



Directors' Report

Directors' Report

The directors of the Company present their report together with the audited financial statements of the Group for the year ended 31st December 2002.

| Principal Activities |

The principal activity of the Company is investment holding. The principal activities of the Group are property investment and development, ship trading & supplying services, building construction and civil engineering, infrastructure investment and high technology business.

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

| Results |

The results of the Group for the year ended 31st December 2002 and the state of affairs of the Company and the Group as at that date are set out on pages 47 to 49.

| Dividend |

The Board does not recommend the payment of a dividend for the year ended 31st December 2002 (2001: nil).

| Share Capital |

Details of the movements in share capital during the year are set out in note 24 to the financial statements.

| Fixed Assets |

Details of the movements in fixed assets during the year are set out in note 10 to the financial statements.

| Borrowings and Interest Capitalised |

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the long-term borrowings are set out in note 26 to the financial statements. Interest and other borrowing costs capitalised by the Group during the year are set out in note 4 to the financial statements.

| Reserves |

Details of the movements in reserves during the year are set out in note 25 to the financial statements.

| Donations |

The donations made by the Group during the year amounted to HK\$2,000 (2001: HK\$72,000).

| Five-year Financial Summary |

A five-year financial summary of the Group is set out on pages 94 and 95.

| Directors |

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

Executive Directors

Mr. Wei Jiafu (*Chairman*)

Mr. Liu Guoyuan (*Vice-Chairman*)

Mr. Liu Hanbo (*Managing Director*) (appointed on 1st January 2002)

Mr. Li Jianhong (appointed on 12th March 2002)

Mr. Zhou Liancheng

Mr. Liang Yanfeng (appointed on 12th March 2002)

Mr. Lu Zhiming (appointed on 12th March 2002)

Mr. Dong Shu Sen

Mr. Chen Pisen (appointed on 15th June 2002)

Mr. Meng Qinghui (appointed on 12th March 2002)

Mr. Kwong Che Keung, Gordon (redesignated as a Non-Executive Director on 13th March 2003)

Mr. Zhang Yongjian (resigned on 15th June 2002)

Non-Executive Director

Mr. Kwong Che Keung, Gordon (redesignated as a Non-Executive Director on 13th March 2003)

Independent Non-Executive Directors

Mr. Chan Cheong Foon, Andrew

Mr. Alexander Reid Hamilton

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

| Directors' Interests in Contracts |

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

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

Name of director	Name of entity which businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of director in the entity
Mr. Wei Jiafu	companies controlled by China Ocean Shipping (Group) Company	Property investment and development	Director
Mr. Liu Guoyuan	COSCO (Hong Kong) Group Limited and its associated companies	Property investment and development	Director
	Soundwill Holdings Limited	Property investment and development	Director
Mr. Liu Hanbo	Soundwill Holdings Limited	Property investment and development	Director
Mr. Li Jianhong	companies controlled by China Ocean Shipping (Group) Company	Property investment and development	Director
Mr. Zhou Liancheng	COSCO (Hong Kong) Group Limited and its associated companies	Property investment and development	Director
Mr. Liang Yanfeng	companies controlled by China Ocean Shipping (Group) Company	Property investment and development	Director
Mr. Lu Zhiming	COSCO (Hong Kong) Group Limited and its associated companies	Property investment and development	Director

Name of director	Name of entity which businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of director in the entity
Mr. Chen Pisen	Companies controlled by COSCO (Hong Kong) Group Limited	Property investment and development	Director
Mr. Meng Qinghui	Companies controlled by COSCO (Hong Kong) Group Limited	Property investment and development	Director
Mr. Kwong Che Keung, Gordon	Vision Century Corporation Limited	Property investment and development	Independent Non-Executive Director

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

Connected Transactions

Pursuant to Chapter 14 of the Listing Rules, the following connected transactions of the Company require disclosure in the annual report of the Company. The connected transactions which also constitute significant related party transactions are set out in note 31 to the financial statements.

- On 6th May 2002, a sale and purchase agreement was entered into between COSCO International Trade Limited, a wholly-owned subsidiary of the Company, as purchaser and COSCO (H.K.) Industry & Trade Holdings Limited, a wholly-owned subsidiary of COSCO Hong Kong, as vendor for the sale and purchase of 60% of the issued share capital of COSCO Ship Trading at a consideration of HK\$59,400,000. Completion took place on 1st July 2002 and COSCO Ship Trading then became a 60% owned subsidiary of the Company.
- The Stock Exchange granted to the Company conditional waivers on 29th May 2002 from strict compliance with the Listing Rules to the connected transactions for the provision of agency services entered into between COSCO Ship Trading and the member of COSCO Group in respect of (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new ship-building projects, which were of a regular and continuing nature (the "Transactions"). The Transactions for the period from the date that COSCO Ship Trading became a subsidiary of the Company to 31st December 2002 amounted to HK\$15,311,650.

The independent non-executive directors of the Company reviewed the Transactions and confirmed that

- (a) the Transactions were approved by the independent shareholders of the Company at a special general meeting held on 18th June 2002 and COSCO and its associates abstained from voting;
- (b) the Transactions have been:
 - (i) carried out in the ordinary and usual course of business of the Group;
 - (ii) conducted on normal commercial terms; and
 - (iii) entered into in accordance with the terms of the relevant engagement/commission agreements; and
- (c) the aggregate value of the Transactions for the financial year ended 31st December 2002 did not exceed HK\$52,000,000.

The auditors of the Company reviewed the Transactions and confirmed that:

- (a) the Transactions had received the approval of the Board;
 - (b) the Transactions had been entered into in accordance with the terms of the relevant engagement/commission agreements; and
 - (c) the aggregate value of the Transactions for the period from 1st July 2002 to 31st December 2002 did not exceed HK\$52,000,000.
3. On 24th January 2003, the Group entered into the Share Transfer and Capital Injection Agreement and the Joint Venture Agreement for the acquisition of a 23.4% equity interest in CRED, a 50% owned company of COSCO, from COSCO for a cash consideration of RMB191,750,000 and the participation in the capital injection by the Group for an aggregate amount of RMB26,500,000. Upon completion of the transactions, the Group will hold 20% of the enlarged equity interest in CRED. On the same date, a Sale and Purchase Agreement was signed for the sale of the Group's entire 49% equity interest in Tian Lin, a jointly controlled entity, to a subsidiary of CRED for a cash consideration of RMB62,630,000 and for the repayment by Tian Lin of the outstanding shareholder's loan advanced by the Group of RMB226,760,000. The proposed acquisitions and disposals were approved in the special general meeting of the Company held on 6th March 2003. The transactions are conditional upon the performance of certain precedent conditions which are scheduled to be completed during the second half of the year 2003.

| Specific Performance Obligations on Controlling Shareholder |

Under paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the Company discloses the following loan agreements which contain covenants requiring specific performance obligations of the controlling shareholder:

1. A HK\$1,129,000,000 secured medium term loan facility was granted by a syndicate of financial institutions with HSBC China Services Limited as agent to Century Metro Development Limited ("Century Metro"), a wholly owned subsidiary of the Company, on 30th March 1998 to finance the Private Sector Participation Scheme project at Shum Wan Road, Aberdeen Inland Lot No. 435. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that it will remain the ultimate beneficial owner of at least 51% of the entire issued share capital of Century Metro and SSCE, unless consented by the agent acting on the instruction of majority of the syndicate. The term loan was fully repaid on 4th January 2002.

2. A HK\$780,000,000 secured term loan facility was granted by Bank of China (Hong Kong) Limited to the Company in August 1998 and amended on 9th June 2001 to finance the acquisition of the eight floors of the COSCO Tower. The secured term loan facility is repayable on or before 18th June 2006. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that:
- (i) it will procure that the ultimate holding company will maintain a 51% equity interest, either directly or indirectly, in it and such equity interest remains free from any security interest (save for any of such existing thereon prior to the date of the guarantee);
 - (ii) it will procure that the ultimate holding company will maintain an equity interest, either directly or indirectly, of not less than 35% in the Company and such equity interest remains free from any security interest (save for any of such existing thereon prior to the date of the guarantee);
 - (iii) it will maintain an equity interest, either directly or indirectly, of not less than 35% in COSCO Pacific, a fellow subsidiary of the Company, and such equity interest remains free from any security interest (save for any of such existing thereon prior to the date of the guarantee); and
 - (iv) it will maintain an equity interest, either directly or indirectly, of not less than 35% in the Company and such equity interest being the single largest shareholding in the Company.

Share Options

Pursuant to the Company's share option scheme (the "Old Scheme") approved by the shareholders on 17th January 1992, the Board may, at their discretion, grant options to the executive directors and employees of the Group to subscribe for shares in the Company. The Old Scheme was valid and effective for a period of 10 years which commenced on 17th January 1992 and expired on 16th January 2002.

The following table discloses movements in the Company's share options for the year ended 31st December 2002:

	Number of share options				Outstanding as at 31st December 2002
	Outstanding as at 1st January 2002	Granted during the year	Exercised during the year	Lapsed during the year	
Directors					
Mr. Kwong Che Keung, Gordon (Note 1)	4,500,000	–	–	(4,500,000)	–
Mr. Dong Shu Sen (Note 1)	3,500,000	–	–	(3,500,000)	–
Ex-Director					
Mr. Zhang Yongjian (Note 1 & 2)	1,000,000	–	–	(1,000,000)	–
Employees	5,620,000	–	–	(5,620,000)	–

Notes:

1. These share options were granted to the executive directors of the Company and employees of the Group on 20th March 2000 and were exercisable at HK\$0.656 per share at any time between 20th March 2001 and 16th January 2002. These share options lapsed on 16th January 2002.

2. *Mr. Zhang Yongjian resigned as a director of the Company on 15th June 2002.*

Subsequent to the expiry of the Old Scheme on 16th January 2002, the share option scheme 2002 (the "Scheme") was approved and adopted by the shareholders of the Company on 17th May 2002.

The following is a summary of the Scheme disclosed in accordance with the Listing Rules:

1. Purpose of the Scheme:

- (a) The purpose of the Scheme is for the Group to attract, retain and motivate talented participants to strive for future developments and expansion of the Group.
- (b) The 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 Scheme:

- a. any director of the Group;
- b. any director of the substantial shareholder of the Company;
- c. any employee of the Group;
- d. any employee of the Company's substantial shareholders or any employee of such substantial shareholder's subsidiaries or associated companies;
- e. any business associate of the Group; and
- f. any business associate of any substantial shareholder of each member of the Group.

3. Total number of shares available for issue under the Scheme and percentage of issued share capital as at 31st December 2002:

The number of shares available for issue under the Scheme is 139,438,929 shares representing 10% of the issued share capital of the Company as at 31st December 2002.

4. Maximum entitlement of each participant under the 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 share options granted to each participant (including both exercised, cancelled and outstanding share options) in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue. Any grant of further share options above this limit shall be subject to certain requirements as stipulated in the rules of the Scheme.

5. The period within which the Scheme must be taken up under a share option:

Not applicable.

6. The minimum period for which a share option must be held before it can be exercised:

There is and shall be no minimum period for which a share option must be held before it can be exercised.

7. The amount payable on application or acceptance of the share option and the period within which payments or calls must or may be made or loans for such purposes must be paid:

The share 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 irrevocably declined.

8. The basis of determining the exercise price:

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

- (a) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the offer date;
- (b) the average closing price of shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date; and
- (c) the nominal value of a share of the Company.

9. The remaining life of the scheme:

The Scheme will expire on 16th May 2012.

No share options were granted under the Scheme during the year.

Directors' Interests in Securities

As at 31st December 2002, the interests of the directors and chief executives and their associates in the shares of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

1. Directors' interests in shares

Name of director	Number of shares held Personal interests
Mr. Dong Shu Sen	1,500,000
Mr. Chen Pisen	500,000

2. Directors' interests in shares of associated corporations

Name of associated corporation	Name of director	Number of shares held Personal interests (Note)
COSCO Pacific	Mr. Kwong Che Keung, Gordon	250,000

Note:

Mr. Kwong Che Keung, Gordon fully exercised the share options granted by COSCO Pacific to subscribe for 250,000 shares at HK\$3.584 each on 25th February 2002.

3. Directors' interests in share options granted by associated corporations

		Number of share options				Outstanding
Name of associated corporation	Director	Outstanding as at 1st January 2002	Granted during the year	Exercised during the year	Lapsed during the year	as at 31st December 2002
COSCO Pacific	Mr. Li Jianhong	250,000 (Note 1)	–	–	(250,000)	–
COSCO Pacific	Mr. Kwong Che Keung, Gordon	250,000 (Note 1)	–	(250,000)	–	–
COSCO Pacific	Mr. Lu Zhiming	250,000 (Note 1)	–	–	(250,000)	–
		1,500,000 (Note 2)	–	–	–	1,500,000

Notes:

1. The share options were granted by COSCO Pacific on 6th April 2000 and were exercisable at HK\$3.584 per share at any time between 6th April 2001 and 5th April 2002. These share options were lapsed on 6th April 2002.
2. The share options were granted by COSCO Pacific on 1st July 1996 and are exercisable at HK\$5.53 per share at any time between 1st July 1996 and 30th June 2006.

Save as disclosed above and in the section headed "Share Options", as at 31st December 2002, none of the directors and the chief executives of the Company had any interest in the share capital of the Company or any associated corporations (within the meaning of the SDI ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 or part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules on the Stock Exchange or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

Management Contracts

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

Substantial Shareholders

As at 31st December 2002, the interests of those persons in the share capital of the Company as recorded in the register kept under Section 16(1) of the SDI Ordinance were as follows:

Name of Shareholder	Number of shares held
COSCO	829,360,511
COSCO Hong Kong *	829,360,511
True Smart International Limited *	527,060,904
COSCO Investments Limited *	302,299,607

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

Corporate Governance

The Company has complied throughout the year ended 31st December 2002 with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules.

In addition, the Company has established an Audit Committee for review and supervision of the Group's financial reporting process and internal controls in order to protect the interests of the shareholders of the Company. The Audit Committee held two meetings during the year.

Purchase, Sale or Redemption of Listed Shares

During the year ended 31st December 2002, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares.

Pre-emptive Rights

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

Auditors

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

On behalf of the Board

LIU Hanbo

Managing Director

Hong Kong, 25th March 2003