

# 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 2006.

## 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 property investment. 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 2006 are set out in the consolidated income statement on page 114 of this Annual Report. The Board recommended the payment of a final dividend of HK 4.30 cents (2005: HK 2.10 cents) per share for the year ended 31st December 2006 subject to the shareholders' approval at the annual general meeting of the Company to be held on 29th May 2007. Approximately HK\$62,373,000 will be payable on or before 12th June 2007 to the shareholders of the Company whose names appear on the register of members on 29th May 2007.

## 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 8 to the financial statements.

## DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2006 calculated under Companies Act of Bermuda amounted to HK\$1,332,623,000.

## 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 25 to the financial statements. Interest and other borrowing costs capitalised by the Company and its subsidiaries during the year are set out in note 29 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 23 to the financial statements.

## SHARE CAPITAL

Details of the movements on share capital of the Company are set out in note 22 to the financial statements.

## DONATIONS

The Company and its subsidiaries did not make any donations during the year (2005: Nil).

## FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Company and its subsidiaries is set out on pages 195 and 196.

## 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. Wang Futian (*appointed on 16th March 2007*)  
 Mr. Jia Lianjun (*appointed on 25th January 2006*)  
 Mr. Wang Xiaoming (*appointed on 25th January 2006*)  
 Mr. Liang Yanfeng (*Managing Director*)  
     (*appointed on 9th August 2006*)  
 Mr. Meng Qinghui  
 Mr. Chen Xuwen (*appointed on 9th August 2006*)  
 Mr. Lin Libing  
 Mr. Wang Xiaodong (*appointed on 25th January 2006*)  
 Mr. Lin Wenjin (*appointed on 9th August 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*)  
 Mr. Zhou Liancheng (*resigned on 9th August 2006*)  
 Mr. Liu Hanbo (*resigned on 9th August 2006*)  
 Mr. Chen Pisen (*resigned on 9th August 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 except Mr. Chan Cheong Foon, Andrew, who will not offer himself 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 BUSINESSES

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:

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Name of Director	Name of entities which were considered to compete or likely to compete with the businesses of the Company and its subsidiaries	Description of businesses of the entities which were 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 COSCO	– Property development and investment – Ship trading and supplying services	director
Mr. Liu Guoyuan	COSCO (Hong Kong) Group Limited and companies controlled by COSCO (Hong Kong) Group Limited	– Property development and investment – Ship trading and supplying services	director
Mr. Li Jianhong	companies controlled by COSCO	– Property development and investment – Ship trading and supplying services	director
Mr. Wang Futian	companies controlled by COSCO (Hong Kong) Group Limited	– Property development and investment – Ship trading and supplying services	director
Mr. Jia Lianjun	companies controlled by COSCO	– Property development and investment – Ship trading and supplying services	director
Mr. Wang Xiaoming	COSCO (Hong Kong) Group Limited and companies controlled by COSCO (Hong Kong) Group Limited	– Property development and investment – Ship trading and supplying services	director
Mr. Liang Yanfeng	Soundwill Holdings Limited	– Property development and investment	non-executive vice chairman
Mr. Meng Qinghui	companies controlled by COSCO (Hong Kong) Group Limited	– Property development and investment – Ship trading and supplying services	director
Mr. Chen Xuewen	Soundwill Holdings Limited companies controlled by COSCO (Hong Kong) Group Limited	– Property development and investment – Property development and investment – Ship trading and supplying services	non-executive director director
Mr. He Jiale*	COSCO (Hong Kong) Group Limited and companies controlled by COSCO (Hong Kong) Group Limited	– Property development and investment – Ship trading and supplying services	director
Mr. Guo Huawei*	companies controlled by COSCO	– Property development and investment – Ship trading and supplying services	director
Mr. Zhou Liancheng#	COSCO (Hong Kong) Group Limited and companies controlled by COSCO (Hong Kong) Group Limited	– Property development and investment – Ship trading and supplying services	director
Mr. Liu Hanbo#	Soundwill Holdings Limited	– Property development and investment	non-executive vice chairman
Mr. Chen Pisen#	companies controlled by COSCO (Hong Kong) Group Limited	– Property development and investment – Ship trading and supplying services	director

\* Resigned as Executive Director on 25th January 2006

# Resigned as Executive Director on 9th August 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 businesses independently of, and at arm's length from, the businesses of these companies.

## CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions require disclosure in 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) Group Limited and COSCO International Ship Trading Company Limited ("COSCO Ship Trading"), pursuant to which COSCO Ship Trading and its subsidiaries (collectively "COSCO Ship Trading Group") agrees to continue to provide COSCO and its subsidiaries ("COSCO Group") with the agency services (the "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) Group Limited and the Company will procure that the Ship Trading Continuing Connected Transactions 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 Cap Amounts were approved by the 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 entered into a supplemental agreement (the "Supplemental Agreement") on 27th October 2005 with COSCO (Hong Kong) Group Limited and COSCO 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:

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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 2006 amounted to HK\$52,469,000.

## 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) Group Limited. Pursuant to the Yuantong S&P Agreement, Yuantong agrees to continue to provide 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) Group Limited and the Company will procure that the Yuantong Continuing Connected Transactions 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) Group Limited 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 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 2006 amounted to HK\$256,937,000.

### 3. Kansai Continuing Connected Transactions

In order to comply with the requirement of the Listing Rules, Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. ("Shanghai COSCO Kansai") and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. ("Tianjin COSCO Kansai") (collectively "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 COSCO Group in relation to (a) the purchase of raw material by COSCO Kansai Companies from Japan Kansai; (b) the introduction of businesses by NKM to COSCO Kansai Companies; (c) the sale of container coatings and marine coatings by COSCO Kansai Companies to NKM; (d) the sale of container coatings and marine coatings by COSCO Kansai Companies to COSCO Group; and (e) the introduction of businesses by COSCO Group to COSCO Kansai Companies and had on 19th June 2006 entered into another agreement with NKM in relation to the

sale of container coatings and marine coatings by COSCO Kansai Companies to NKM (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 COSCO Kansai Companies (hereinafter referred to as "Kansai Continuing Connected Transactions").

Pursuant to the Written Agreements, the Company will procure that the Kansai Continuing Connected Transactions 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

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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"):

	<b>Caps for the year ending 31st December 2005 RMB</b>	<b>Caps for the year ending 31st December 2006 RMB</b>	<b>Caps for the year ending 31st December 2007 RMB</b>
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	10,000,000	10,000,000
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 COSCO Group for business referral	4,000,000	4,000,000	4,000,000

The Kansai Continuing Connected Transactions for the financial years ended 31st December 2006 were as follows:

	RMB
Technology usage fee paid to Japan Kansai	7,222,000
Purchase of raw materials from Japan Kansai and NKM	11,378,000
Sale of container coatings and marine coatings to NKM	7,431,000
Sale of container coatings and marine coatings to COSCO Group	25,957,000
Commission paid to NKM for business referral	98,000
Commission paid to the COSCO Group for business referral	2,588,000

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

#### 4. 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) Group Limited 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) Group Limited and the Company will procure that the COSCO Insurance Brokers Continuing Connected Transactions 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/ HK\$28,837,000	US\$4,252,000/ HK\$33,166,000	US\$4,890,000/ HK\$38,142,000

The aggregate amount of COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2006 was US\$4,464,000.

In order to comply with the Listing Rules, the Company, HK COSCO Insurance Brokers, Shenzhen COSCO Insurance Brokers Limited ("SZ COSCO Insurance Brokers") and COSCO (Hong Kong) Group Limited had entered into a conditional master agreement on 10th November 2006 ("COSCO Insurance Master Agreement"). Pursuant to the COSCO Insurance Master Agreement, COSCO (Hong Kong) Group Limited will procure COSCO Group to comply with the provisions of COSCO Insurance Master Agreement and the Group will provide marine and general insurance brokerage services ("Brokerage Services") to COSCO Group for three financial years ending 31st December 2009 on normal commercial terms and on terms no less favourable than terms available to or from independent third parties as far as the interests of the Company and the Shareholders as a whole are concerned. The Company undertakes for a term of three years that aggregate amount of the Brokerage Services for each of the financial years ending



31st December 2007, 2008 and 2009 will not exceed US\$5,740,000 (approximately HK\$44,772,000), US\$6,320,000 (approximately HK\$49,296,000) and US\$6,960,000 (approximately HK\$54,288,000) respectively (collectively called the "2007–2009 Insurance Cap Amounts"). The COSCO Insurance Master Agreement and the 2007–2009 Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 21st December 2006.

## 5. Tenancy Agreements relating to 47th Floor and Unit 4802 of COSCO Tower and supplemental agreement of 47th Floor 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) Group Limited 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) Group Limited.

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 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 (the "1st 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 "1st 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 (the "2nd 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 "2nd Tenancy Cap Amounts").

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 47th floor of COSCO Tower, Grand Millennium Plaza, Hong Kong by excluding Unit 4705 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.

The 1st and 2nd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2006 amounted to HK\$1,990,000 and HK\$4,818,000 respectively.

The Independent Non-executive Directors reviewed 1) the Ship Trading Continuing Connected Transactions; 2) the Yuantong Continuing Connected Transactions; 3) the Kansai Continuing Connected Transactions; 4) the COSCO Insurance Brokers Continuing Connected Transactions; and 5) the 1st and 2nd Tenancy Continuing Connected Transactions (collectively called "the Company's Continuing Connected Transactions") and were of the opinion that the Company's Continuing Connected Transactions for the financial year ended 31st December 2006 had been entered into:

- (i) in the ordinary and usual course of business of the Company and its subsidiaries;
- (ii) either on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company was instructed to perform specific procedures on the Company's Continuing Connected Transactions and confirmed that the Company's Continuing Connected Transactions:

- (a) had received the approval of the Board;
- (b) were in accordance with the pricing policies of the Company and its subsidiaries;
- (c) had been entered into in accordance with the relevant agreements governing them; and
- (d) had not exceeded the Ship Trading Cap Amounts, the YT Revised Cap Amounts, Kansai Cap Amounts, the Insurance Cap Amounts and the 1st and 2nd Tenancy Cap Amounts for the financial year ended 31st December 2006.

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

On 4th April 2005, Shenyang COSCO Yihe Property Development Co., Ltd. ("Shenyang COSCO Yihe") as Borrower, a 51% owned subsidiary of the Company, entered into 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 aforesaid 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. 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.

The Loan Facility was fully repaid in 2006.

## 7. Acquisition of SORED

The Company, through its then wholly-owned subsidiary, Dynamic Class Limited ("Dynamic Class"), entered into the Share Transfer Agreement on 22nd August 2006 with COSCO, ultimate holding company of the Company and Tianjin Ocean Shipping Company ("COSCO Tianjin"), a wholly-owned subsidiary of COSCO relating to the acquisitions of 20% and 4% equity interest in Sino Ocean Real Estate Development Co., Ltd. ("SORED") by Dynamic Class from COSCO and COSCO Tianjin respectively for a cash consideration of RMB329,400,000 (equivalent to approximately HK\$321,066,180) and RMB65,880,000 (equivalent to approximately HK\$64,213,236) respectively. The above considerations for the acquisitions have been arrived at after arm's length negotiations between the parties involved on the basis of a premium of approximately 10.3% over the net asset value ("NAV") and a discount of approximately 17.4% on the NAV adjusted for surplus of

approximately RMB500,000,000 on the valuation by the independent valuer of the property portfolio of SORED as at 30th June 2006. The acquisition was approved by the independent Shareholders on 19th October 2006.

#### 8. Disposal of COSCO Construction

On 5th February 2007, COSCO (B.V.I.) Holdings Limited ("COSCO BVI"), a wholly-owned subsidiary of the Company, as vendor entered into a conditional sale and purchase agreement ("COSCO Construction S&P Agreement") with COSCO (H.K.) Property Development Limited ("COSCO HK Property"), a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited, as purchaser in respect of the disposal of the entire issued share capital of COSCO International Construction Limited ("COSCO Construction") and the Shareholder's Loan (as defined in the announcement of the Company dated 5th February 2007) to COSCO HK Property at the total consideration of HK\$2.00. The disposal was approved by the independent Shareholders on 15th March 2007.

### 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) Group Limited 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; and
- (ii) it shall be more than 50% beneficially owned by COSCO.

The aforesaid facility was terminated on 15th September 2006.

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) Group Limited 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.

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The aforesaid facility expired on 9th September 2006.

3. An unsecured loan and credit facility of HK\$100,000,000 to finance the general working capital and corporate funding requirement of the Company was granted by Mizuho Corporate Bank, Ltd, Hong Kong Branch to the Company on 22nd December 2006. The unsecured loan and credit facility will be repayable on or before 22nd December 2007. The loan is guaranteed unconditionally and irrevocably by COSCO (Hong Kong) Group Limited 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; and
  - (ii) it shall be more than 50% beneficially owned by COSCO.

## SHARE OPTIONS

The following is a summary of the Company's share option scheme approved and adopted by the shareholders of the Company on 17th May 2002 and with amendment approved by shareholders of the Company at the special general meeting on 5th May 2005 (the "Share Option Scheme") 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 2006:

The number of share options available for issue under the Share Option Scheme is 139,244,129 shares representing 9.60% of the issued share capital of the Company at 31st December 2006.

Subsequently, the Board has on 9th March 2007 granted 43,850,000 share options to the participants at an exercisable price of HK\$3.666.

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:
- Share options granted on 26th November 2003 are exercisable at any time from 23rd December 2003 to 22nd December 2008.
- Share options granted on 2nd December 2004 are exercisable at any time from 29th December 2004 to 28th December 2014.
- Share options granted on 10th May 2005 are exercisable at any time from 6th June 2005 to 5th June 2015.
- Share options granted on 9th March 2007 are exercisable from 9th March 2009 to 8th March 2015 on the stipulated proportion at any time namely: (i) no share options shall be exercisable by the grantees within the first two years from 9th March 2007; (ii) up to a maximum of 30% of the share options can be exercised by the grantees from 9th March 2009 onwards; (iii) up to a maximum of 70% of the share options can be exercised by the grantees from 9th March 2010 onwards and (iv) all share options can be exercised by the grantees from 9th March 2011 onwards.
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 except the share options granted on 9th March 2007, details of which was disclosed in item 5 above.
7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid.
- The option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocably declined.
8. The basis of determining the exercise price:
- The exercise price is determined by the Board and shall be the highest of:
- 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;
  - 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
  - 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.

# Directors' Report

Details of the movements of the share options granted under the Share Option Scheme during the year are set out below:

Name of Director	Exercise Price (HK\$)	Outstanding as at 1st January 2006	Changed category during the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2006	Percentage of total issued share capital	Notes
Mr. Wei Jiayu	0.57	1,800,000	-	-	-	-	1,800,000	0.124%	(1),(3),(4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.083%	(2),(3),(4)
Mr. Liu Guoyuan	0.57	1,800,000	-	-	-	-	1,800,000	0.124%	(1),(3),(4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.083%	(2),(3),(4)
Mr. Li Jianhong	0.57	1,800,000	-	-	-	-	1,800,000	0.124%	(1),(3),(4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.083%	(2),(3),(4)
Mr. Liang Yanfeng <sup>(i)</sup>	0.57	-	1,200,000	-	-	-	1,200,000	0.083%	(1),(3),(4)
Mr. Meng Qinghui	0.57	1,200,000	-	-	-	-	1,200,000	0.083%	(1),(3),(4)
	1.37	800,000	-	-	-	-	800,000	0.055%	(2),(3),(4)
Mr. Lin Libing	0.57	1,200,000	-	-	-	-	1,200,000	0.083%	(1),(3),(4)
	1.37	800,000	-	-	-	-	800,000	0.055%	(2),(3),(4)
Mr. Wang Xiaodong <sup>(ii)</sup>	0.57	-	1,200,000	-	(300,000)	-	900,000	0.062%	(1),(3),(4)
	1.37	-	800,000	-	-	-	800,000	0.055%	(2),(3),(4)
Mr. Lin Wenjin <sup>(ii)</sup>	0.57	-	800,000	-	-	-	800,000	0.055%	(1),(3),(4)
	1.37	-	500,000	-	-	-	500,000	0.034%	(2),(3),(4)
<i>Ex-Director<sup>(iii)</sup></i>									
Mr. Zhou Liancheng	0.57	1,800,000	(1,800,000)	-	-	-	-	-	(1),(3),(4)
	1.37	1,200,000	(1,200,000)	-	-	-	-	-	(2),(3),(4)
Mr. Liu Hanbo	0.57	1,800,000	(1,800,000)	-	-	-	-	-	(1),(3),(4)
	1.37	1,200,000	(1,200,000)	-	-	-	-	-	(2),(3),(4)
Mr. He Jiale	0.57	1,800,000	(1,800,000)	-	-	-	-	-	(1),(3),(4)
	1.37	1,200,000	(1,200,000)	-	-	-	-	-	(2),(3),(4)
Mr. Guo Huawei	1.37	800,000	(800,000)	-	-	-	-	-	(2),(3),(4)
Mr. Chen Pisen	0.57	1,200,000	-	-	(1,200,000)	-	-	-	(1),(3),(4)
	1.37	800,000	-	-	(800,000)	-	-	-	(2),(3),(4)
Mr. Zhao Kaiji	0.57	1,200,000	(1,200,000)	-	-	-	-	-	(1),(3),(4)
	1.37	800,000	(800,000)	-	-	-	-	-	(2),(3),(4)
Continuous contract employees of the Company and its subsidiaries	0.57	13,798,000	(700,000)	-	(8,250,000)	-	4,848,000	0.334%	(1),(3)
	1.37	18,700,000	(800,000)	-	(3,750,000)	-	14,150,000	0.976%	(2),(3)
	1.21	2,400,000	-	-	(200,000)	-	2,200,000	0.152%	(3),(5)
Other participants	0.57	24,750,000	4,100,000	-	(12,312,000)	-	16,538,000	1.140%	(1),(3)
	1.37	23,250,000	4,700,000	-	(5,470,000)	(1,450,000)	21,030,000	1.450%	(2),(3)

(i) Appointed as Executive Director on 25th January 2006. As at 25th January 2006, he had the entitlement of the share options.

(ii) Appointed as Executive Director on 9th August 2006. As at 9th August 2006, he had the entitlement of the share options.

(iii) Movements of the share options in relation to Ex-Directors after their resignations had been reflected in the category of "Other participants".

*Notes:*

- (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 2006, 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 and are exercisable at HK\$1.21 per share at any time between 6th June 2005 and 5th June 2015.
- (6) During the year ended 31st December 2006, the weighted average closing price of the shares when the share options exercised was HK\$2.04.
- (7) 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 2006, no share option has lapsed or been cancelled during the year ended 31st December 2006.
- (8) 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 in 2005 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 annualised 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.



# Directors' Report

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2006, 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 Issuers to be notified to the Company and the Stock Exchange were as follows:

### 1. Long positions in the underlying shares of equity derivatives of the Company

Details are set out in section headed "Share Options" above.

### 2. Long positions in shares of associated corporations

Name of Director	Name of associated corporation	Nature of interest and capacity	Total number of shares held	Percentage of total issued share capital
Mr. Wei Jiafu	COSCO Corporation (Singapore) Limited ("COSCO SGP")	Beneficial owner	1,900,000	0.086%
Mr. Li Jianhong	COSCO SGP	Beneficial owner	1,300,000	0.059%
Mr. Liang Yanfeng	COSCO Pacific Limited ("COSCO Pacific")	Beneficial owner	10,000	0.0004%
Mr. Kwong Che Keung, Gordon	COSCO Pacific	Beneficial owner	250,000	0.011%

### 3. Long positions in underlying shares of equity derivatives of associated corporations

#### (a) Share Options

Name of Director	Name of associated corporation	Exercise price	Outstanding as at 1st January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2006	Percentage of total issued share capital	Exercisable Period	Notes
Mr. Wei Jiafu	COSCO Pacific	HK\$9.54	500,000	-	(100,000)	-	400,000	0.018%	30.10.2003-29.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.045%	03.12.2004-02.12.2014	(2),(3),(4)
	COSCO SGP	SGD0.807	900,000	-	(900,000)	-	-	-	06.04.2006-05.04.2010	(3),(4),(5)
	COSCO SGP	SGD1.23	-	1,100,000	-	-	1,100,000	0.050%	21.02.2007-20.02.2011	(3),(4),(6)

Name of Director	Name of associated corporation	Exercise price	Outstanding as at 1st January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2006	Percentage of total issued share capital	Exercisable Period	Notes
Mr. Liu Guoyuan	COSCO Pacific	HK\$13.75	1,000,000	-	(1,000,000)	-	-	-	29.11.2004-28.11.2014	(2),(3),(4)
Mr. Li Jianhong	COSCO Pacific	HK\$9.54	400,000	-	(100,000)	-	300,000	0.013%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.045%	02.12.2004-01.12.2014	(2),(3),(4)
	COSCO SGP	SGD0.807	600,000	-	(600,000)	-	-	-	06.04.2006-05.04.2010	(3),(4),(5)
	COSCO SGP	SGD1.23	-	700,000	-	-	700,000	0.032%	21.02.2007-20.02.2011	(3),(4),(6)
Mr. Meng Qinghui	COSCO Pacific	HK\$13.75	1,000,000	-	(300,000)	-	700,000	0.031%	29.11.2004-28.11.2014	(2),(3),(4)
Mr. Lin Wenjin*	COSCO Pacific	HK\$13.75	150,000*	-	(50,000)	-	100,000	0.004%	01.12.2004-30.11.2014	(2),(3),(4)

\* Appointed as Executive Director on 9th August 2006. As at 9th August 2006, he had the entitlement of the 150,000 share options.

Notes:

- (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 for ten years from their respective date of grant of the share options.
- (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 grant of the share options.
- (3) These share options represent personal interest held by the relevant participants as beneficial owner.
- (4) For the year ended 31st December 2006, 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 6th April 2005. Adjustment was made as a result of the approval of the sub-division of every 1 ordinary share of SGD0.2 each divided into 2 ordinary shares of SGD0.1 each by shareholders of COSCO SGP at the extraordinary general meeting held on 17th January 2006.
- (6) The share options were granted by COSCO SGP on 21st February 2006.

# Directors' Report

## (b) Share Appreciation Rights

Name of Director	Name of associated corporation	Exercise price	Outstanding as at 1st January 2006	Unit Granted during the year	Unit Exercised during the year	Unit Lapsed during the year	Outstanding as at 31st December 2006	Notes
Mr. Wei Jiafu	China COSCO Holdings	HK\$3.195	900,000	-	-	-	900,000	(1),(3),(4)
	Company Limited ("China COSCO")	HK\$3.588	-	900,000	-	-	900,000	(2),(3),(4)
Mr. Liu Guoyuan	China COSCO	HK\$3.195	600,000	-	-	-	600,000	(1),(3),(4)
Mr. Li Jianhong	China COSCO	HK\$3.195	600,000	-	-	-	600,000	(1),(3),(4)
		HK\$3.588	-	600,000	-	-	600,000	(2),(3),(4)
Mr. Jia Lianjun	China COSCO	HK\$3.195	75,000	-	-	-	75,000	(1),(3),(4)
		HK\$3.588	-	65,000	-	-	65,000	(2),(3),(4)

### Notes:

- These share appreciation rights were granted by China COSCO ("Share Appreciation Rights") 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 share will be issued. The Share Appreciation Rights can be exercised at HK\$3.195 per unit at any time between 16th December 2007 and 15th December 2015.
- These Share Appreciation Rights were granted in units with each unit representing one H share of China COSCO on 5th October 2006 pursuant to the Plan. Under the Plan, no share will be issued. The Share Appreciation Rights can be exercised at HK\$3.588 per unit according to its terms between 5th October 2008 and 4th October 2016.
- 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.
- For the year ended 31st December 2006, 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" as at 31st December 2006, 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 2006, the following persons and entities, other than 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 shares held Long Positions	Percentage of total issued share capital
COSCO	Interest of controlled corporation	Corporate interest	829,360,511	57.18%
COSCO (Hong Kong) Group Limited	Interest of controlled corporation	Corporate interest	829,360,511	57.18%
True Smart International Limited ("True Smart")	Beneficial owner	Beneficial interest	829,360,511	57.18%

*Note:* Since True Smart is a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited 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) Group Limited and in turn the interests of COSCO (Hong Kong) Group Limited are deemed to be the interests of COSCO under the SFO.

Save as disclosed above, as at 31st December 2006, 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 43% of the issued capital of the Company are held by the public.

## PRE-EMPTIVE RIGHTS

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

## AUDITOR

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December 2006.

## CORPORATE GOVERNANCE

Maintaining high standards of corporate governance has always been one of the Company's priorities. This is achieved through an effective, timely disclosure of information by the Board and a pro active investor relations programme.

# Directors' Report

The Board believed that the Company has during the year complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules except that (i) although the independent non-executive directors have not been appointed for any specific terms, they are subject to retirement and eligible for re-election in each annual general meeting in accordance with the Bye-Laws of the Company; and (ii) Mr. Wei Jiafu, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 25th May 2006 due to other business commitments.

The audit committee of the Company (the "Audit Committee") consists of three Independent Non-executive Directors. The Audit Committee is chaired by an Independent Non-executive Director who is a certified public accountant. The duties of Audit Committee include the review of important accounting policies and supervising the Company's financial reporting process; monitoring the performance of both the internal and external auditors; reviewing and examining the effectiveness of the financial reporting procedures and internal controls; ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board. The Audit Committee has discussed the internal controls and financial reporting matters with management of the Company and reviewed the results announcement and the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2006. The Company has received from each of the Independent Non-executive Director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors to be independent.

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

The Company has made specific enquiry of all Directors regarding any non-compliance with the Securities Code during the year ended 31st December 2006, all Directors confirmed that they have fully complied with the required standard set out in the Securities Code during the year.

On behalf of the Board

**LIANG Yanfeng**  
*Managing Director*

Hong Kong, 11th April 2007