05.2005-23.05.2009	(3),(4),(7)	
	COSCO SGP	SGD1.614	-	450,000	-	-	-	450,000	0.041%	06.04.2006-05.04.2010	(3),(4),(8)

Name of Director	Name of associated corporation	Exercise price	Outstanding	Granted during the year	Exercised during the year	Lapsed	Outstanding	Percentage of total issued share capital	Exercisable period	Note
			as at 1st January 2005			during 31st December 2005	as at 2005			
Mr. Liu Guoyuan	COSCO Pacific	HK\$9.54	100,000	-	(100,000)	-	-	-	28.10.2003-27.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	29.11.2004-28.11.2014	(2),(3),(4)
Mr. Li Jianhong	COSCO Pacific	HK\$9.54	800,000	-	(400,000)	-	400,000	0.018%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	02.12.2004-01.12.2014	(2),(3),(4)
	COSCO SGP	SGD0.2	200,000	-	(200,000)	-	-	-	12.08.2003-11.08.2007	(3),(4),(5)
	COSCO SGP	SGD0.2	250,000	-	(250,000)	-	-	-	01.04.2004-31.03.2008	(3),(4),(6)
	COSCO SGP	SGD0.735	500,000	-	(500,000)	-	-	-	24.05.2005-23.05.2009	(3),(4),(7)
	COSCO SGP	SGD1.614	-	300,000	-	-	300,000	0.027%	06.04.2006-05.04.2010	(3),(4),(8)
Mr. Zhou Liancheng	COSCO Pacific	HK\$9.54	400,000	-	(206,000)	-	194,000	0.009%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	29.11.2004-28.11.2014	(2),(3),(4)
	COSCO SGP	SGD0.735	500,000	-	(500,000)	-	-	-	24.05.2005-23.05.2009	(3),(4),(7)
	COSCO SGP	SGD1.614	-	300,000	-	-	300,000	0.027%	06.04.2006-05.04.2010	(3),(4),(8)
Mr. Liu Hanbo	COSCO Pacific	HK\$9.54	700,000	-	-	-	700,000	0.032%	06.11.2003-05.11.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	800,000	-	-	-	800,000	0.036%	30.11.2004-29.11.2014	(2),(3),(4)
Mr. He Jiale ^Δ	COSCO Pacific	HK\$9.54	76,000	-	(76,000)	-	-	-	31.10.2003-30.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	(700,000)	-	300,000	0.014%	30.11.2004-29.11.2014	(2),(3),(4)
Mr. Chen Pisen	COSCO Pacific	HK\$9.54	50,000	-	-	-	50,000	0.002%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	600,000	-	-	-	600,000	0.027%	6.12.2004-5.12.2014	(2),(3),(4)
Mr. Meng Qinghui	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	29.11.2004-28.11.2014	(2),(3),(4)

^Δ resigned as Executive Director on 25th January 2006



Note:

- (1) Pursuant to the share option scheme of COSCO Pacific ("Share Option Scheme of COSCO Pacific"), an associated corporation of the Company, 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 at any time within ten years from their respective date on which an offer is accepted or deemed to be accepted.
- (2) These share options were granted pursuant to the Share Option Scheme of COSCO Pacific during the period from 25th November 2004 to 16th December 2004 and are exercisable at HK\$13.75 per share at any time within ten years from their respective date of on which an offer is accepted or deemed to be accepted.
- (3) These share options represent personal interest held by the relevant participants as beneficial owner.
- (4) For the year ended 31st December 2005, none of the share options of the above Directors were cancelled or lapsed.
- (5) These share options were granted by COSCO SGP, an associated corporation of the Company, on 12th August 2002.
- (6) These share options were granted by COSCO SGP, on 1st April 2003.
- (7) These share options were granted by COSCO SGP on 24th May 2004.
- (8) These share options were granted by COSCO SGP on 6th April 2005.

(b) Share Appreciation Rights

Name of Director	Name of associated corporation	Exercise price	Outstanding as at 1st January 2005	Unit granted during the year	Unit exercised during the year	Unit lapsed during the year	Outstanding as at 31st December 2005	Exercisable period	Note
Mr. Wei Jiafu	China COSCO Holdings Company Limited ("China COSCO")	HK\$3.195	-	900,000	-	-	900,000	16.12.2007-15.12.2015	(1),(2),(3),(4)
Mr. Liu Guoyuan	China COSCO	HK\$3.195	-	600,000	-	-	600,000	16.12.2007-15.12.2015	(1),(2),(3),(4)
Mr. Li Jianhong	China COSCO	HK\$3.195	-	600,000	-	-	600,000	16.12.2007-15.12.2015	(1),(2),(3),(4)

Note:

- (1) Pursuant to the share appreciation rights plan ("Share Appreciation Rights") of China COSCO, an associated corporation of the Company, implemented on 16th December 2005, these Share Appreciation Rights are exercisable during the period from 16th December 2007 to 15th December 2015.
- (2) Share Appreciation Rights were granted in units.
- (3) These Share Appreciation Rights represent personal interest held by the relevant participants as beneficial owner. The beneficial owners of these Share Appreciation Rights are entitled to the premium of the price of the issued shares of China COSCO over the exercise price of the Share Appreciation Rights.
- (4) For the year ended 31st December 2005, none of the Share Appreciation Rights of the above Directors were cancelled or lapsed.

Save as disclosed above and in the section headed "Share Options" and "Share Appreciation Rights" as at 31st December 2005, none of the Directors and the chief executives of the Company had any interest and short positions in the shares, underlying shares or, the equity interest and debentures 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 or Listed Issuers to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2005, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares of

the Company as recorded in the register required to be kept under Section 336 of the SFO.

Name of Shareholder	Capacity	Nature of interest	Number of share held Long Positions	Percentage of total issued share capital
COSCO	Interest of controlled corporation	Corporate interest	829,360,511	58.48%
COSCO Hong Kong	Interest of controlled corporation	Corporate interest	829,360,511	58.48%
True Smart International Limited ("True Smart")	Beneficial owner	Beneficial interest	829,360,511	58.48%

Note:

Since True Smart is a wholly-owned subsidiary of COSCO Hong Kong which is in turn a wholly-owned subsidiary of COSCO, the interests of True Smart is deemed to be the interests of COSCO Hong Kong and in turn the interests of COSCO Hong Kong are deemed to be the interests of COSCO under the SFO.

Save as disclosed above, as at 31st December 2005, the Company has not been notified of any person or entity had an interests or a short position in the shares and underlying shares of he Company as recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

As at the date of this Annual Report, the Board acknowledge that approximately 42% 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 2005, 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 2005 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, 30th March 2006