

# REPORT OF THE DIRECTORS

The directors submit their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st December 2006.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 43 to the consolidated financial statements.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2006 are set out in the consolidated income statement on page 106 of this annual report.

The directors declared an interim dividend of HK27.4 cents (equivalent to US3.526 cents) per share and a special dividend of HK9.1 cents (equivalent to US1.174 cents) per share, totalling HK\$810,437,000 (equivalent to US\$104,278,000), which was paid on 6th October 2006.

The directors recommend the payment of a final dividend of HK32.2 cents (equivalent to US4.147 cents) per share, totalling HK\$718,602,000 (equivalent to US\$92,424,000), payable on or before 31st May 2007.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 191 of this annual report.

## RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 110 and 111 of this annual report.

Movements in the reserves of Company during the year are set out in note 33 to the consolidated financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$249,000.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 19 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are shown in note 32 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 31st December 2006 calculated under Companies Act of Bermuda amounted to US\$550,719,000.

## BORROWINGS

Details of the borrowings of the Group are set out in note 34 to the consolidated financial statements.

## RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in notes 3.20 and 17 to the consolidated financial statements.

## DIRECTORS

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

Dr. WEI Jiafu<sup>2</sup> (*Chairman*)

Mr. CHEN Hongsheng<sup>1</sup>

Mr. LI Jianhong<sup>1</sup>

Mr. XU Lirong<sup>2</sup>

Ms. SUN Yueying<sup>1</sup>

Mr. XU Minjie<sup>1</sup> (*Vice Chairman and Managing Director*) (appointed on 24th January 2007)

Dr. SUN Jiakang<sup>2</sup> (re-designated from executive director to non-executive director and resigned as Vice Chairman and Managing Director with effect from 24th January 2007)

Mr. WONG Tin Yau, Kelvin<sup>1</sup>

Mr. WANG Zhi<sup>1</sup>

Mr. QIN Fuyan<sup>1</sup>

Dr. LI Kwok Po, David<sup>3</sup>

Mr. LIU Lit Man<sup>3</sup>

Mr. CHOW Kwong Fai, Edward<sup>3</sup>

Mr. Timothy George FRESHWATER<sup>3</sup>

<sup>1</sup> Executive Director

<sup>2</sup> Non-executive Director

<sup>3</sup> Independent Non-executive Director

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. XU Minjie retires at the forthcoming general meeting and, being eligible, offers himself for re-election.

In accordance with Clauses 87(1) and (2) of the Company's Bye-laws, Mr. LI Jianhong, Ms. SUN Yueying, Mr. WONG Tin Yau, Kelvin, Dr. LI Kwok Po, David and Mr. LIU Lit Man retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive directors concerning their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

## REPORT OF THE DIRECTORS

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out on pages 78 to 84 of this annual report.

#### DIRECTORS' SERVICE CONTRACTS

Mr. XU Minjie has entered into a service agreement with COSCO Pacific Management Company Limited ("COSCO Pacific Management"), a wholly owned subsidiary of the Company, on 24th January 2007 for a term of three years commencing from 24th January 2007. The agreement is renewable automatically for successive terms of three years subject to termination by either party giving not less than three months' notice in writing to the other party pursuant to the terms of the service agreement.

Mr. WONG Tin Yau, Kelvin has a service agreement with the Company commencing from 22nd July 1996. The agreement is terminable by either party giving to the other party not less than one month's prior notice in writing.

Mr. WANG Zhi has an employment contract with COSCO Pacific Management commencing from 1st April 2001. Such contract is terminable by either party by giving to the other party not less than one month's prior notice in writing.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

#### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of 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.

#### SHARE OPTIONS

At a special general meeting of the Company held on 23rd May 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "2003 Share Option Scheme") and the termination of the share option scheme adopted by the shareholders of the Company on 30th November 1994 (the "1994 Share Option Scheme").

On 5th December 2005, the shareholders of the Company approved the amendments to the 2003 Share Option Scheme at a special general meeting. The definitions of "Participant" and "relevant company" in paragraph 1 of the 2003 Share Option Scheme were amended by deleting all references to COSCO (Hong Kong) Group Limited and replacing them by China COSCO Holdings Company Limited ("China COSCO"), an intermediate holding company of the Company, and paragraph 8(e) of the 2003 Share Option Scheme was changed to allow a grantee who ceases to be an employee or an executive director of the relevant company (as defined in the 2003 Share Option Scheme) by reason of voluntary resignation from his employment, directorship, secondment or nomination to exercise the option up to his entitlement at the date of cessation within a period of three months following the date of such cessation pursuant to paragraph 7.3(a) of the 2003 Share Option Scheme. These amendments came into effect on 28th February 2006 after the approval of the shareholders of China COSCO at the general meeting held on the same date.

## SHARE OPTIONS (CONTINUED)

The following is a summary of the principal terms of these share option schemes:

### (i) 1994 Share Option Scheme

The 1994 Share Option Scheme was designed to motivate the employees to enhance their performance and contribution to the Group. Under the 1994 Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares (each a "Share" or collectively the "Shares"), subject to the terms and conditions stipulated therein.

Under the 1994 Share Option Scheme, the maximum number of Shares in respect of which options may be granted will not exceed 10% of the issued share capital of the Company from time to time. The maximum number of Shares issued to each employee or director in respect of which options may be granted shall not exceed 25% of the total Shares in issue or to be issued under the 1994 Share Option Scheme.

The period within which an option may be exercised will be determined by the board of directors of the Company (the "Board") in its absolute discretion, save that the exercise period shall not be more than ten years from the date on which the option is granted. The consideration on acceptance of an offer of the grant of an option is HK\$1.00 payable within 28 days from the offer date. The full amount of the subscription price for the Shares must be paid upon exercise of an option.

The exercise price of an option is determined by the Board and will not be less than 80% of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of the share option or the nominal value of the Shares, whichever is higher.

The 1994 Share Option Scheme was terminated on 23rd May 2003. No further options shall thereafter be offered under the 1994 Share Option Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 1994 Share Option Scheme shall remain in full force and effect.

As at the date of this report, a total of 322,000 Shares (representing approximately 0.014% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 1994 Share Option Scheme.

### (ii) 2003 Share Option Scheme

The 2003 Share Option Scheme is designed to attract, retain and motivate talented participants (the "Participants" or a "Participant") (as defined in note 1 below) to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time.

Under the 2003 Share Option Scheme, the Board may, at its discretion, invite any Participants to take up options. In determining the basis of eligibility of each Participant, the Board would mainly take into account the experience of the Participant on the Group's business, the length of service of the Participant with the Group or the length of business relationship the Participant has established with the Group and such other factors as the Board may at its discretion consider appropriate.

## REPORT OF THE DIRECTORS

### SHARE OPTIONS (CONTINUED)

#### (ii) 2003 Share Option Scheme (Continued)

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the adoption of the 2003 Share Option Scheme (the "Scheme Mandate Limit") unless the Company seeks approval of its shareholders in general meeting to refresh the Scheme Mandate Limit, such that the maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme or any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10% limit provided that the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2003 Share Option Scheme and any other share option schemes of the Company (including the 1994 Share Option Scheme) shall not exceed 30% of the total number of Shares in issue from time to time (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

As at the date of this report, a total of 104,811,229 Shares (representing approximately 4.68% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the 2003 Share Option Scheme and a total of 31,787,000 Shares (representing approximately 1.42% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2003 Share Option Scheme.

The maximum entitlement for any one Participant (including both exercised, cancelled and outstanding options) in any twelve months' period shall not exceed 1% of the total number of Shares in issue.

The period under which an option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that such period shall not be longer than ten years from the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option. The amount payable on acceptance of an offer of the grant of an option is HK\$1.00. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date when an option is offered; (ii) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of a Share.

The 2003 Share Option Scheme will expire on 22nd May 2013.

## SHARE OPTIONS (CONTINUED)

### (ii) 2003 Share Option Scheme (Continued)

Notes:

- (1) As defined in the 2003 Share Option Scheme (as amended), "Participants" include:
- (i) any employee of the Group (including any executive director of the Group);
  - (ii) any management of China COSCO, or China Ocean Shipping (Group) Company, the Company's parent company; and
  - (iii) any person seconded or nominated by the Group to represent the Group's interest in any of the Group's associated companies or jointly controlled entities (as defined in note 2 below), or any other company or organisation.

As to whether a particular person falls within the definition of Participants, it shall be determined by the Board in its absolute discretion.

- (2) Under the 2003 Share Option Scheme, associated companies and jointly controlled entities refer to those companies and/or enterprises which have defined and/or disclosed as associates and/or associated companies and joint ventures and/or jointly controlled entities of the Company in the latest audited financial statements of the Company.

### (iii) Movements of options under 1994 Share Option Scheme

Movements of the options, which have been granted under the 1994 Share Option Scheme, during the year are set out below:

| Category                             | Exercise price<br>HK\$ | Number of share options         |                           |                                   | % of total issued share capital of the Company | Note          |
|--------------------------------------|------------------------|---------------------------------|---------------------------|-----------------------------------|--|---------------|
|                                      |                        | Outstanding at 1st January 2006 | Exercised during the year | Outstanding at 31st December 2006 |  |               |
| <b>Director</b>                      |                        |                                 |                           |                                   |  |               |
| Mr. WONG Tin Yau, Kelvin             | 8.80                   | 900,000                         | (600,000)                 | 300,000                           | 0.013%   | (1), (2), (3) |
| <b>Continuous contract employees</b> |                        |                                 |                           |                                   |  |               |
|                                      | 8.80                   | 254,000                         | (232,000)                 | 22,000                            | 0.001%   | (1), (3)      |
|                                      |                        | 1,154,000                       | (832,000)                 | 322,000                           |  |               |

Notes:

- (1) The share options were granted on 20th May 1997 (the "Offer Date") under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant (i.e. on or before 19th May 2007), subject to the following conditions:
- (i) For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.
  - (ii) For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.
- (2) These share options represent personal interest held by the director as beneficial owner.
- (3) The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$16.87.
- (4) During the year, no share options were cancelled or lapsed under the 1994 Share Option Scheme.

## REPORT OF THE DIRECTORS

### SHARE OPTIONS (CONTINUED)

#### (iv) Movements of options under 2003 Share Option Scheme

Movements of the options, which have been granted under the 2003 Share Option Scheme, during the year are set out below:

| Category                             | Exercise price HK\$ | Number of share options         |                         |                           |                        | Outstanding at 31st December 2006 | % of total issued share capital | Exercisable period     | Note               |
|--------------------------------------|---------------------|---------------------------------|-------------------------|---------------------------|------------------------|-----------------------------------|---------------------------------|------------------------|--------------------|
|                                      |                     | Outstanding at 1st January 2006 | Granted during the year | Exercised during the year | Lapsed during the year |                                   |                                 |                        |                    |
| <b>Directors</b>                     |                     |                                 |                         |                           |                        |                                   |                                 |                        |                    |
| Dr. WEI Jiafu                        | 9.54                | 500,000                         | –                       | (100,000)                 | –                      | 400,000                           | 0.018%                          | 30.10.2003-29.10.2013  | (1), (2), (3), (4) |
|                                      | 13.75               | 1,000,000                       | –                       | –                         | –                      | 1,000,000                         | 0.045%                          | 3.12.2004-2.12.2014    |                    |
| Mr. CHEN Hongsheng                   | 9.54                | 400,000                         | –                       | (100,000)                 | –                      | 300,000                           | 0.013%                          | 28.10.2003-27.10.2013  | (1), (2), (3), (4) |
|                                      | 13.75               | 1,000,000                       | –                       | –                         | –                      | 1,000,000                         | 0.045%                          | 3.12.2004-2.12.2014    |                    |
| Mr. LI Jianhong                      | 9.54                | 400,000                         | –                       | (100,000)                 | –                      | 300,000                           | 0.013%                          | 29.10.2003-28.10.2013  | (1), (2), (3), (4) |
|                                      | 13.75               | 1,000,000                       | –                       | –                         | –                      | 1,000,000                         | 0.045%                          | 2.12.2004-1.12.2014    |                    |
| Mr. XU Lirong                        | 13.75               | 1,000,000                       | –                       | (1,000,000)               | –                      | –                                 | –                               | 2.12.2004-1.12.2014    | (2), (3), (4)      |
| Ms. SUN Yueying                      | 9.54                | 400,000                         | –                       | (100,000)                 | –                      | 300,000                           | 0.013%                          | 29.10.2003-28.10.2013  | (1), (2), (3), (4) |
|                                      | 13.75               | 1,000,000                       | –                       | –                         | –                      | 1,000,000                         | 0.045%                          | 3.12.2004-2.12.2014    |                    |
| Dr. SUN Jiakang                      | 9.54                | 200,000                         | –                       | (200,000)                 | –                      | –                                 | –                               | 28.10.2003-27.10.2013  | (1), (2), (3), (4) |
|                                      | 13.75               | 1,000,000                       | –                       | –                         | –                      | 1,000,000                         | 0.045%                          | 1.12.2004 - 30.11.2014 |                    |
| Mr. WONG Tin Yau, Kelvin             | 9.54                | 800,000                         | –                       | –                         | –                      | 800,000                           | 0.036%                          | 28.10.2003-27.10.2013  | (1), (2), (3)      |
|                                      | 13.75               | 1,000,000                       | –                       | –                         | –                      | 1,000,000                         | 0.045%                          | 2.12.2004-1.12.2014    |                    |
| Mr. WANG Zhi                         | 13.75               | 800,000                         | –                       | (100,000)                 | –                      | 700,000                           | 0.031%                          | 29.11.2004-28.11.2014  | (2), (3), (4)      |
| Mr. QIN Fuyan                        | 13.75               | 1,000,000                       | –                       | (800,000)                 | –                      | 200,000                           | 0.009%                          | 29.11.2004-28.11.2014  | (2), (3), (4)      |
|                                      |                     | 11,500,000                      | –                       | (2,500,000)               | –                      | 9,000,000                         |                                 |                        |                    |
| <b>Continuous contract employees</b> |                     |                                 |                         |                           |                        |                                   |                                 |                        |                    |
|                                      | 9.54                | 6,794,000                       | –                       | (2,816,000)               | –                      | 3,978,000                         | 0.178%                          | (refer to note 1)      | (1), (2), (4)      |
|                                      | 13.75               | 31,044,000                      | –                       | (10,826,000)              | (20,000)               | 20,198,000                        | 0.906%                          | (refer to note 2)      |                    |
| <b>Others</b>                        |                     |                                 |                         |                           |                        |                                   |                                 |                        |                    |
|                                      | 9.54                | 3,104,000                       | –                       | (2,104,000)               | –                      | 1,000,000                         | 0.045%                          | (refer to note 1)      | (1), (2), (4)      |
|                                      | 13.75               | 18,000,000                      | –                       | (10,640,000)              | –                      | 7,360,000                         | 0.330%                          | (refer to note 2)      |                    |
|                                      |                     | 58,942,000                      | –                       | (26,386,000)              | (20,000)               | 32,536,000                        |                                 |                        |                    |
|                                      |                     | 70,442,000                      | –                       | (28,886,000)              | (20,000)               | 41,536,000                        |                                 |                        |                    |

## SHARE OPTIONS (CONTINUED)

### (iv) Movements of options under 2003 Share Option Scheme (Continued)

Notes:

- (1) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme at an exercise price of HK\$9.54. The options are exercisable at any time within ten years from the commencement date which is the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options of the grantees was from 28th October 2003 to 6th November 2003.
- (2) The share options were granted during the period from 25th November 2004 to 16th December 2004 under the 2003 Share Option Scheme at an exercise price of HK\$13.75. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options of the grantees was from 25th November 2004 to 16th December 2004.
- (3) These options represent personal interest held by the relevant directors as beneficial owners.
- (4) The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK\$17.03.
- (5) During the year, no share options were cancelled under the 2003 Share Option Scheme.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2006, the interests of the Company's directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### (a) Long positions in the shares of the Company

| Name of director                 | Capacity         | Nature of interest | Number of ordinary shares held | % of total issued share capital of the Company |
|----------------------------------|------------------|--------------------|--------------------------------|--|
| Dr. LI Kwok Po, David            | Beneficial owner | Personal           | 258,000                        | 0.012%   |
| Mr. Timothy George<br>FRESHWATER | Beneficial owner | Personal           | 30,000                         | 0.001%   |

### (b) Long positions in underlying shares of equity derivatives of the Company

Share options were granted to certain directors of the Company pursuant to the 1994 Share Option Scheme and the 2003 Share Option Scheme. Details of the directors' interests in share options granted by the Company are set out under the section headed "Share Options" of this report.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

#### (c) Long positions in the shares of associated corporations

| Name of associated corporation        | Name of director         | Capacity         | Nature of interest | Number of shares held | % of total issued share capital of the relevant associated corporation | Note |
|---------------------------------------|--------------------------|------------------|--------------------|-----------------------|--|------|
| China COSCO Holdings Company Limited  | Mr. WONG Tin Yau, Kelvin | Beneficial owner | Personal           | 1,000,000             | 0.045%   |      |
| COSCO Corporation (Singapore) Limited | Dr. WEI Jiafu            | Beneficial owner | Personal           | 1,900,000             | 0.086%   | (1)  |
|                                       | Mr. LI Jianhong          | Beneficial owner | Personal           | 1,300,000             | 0.059%   | (1)  |
|                                       | Ms. SUN Yueying          | Beneficial owner | Personal           | 1,400,000             | 0.063%   | (1)  |

Note:

- (1) Adjustments were made to the number of shares held by these directors as the sub-division of every 1 ordinary share of S\$0.20 each divided into 2 ordinary shares of S\$0.10 each was approved by the shareholders of COSCO Corporation (Singapore) Limited on 17th January 2006.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

### (d) Long positions in underlying shares of equity derivatives of associated corporations

Movements of the share options granted to the directors of the Company by associated corporations during the year are set out below:

| Name of associated corporation        | Name of director         | Capacity         | Nature of interest | Exercise price | Number of share options         |                         |                           | Outstanding at 31st December 2006 | % of total issued share capital of the relevant associated corporation | Note |
|---------------------------------------|--------------------------|------------------|--------------------|----------------|---------------------------------|-------------------------|---------------------------|-----------------------------------|--|------|
|                                       |                          |                  |                    |                | Outstanding at 1st January 2006 | Granted during the year | Exercised during the year |                                   |  |      |
| COSCO International Holdings Limited  | Dr. WEI Jiafu            | Beneficial owner | Personal           | HK\$0.57       | 1,800,000                       | –                       | –                         | 1,800,000                         | 0.124%   | (1)  |
|                                       |                          |                  |                    | HK\$1.37       | 1,200,000                       | –                       | –                         | 1,200,000                         | 0.083%   | (2)  |
|                                       | Mr. LI Jianhong          | Beneficial owner | Personal           | HK\$0.57       | 1,800,000                       | –                       | –                         | 1,800,000                         | 0.124%   | (1)  |
|                                       |                          |                  |                    | HK\$1.37       | 1,200,000                       | –                       | –                         | 1,200,000                         | 0.083%   | (2)  |
| Dr. SUN Jiakang                       | Beneficial owner         | Personal         | HK\$0.57           | 900,000        | –                               | –                       | 900,000                   | 0.062%                            | (1)  |      |
|                                       |                          |                  | HK\$1.37           | 800,000        | –                               | –                       | 800,000                   | 0.055%                            | (2)  |      |
|                                       | Mr. WONG Tin Yau, Kelvin | Beneficial owner | Personal           | HK\$0.57       | 800,000                         | –                       | –                         | 800,000                           | 0.055%   | (1)  |
|                                       |                          |                  |                    | HK\$1.37       | 500,000                         | –                       | –                         | 500,000                           | 0.034%   | (2)  |
| COSCO Corporation (Singapore) Limited | Dr. WEI Jiafu            | Beneficial owner | Personal           | S\$0.807       | 900,000                         | –                       | (900,000)                 | –                                 | –  | (3)  |
|                                       |                          |                  |                    | S\$1.23        | –                               | 1,100,000               | –                         | 1,100,000                         | 0.050%   | (5)  |
|                                       | Mr. LI Jianhong          | Beneficial owner | Personal           | S\$0.807       | 600,000                         | –                       | (600,000)                 | –                                 | –  | (3)  |
|                                       |                          |                  |                    | S\$1.23        | –                               | 700,000                 | –                         | 700,000                           | 0.032%   | (5)  |
| Mr. XU Lirong                         | Beneficial owner         | Personal         | S\$0.807           | 400,000        | –                               | –                       | 400,000                   | 0.018%                            | (4)  |      |
|                                       |                          |                  | S\$1.23            | –              | 700,000                         | –                       | 700,000                   | 0.032%                            | (5)  |      |

Notes:

- (1) The share options were granted by COSCO International Holdings Limited ("COSCO International"), an associated corporation of the Company and a company listed on the Stock Exchange, on 26th November 2003 pursuant to the share option scheme approved by the shareholders of COSCO International on 17th May 2002 (the "Share Option Scheme of COSCO International"). The share options are exercisable at an exercise price of HK\$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.
- (2) The share options were granted by COSCO International on 2nd December 2004 pursuant to the Share Option Scheme of COSCO International. The share options are exercisable at an exercise price of HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.
- (3) The share options were granted by COSCO Corporation (Singapore) Limited ("COSCO Corporation (Singapore)"), an associated corporation of the Company and a company listed on the Singapore Exchange Securities Trading Limited, on 6th April 2005 and are exercisable at any time between 6th April 2006 and 5th April 2010. Adjustments were made to the exercise price and the number of share options held by these directors as the sub-division of every 1 ordinary share of S\$0.20 each divided into 2 ordinary shares of S\$0.10 each was approved by the shareholders of COSCO Corporation (Singapore) on 17th January 2006. In this respect, the exercise price was adjusted from S\$1.614 to S\$0.807 and the number of share options of Dr. WEI Jiafu, Mr. LI Jianhong and Ms. SUN Yueying was adjusted from 450,000 to 900,000, 300,000 to 600,000 and 300,000 to 600,000 respectively with effect from 17th January 2006.
- (4) The share options were granted by COSCO Corporation (Singapore) on 6th April 2005 and are exercisable at any time between 6th April 2007 and 5th April 2010. Adjustments were made to the exercise price and the number of share options held by the director as the sub-division of every 1 ordinary share of S\$0.20 each divided into 2 ordinary shares of S\$0.10 each was approved by the shareholders of COSCO Corporation (Singapore) on 17th January 2006. In this respect, the exercise price was adjusted from S\$1.614 to S\$0.807 and the number of share options of Mr. XU Lirong was adjusted from 200,000 to 400,000 with effect from 17th January 2006.
- (5) The share options were granted by COSCO Corporation (Singapore) on 21st February 2006 and are exercisable at any time between 21st February 2007 and 20th February 2011.
- (6) During the year, no share options mentioned above were lapsed or cancelled.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

#### (d) Long positions in underlying shares of equity derivatives of associated corporations (Continued)

Movements of the share appreciation rights granted to the directors of the Company by an associated corporation during the year are set out below:

| Name of associated corporation       | Name of director   | Capacity         | Nature of interest | Exercise price | Number of units of share appreciation rights |                         |                           | Outstanding at 31st December 2006 | % of total issued share capital of the associated corporation | Note |
|--------------------------------------|--------------------|------------------|--------------------|----------------|--|-------------------------|---------------------------|-----------------------------------|---|------|
|                                      |                    |                  |                    |                | Outstanding at 1st January 2006              | Granted during the year | Exercised during the year |                                   |   |      |
| China COSCO Holdings Company Limited | Dr. WEI Jiafu      | Beneficial owner | Personal           | HK\$3.195      | 900,000                                      | –                       | –                         | 900,000                           | 0.040%  | (1)  |
|                                      |                    |                  |                    | HK\$3.588      | –  | 900,000                 | –                         | 900,000                           | 0.040%  | (2)  |
|                                      | Mr. CHEN Hongsheng | Beneficial owner | Personal           | HK\$3.195      | 700,000                                      | –                       | –                         | 700,000                           | 0.031%  | (1)  |
|                                      |                    |                  |                    | HK\$3.588      | –  | 700,000                 | –                         | 700,000                           | 0.031%  | (2)  |
|                                      | Mr. LI Jianhong    | Beneficial owner | Personal           | HK\$3.195      | 600,000                                      | –                       | –                         | 600,000                           | 0.027%  | (1)  |
|                                      |                    |                  |                    | HK\$3.588      | –  | 600,000                 | –                         | 600,000                           | 0.027%  | (2)  |
| Mr. XU Lirong                        | Beneficial owner   | Personal         | HK\$3.195          | 500,000        | –  | –                       | 500,000                   | 0.022%                            | (1)   |      |
|                                      |                    |                  | HK\$3.588          | –              | 500,000                                      | –                       | 500,000                   | 0.022%                            | (2)   |      |
| Ms. SUN Yueying                      | Beneficial owner   | Personal         | HK\$3.195          | 600,000        | –  | –                       | 600,000                   | 0.027%                            | (1)   |      |
|                                      |                    |                  | HK\$3.588          | –              | 600,000                                      | –                       | 600,000                   | 0.027%                            | (2)   |      |
| Dr. SUN Jiakang                      | Beneficial owner   | Personal         | HK\$3.195          | 500,000        | –  | –                       | 500,000                   | 0.022%                            | (1)   |      |
|                                      |                    |                  | HK\$3.588          | –              | 500,000                                      | –                       | 500,000                   | 0.022%                            | (2)   |      |

Notes:

- (1) The share appreciation rights were granted by China COSCO (incorporated on 3rd March 2005), an associated corporation of the Company and a company listed on the Stock Exchange, in units with each unit representing one H share of China COSCO, on 16th December 2005 pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). Under the Plan, no shares will be issued. The share appreciation rights are exercisable at HK\$3.195 per unit at any time between 16th December 2007 and 15th December 2015.
- (2) The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 5th October 2006 pursuant to the Plan. Under the Plan, no shares will be issued. The share appreciation rights are exercisable at HK\$3.588 per unit at any time between 5th October 2008 and 4th October 2016.
- (3) During the year, no share appreciation rights mentioned above were lapsed or cancelled.

Save as disclosed above, as at 31st December 2006, none of the directors or chief executives of the Company had any interests or short positions in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which 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 or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries (excluding the Group) (collectively the "COSCO Group") (excluding the COSCO Logistics Group as defined below) carry on, among others, the businesses of shipping agency, freight forwarding and/or third party logistics and supporting services relating to the aforesaid services ("Logistics Businesses"), details of which are disclosed in the connected transactions circular issued by the Company dated 13th October 2003. The core of such businesses is unlikely to be in competition with the businesses carried on by COSCO Logistics Co., Ltd. ("COSCO Logistics"), its subsidiaries, jointly controlled entities and associates (collectively the "COSCO Logistics Group"). As at 31st December 2006, China COSCO, a subsidiary of COSCO, and the Group has 51% and 49% equity interest in COSCO Logistics respectively.

As at 31st December 2006, Dr. WEI Jiafu, Mr. CHEN Hongsheng, Mr. LI Jianhong, Mr. XU Lirong, Ms. SUN Yueying and Dr. SUN Jiakang, all being directors of the Company, held directorships and/or senior management posts in the COSCO Group (excluding the COSCO Logistics Group) and/or other companies which have interests in container terminals ("Container Terminal Interests").

The Board is of the view that the Group is capable of carrying on its businesses independently from the Logistics Businesses and/or the Container Terminal Interests. When making decisions on the logistics business and/or the container terminal business of the Group, the relevant directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the best interests of the Group.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2006, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name                                      | Capacity  | Nature of interests                        | Number of ordinary shares/Percentage of total issued share capital |       |                 |   | Note |
|---|---|--|--|-------|-----------------|---|------|
|   |   |  | Long positions   | %     | Short positions | % |      |
| COSCO Investments Limited                 | Beneficial owner  | Beneficial interest                        | 200,120,000  | 8.98  | –               | – | (1)  |
| COSCO Pacific Investment Holdings Limited | Beneficial owner and interest of controlled corporation | Beneficial interest and corporate interest | 1,144,166,411  | 51.34 | –               | – | (1)  |
| China COSCO Holdings Company Limited      | Interest of controlled corporation                      | Corporate interest                         | 1,144,166,411  | 51.34 | –               | – | (1)  |
| China Ocean Shipping (Group) Company      | Interest of controlled corporation                      | Corporate interest                         | 1,144,166,411  | 51.34 | –               | – | (1)  |

Note:

- (1) The 1,144,166,411 shares relate to the same batch of shares in the Company. COSCO Investments Limited ("COSCO Investments") is a wholly owned subsidiary of COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment"). Accordingly, the 200,120,000 shares of the Company held by COSCO Investments are also included as part of the COSCO Pacific Investment's interests in the Company. COSCO Pacific Investment is a wholly owned subsidiary of China COSCO and it itself holds 944,046,411 shares of the Company beneficially. Accordingly, COSCO Pacific Investment's interests in relation to the 1,144,166,411 shares of the Company are also recorded as China COSCO's interests in the Company. China Ocean Shipping (Group) Company ("COSCO") holds 63.83% interest of the issued share capital of China COSCO as at 31st December 2006, and accordingly, COSCO is deemed to have the interests of 1,144,166,411 shares of the Company held by COSCO Pacific Investment.

Save as disclosed above, as at 31st December 2006, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

## REPORT OF THE DIRECTORS

### PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of the shares of the Company with not less than 25% of the total issued shares of the Company as required under the Listing Rules.

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its Shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

### MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

### MAJOR SUPPLIERS AND LESSEES

The percentage of the Group's container purchases and leasing income attributable to major suppliers and lessees are as follows:

|   |        |
|---|--------|
| Percentage of container purchases attributable to the Group's largest supplier                          | 11.39% |
| Percentage of container purchases attributable to the Group's five largest suppliers                    | 35.34% |
| Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO | 61.96% |
| Percentage of leasing income attributable to the Group's five largest lessees                           | 75.30% |

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

Two of the Group largest suppliers attribute 12.93% of container purchases of the Group. During the year ended 31st December 2006, the Group and COSCO have equity interest in China International Marine Containers (Group) Co., Ltd., the holding company of the aforesaid two suppliers of the Group.

Save as disclosed above, none of the shareholders (which to the knowledge of the directors owns more than 5% of the Company's shares) has interest in any of the suppliers and lessees of the Group.

### CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the year ended 31st December 2006 except the code provision E.1.2 in respect of the attendance of the Chairman of the Board at the annual general meeting of the Company.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 60 to 77 of this annual report.

## CONNECTED TRANSACTIONS

During the year, the following connected transaction/continuing connected transactions of the Company were entered into by the Group:

### (a) Connected transaction

#### *Acquisition of berth assets at Zhangjiagang Port*

On 28th September 2006, Zhangjiagang Port Group Co. Ltd. (the "Vendor"), Win Hanverky Investments Limited ("WH Investments", a wholly owned subsidiary of the Company), and Zhangjiagang Win Hanverky Container Terminal Co., Ltd. (the "Purchaser", a sino-foreign equity joint venture established in the People's Public of China ("PRC") and owned by WH Investments and the Vendor as to 51% and 49% respectively), entered into an agreement (the "Agreement") in relation to the increase in the registered capital of the Purchaser from US\$16,800,000 to US\$36,800,000 (the "Capital Increase") and the acquisition of the certain berth assets (the "Sale Assets") (with value equivalent to the value of the land use rights, berth terminal projects, roads and storage yards, water supply and drainage, electrical engineering and ancillary works and other construction in progress in respect of berth no. 17 of the Zhangjiagang Port in the PRC (the "Berth Assets") less the agreed capital injection to be made by the Vendor into the Purchaser under the Capital Increase of US\$9,800,000).

For the Capital Increase, WH Investments and the Vendor contributed in proportion to their existing shareholding. The contribution of US\$10,200,000 by WH Investments was made in cash, with part of it coming from the WH Investments' entitlement in the undistributed profits of the Purchaser for the years ended 31st December 2004 and 2005 of RMB37,811,919, in aggregate. The contribution into the Purchaser of US\$9,800,000 was settled by the Vendor by injecting part of the Berth Assets with equivalent value of the same amount (the "Injected Assets").

The amounts payable by the Purchaser in relation to the acquisition of Sale Assets comprised the following:

1. RMB171,081,967 (being the adjusted value of the Berth Assets determined by a valuer appointed by the Vendor) less the value of the Injected Assets of US\$9,800,000 (being the contribution required to be made by the Vendor pursuant to the Capital Increase);
2. the agreed cost of funds of the Vendor (representing the appreciation in value of the Sale Assets since the reference date of the valuation of the Berth Assets as agreed between the Vendor and the Purchaser) calculated on the amount under item 1 at the interest rate of 5.022% per annum for the period from 1st November 2005 to 30th April 2006 and 5.265% per annum for the period from 1st May 2006 to the day immediately before the date of receipt of the relevant amount (with interest) by the Vendor;
3. subsequent expenses in respect of the Berth Assets incurred from November 2005 (i.e. immediately after the reference date of the valuation of the Berth Assets referred to below) to July 2006 in the aggregate amount of RMB13,611,143; and
4. interest on such subsequent expenses calculated at the same interest rates referred to in item 2 from the months in which the respective expenses were incurred up to the day immediately before the date of receipt of the relevant amount (with interest) by the Vendor.

Such amounts payable to the Purchaser was fully settled before the year end of 2006.

As the Vendor is a substantial shareholder of the Purchaser, the Vendor is therefore a connected person of the Company. Accordingly, the acquisition of Berth Assets constituted a connected transaction of the Company under the Listing Rules.

Investment in such berth is expected to boost the container throughput of the Group and the competitiveness of Zhangjiagang in the Yangtze region, ultimately consolidating the integrated terminal capability of the Group in such region.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS (CONTINUED)

#### (b) Continuing connected transactions

##### (a) Rental of office premises

On 27th March 2006, COSCO Pacific Management Company Limited ("COSCO Pacific Management") as tenant entered into two tenancy agreements with Wing Thye Holdings Limited ("Wing Thye") as landlord in respect of the leasing of certain office premises situated at 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong ("COSCO Tower") (the "4901 and 4902A Tenancy Agreement" and the "4903 Tenancy Agreement", collectively the "Tenancy Agreements").

Pursuant to the 4901 and 4902A Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye portions of the premises known as Unit 4901 and Unit 4902A situate at COSCO Tower ("Units 4901 and 4902A") for a term of three years commencing with retrospective effect from 29th November 2005 at a monthly rental of HK\$420,000, exclusive of rates and management fees payable by COSCO Pacific Management. The monthly management fees payable to Wing Thye is HK\$50,747. The maximum aggregate annual value of the rental and the management fees is HK\$5,648,959.

Pursuant to the 4903 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4903 situate at COSCO Tower ("Unit 4903") for a term of two years ten months and thirteen days commencing with retrospective effect from 16th January 2006 at a monthly rental of HK\$150,000 (including rent-free period from 16th January 2006 to 15th March 2006 (both days inclusive)) exclusive of rates and management fees payable by COSCO Pacific Management. The monthly management fees payable to Wing Thye is HK\$18,170. The maximum aggregate annual value of the rental and the management fees is HK\$2,018,040.

The Company intended to continue to occupy Units 4901 and 4902A and Unit 4903 on a long term basis as the head office of itself and its subsidiaries and as its principal place of business in Hong Kong. In negotiating the rentals under the Tenancy Agreements, the directors of the Company made reference to the professional opinion given by DTZ Debenham Tie Leung Limited, an independent professional valuer engaged by COSCO Pacific Management and Wing Thye, that the monthly rental agreed for Units 4901 and 4902A and the monthly rental agreed for Unit 4903 were at market levels and were fair and reasonable.

Wing Thye is a wholly owned subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"). COSCO Pacific Management is a wholly owned subsidiary of the Company. COSCO is a controlling shareholder of both the Company and COSCO Hong Kong. Accordingly, COSCO, COSCO Hong Kong and Wing Thye are all connected persons of the Company. The Tenancy Agreements and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

##### (b) Container related services, shipping related services and short term container leasing transactions

The Stock Exchange, subject to certain conditions, granted waivers on 13th December 1996, 15th April 1997 and 12th September 2001 (the "Waivers") for an indefinite period to the Company from strict compliance with the connected transactions requirements of the Listing Rules in force prior to 31st March 2004 in respect of certain continuing connected transactions between COSCO and its subsidiaries and the Group in relation to container related services, shipping related services and short term container leasing transactions respectively. After commencement of certain new Listing Rules effective 31st March 2004, the Waivers had lapsed and compliance with the new Listing Rules is required. In view of the changes to the Listing Rules in relation to continuing connected transactions, the Group has entered into the following master agreements on 3rd June 2005 for a term of three years up to 31st December 2007 (the "Master Agreements") in accordance with the new requirements.

## CONNECTED TRANSACTIONS (CONTINUED)

### (b) Continuing connected transactions (Continued)

(b) Container related services, shipping related services and short term container leasing transactions (Continued)

COSCO is the ultimate controlling shareholder of the Company. COSCO Container Lines Company Limited ("COSCON") is a subsidiary of COSCO. Accordingly, COSCO and its associates and COSCON are connected persons (as defined in the Listing Rules) of the Company. Each of the Master Agreements and the transactions contemplated thereunder constituted continuing connected transactions (the "Continuing Connected Transactions") for the purpose of the Listing Rules and are subject to the reporting and announcement requirements (but are exempt from the independent shareholders' approval requirements) set out in Chapter 14A of the Listing Rules as one or more of the relevant percentage ratios in relation to each category of the Continuing Connected Transactions are 0.1% or more but less than 2.5%. The Company had accordingly published a press announcement in respect of the Continuing Connected Transactions dated 3rd June 2005. In addition, in view of the value of the container related services transactions being higher than previously anticipated, the Company published a further announcement dated 28th December 2006 to revise the annual caps of those transactions for 2006 and 2007 (details as below).

- (1) The Container Services Master Agreement entered into between COSCO, COSCON and Plangreat Limited ("Plangreat"), a wholly owned subsidiary of the Company, in respect of provision of the container related services by Plangreat and its subsidiaries to COSCO and its associates (excluding the Group but including COSCON) for a term of three years from 1st January 2005 to 31st December 2007 at rates no less favourable than that at which Plangreat and its subsidiaries charge independent third parties for the relevant services. As stated in the Company's announcement dated 3rd June 2005, the annual cap of the container related services transactions for each of the years ended/ending 31st December 2005, 2006 and 2007 is US\$6,642,000. As stated in the Company's announcement dated 28th December 2006, the Company has revised the annual cap for the container related services transactions for each of the year ended 31st December 2006 and the year ending 31st December 2007 from US\$6,642,000 to US\$7,375,000. The total amount of the aforesaid transactions for the year ended 31st December 2006 was US\$7,234,000.
- (2) The Shipping Services Master Agreement entered into between COSCO, COSCON, COSCO Ports (Holdings) Limited ("COSCO Ports"), a wholly owned subsidiary of the Company, and Zhangjiagang Win Hanverky Container Terminal Co., Ltd. ("Zhangjiagang Win Hanverky"), a company owned as to 51% by the Group and 49% by Zhangjiagang Port Group Co. Ltd., in respect of provision of the shipping related services provided by COSCO Ports and its subsidiaries to COSCO and its associates (excluding the Group but including COSCON) for a term of three years from 1st January 2005 to 31st December 2007 at rates no less favourable than that at which COSCO Ports and its subsidiaries charge independent third parties for the relevant services. The annual cap of the shipping related services transactions for the years ended/ending 31st December 2005, 2006 and 2007 is US\$3,478,000, US\$4,076,000 and US\$4,691,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2006 was US\$2,905,000.
- (3) The Short Term Container Leasing Master Agreement entered into between COSCO, COSCON and Florens Container Holdings Limited ("Florens"), a wholly owned subsidiary of the Company in respect of provision of the short term container leases (container leasing for a term less than 10 years) granted by Florens and its subsidiaries to COSCO and its associates (excluding the Group but including COSCON) for a term of three years from 1st January 2005 to 31st December 2007 at rates no less favourable than that at which Florens and its subsidiaries charge independent third parties for the relevant leases. The annual cap of the short term container leasing transactions for the years ended/ending 31st December 2005, 2006 and 2007 is US\$2,700,000, US\$3,100,000 and US\$3,500,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2006 was US\$213,000.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS (CONTINUED)

#### (b) Continuing connected transactions (Continued)

(c) Shipping related services provided by Quanzhou Pacific Container Terminal Co., Ltd.

Quanzhou Pacific Container Terminal Co., Ltd. ("Quanzhou Pacific"), a subsidiary of the Company which first commenced its operation in September 2006, has provided shipping related services to COSCO and COSCON and their respective associates since September 2006. The service fees charged by Quanzhou Pacific were at rates no less favourable than that at which Quanzhou Pacific charged independent third parties for the relevant services. The total amount of the aforesaid transactions for the year ended 31st December 2006 was US\$559,000. During the year, no master agreement in respect of the transactions was signed and no annual caps of the transactions for subsequent years had been set.

As COSCO and COSCON and their respective associates are connected persons of the Company, the provision of shipping related services by Quanzhou Pacific to them constituted continuing connected transactions of the Company.

(d) Logistics services provided by Yangzhou Ports Modern Logistics Centre

Yangzhou Yuanyang International Ports Co. Ltd. ("Yangzhou Yuanyang"), a jointly controlled entity of the Group (and has been considered by the Stock Exchange to be a subsidiary of the Company under the Listing Rules), entered into Ancillary Loading and Unloading Transportation Services Agreements with Yangzhou Ports Modern Logistics Centre ("Yangzhou Ports Modern Logistics"), a wholly owned subsidiary of Yangzhou Ports (Group) Limited which holds 40% equity interest in Yangzhou Yuanyang, on 28th February 2004 and 1st January 2005 in respect of the provision of logistics services by Yangzhou Ports Modern Logistics to Yangzhou Yuanyang for the periods from 1st March 2004 to 28th February 2007 and 1st January 2005 to 28th February 2007 respectively. The service fees charged by Yangzhou Ports Modern Logistics were at rates no less favourable to Yangzhou Yuanyang than that at which independent third parties charged Yangzhou Yuanyang for the relevant services. The total amounts of the aforesaid transactions for the years ended 31st December 2004, 2005 and 2006 were US\$2,451,038, US\$3,861,925 and US\$4,452,972 respectively.

As Yangzhou Ports Modern Logistics is a connected person of the Company, its provision of logistic services to Yangzhou Yuanyang constituted continuing connected transactions of the Company.

(e) Shipping related services provided by Yangzhou Yuanyang

Yangzhou Yuanyang has been providing shipping related services to COSCO and COSCON and their respective associates (excluding the Group) since 2004. The service fees charged by Yangzhou Yuanyang on COSCO and COSCON were at rates no less favourable to Yangzhou Yuanyang than that at which Yangzhou Yuanyang charged independent third parties for the relevant services. The total amounts of the aforesaid transactions for the years ended 31st December 2004, 2005 and 2006 were US\$315,012, US\$437,460 and US\$653,642 respectively.

As COSCO and COSCON and their respective associates are connected persons of the Company, the provision of shipping related services by Yangzhou Yuanyang to them constituted continuing connected transactions of the Company.

(f) Long term container leasing transactions (with waiver granted by the Stock Exchange)

During the year, long term container leasing transactions were entered into between COSCO Group and the Group in respect of the provision of long term container leases by the Group to COSCO Group to which the Stock Exchange had, subject to certain conditions, granted waiver dated 14th December 1994 to the Company from strict compliance with the requirements stipulated in the then Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval. The total consideration of the aforesaid transactions for the year ended 31st December 2006 amounted to US\$136,889,000. In the opinion of the directors of the Company, the aforesaid transactions were conducted in the ordinary course of business of the Group and using average market rates by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies.

## CONNECTED TRANSACTIONS (CONTINUED)

### (b) Continuing connected transactions (Continued)

#### (1) *Opinion from the independent non-executive directors on the continuing connected transactions*

Pursuant to the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the above continuing connected transactions and opined that:

- (i) the long term container leasing transactions had been conducted in the ordinary course of business of the Group and using average market rates by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies and were fair and reasonable so far as the shareholders of the Company were concerned; and
- (ii) the rental of the office premises transactions, container related service transactions, shipping related service transactions (including the services provided by Quanzhou Pacific and Yangzhou Yuanyang), short term container leasing transactions and logistics service transactions were:
  - entered into in the ordinary and usual course of the Group's businesses;
  - entered into on terms no less favourable to the Group than terms available from/to independent third parties; and
  - entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

#### (2) *Report from the auditor on the continuing connected transactions*

For the purposes of the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.38 of the Listing Rules in relation to the other continuing connected transactions, the board of directors of the Company (the "Board") engaged the auditor of the Company to perform certain agreed-upon procedures on the above continuing connected transactions as identified by the management for the year ended 31st December 2006 (the "Relevant Year") in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and the auditor reported that:

- (i) the long term container leasing transactions for the Relevant Year had been conducted in the ordinary course of business of the Group and by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies; and
- (ii) the rental of the office premises transactions, container related service transactions, shipping related service transactions (including the services provided by Quanzhou Pacific and Yangzhou Yuanyang), short term container leasing transactions and logistics service transactions for the Relevant Year:
  - had been approved by the Board;
  - had been conducted in accordance with the pricing policies of the Group, if applicable (for the samples selected);
  - had been entered into in accordance with the terms of the relevant agreements governing the other continuing connected transactions (for the samples selected); and
  - had not exceeded the respective annual caps or the estimated service fee/transaction amounts as set out in the Company's announcements dated 3rd June 2005, 27th March 2006, 28th December 2006 and 11th January 2007 or the estimated service fee/transaction amounts.

## REPORT OF THE DIRECTORS

### DISCLOSURE UNDER RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31st December 2006 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

|                         | US\$'000  |
|-------------------------|-----------|
| Non-current assets      | 644,370   |
| Current assets          | 75,541    |
| Current liabilities     | (200,823) |
| Non-current liabilities | (404,712) |
|                         | <hr/>     |
| Net assets              | 114,376   |
|                         | <hr/>     |
| Share capital           | 75,871    |
| Reserves                | 38,505    |
|                         | <hr/>     |
| Capital and reserves    | 114,376   |
|                         | <hr/>     |

As at 31st December 2006, the Group's attributable interests in these affiliated companies amounted to US\$93,365,000.

### AUDIT COMMITTEE

The Company has an audit committee consisting of four independent non-executive directors. The committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its financial statements and liaises on behalf of the Board with external auditors and the Group's internal auditors. The committee members met regularly with management, external auditors and the Group's internal auditors and reviewed the internal and external audit reports and the interim and annual consolidated financial statements of the Group.

### AUDITORS

The consolidated 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

**XU Minjie**

*Vice Chairman and Managing Director*

Hong Kong, 22nd March 2007