

Report of the Directors

The Board has pleasure in presenting the annual report together with the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 34, 35 and 36 to the financial statements, respectively.

An analysis of the Group's performance for the Current Year by business and geographical segments is set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 61.

The Board had declared an interim dividend of HK7 cents per share, totalling HK\$143,933,000, which was paid on 16 October 2002.

The Board recommends the payment of a final dividend of HK 10 cents per share and a special dividend of HK 5 cents per share, totalling HK\$308,488,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 12 to the financial statements.

INVESTMENT PROPERTY

Details of the investment property of the Group are set out on page 122.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2002, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$581,474,000 (2001: HK\$281,812,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 38.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Current Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The directors in the Current Year were:

Executive Directors:

Dr. Fu Yuning (*Chairman*)

Mr. Zhou Qifang

Mr. Zhao Huxiang (*Vice Chairman*)

Mr. Li Yi (*Managing Director*)

Mr. To Wing Sing

Mr. Li Yinquan

Mr. Meng Xi

Mr. Yu Liming

Independent non-executive Directors:

Mr. Tsang Kam Lan

Mr. Kut Ying Hay

Mr. Koo Kou Hwa

Mr. Lee Yip Wah Peter

In accordance with Articles 91 and 97 of the Company's Articles of Association, Dr. Fu Yuning, Mr. To Wing Sing, Mr. Tsang Kam Lan and Mr. Kut Ying Hay will retire from the Board by rotation at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

*Report of the Directors***DIRECTORS' SERVICE CONTRACTS**

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable 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, its holding companies, its fellow subsidiaries or its subsidiaries 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 Current Year or at any time during the Current Year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, the interests of the directors in the shares of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Name of Director	Nature of interest	Number of shares in the Company	Number of shares in the Company subject to share options granted*
Dr. Fu Yuning	Personal interest	–	2,950,000
Mr. Zhou Qifang	Personal interest	–	1,050,000
Mr. Zhao Huxiang	Personal interest	–	2,120,000
Mr. Li Yi	Personal interest	–	1,200,000
Mr. To Wing Sing	Personal interest	–	800,000
Mr. Li Yinquan	Personal interest	–	700,000
Mr. Meng Xi	Personal interest	–	700,000
Mr. Yu Liming	Personal interest	–	1,050,000
Mr. Lee Yip Wah Peter	Personal interest	60,000	–
		60,000	10,570,000

* Included share options granted under the Terminated Scheme and Existing Scheme.

DIRECTORS' INTERESTS IN SECURITIES – Continued

Save as disclosed above, as at 31 December 2002, none of the directors (including their spouse and children under 18 years age) had any interests in, or any rights to subscribe for, any securities of the Company or any of its associated corporations, within the meaning of the SDI Ordinance, as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company.

Apart from the share option schemes disclosed below, at no time during the Current Year was any of the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEMES

(a) Terminated Scheme

Under the share option scheme of the Company adopted on 26 June 1992 (the "Terminated Scheme"), the Directors of the Company may, at their discretion, grant options to any director or employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares or not less than 80% of the average of the closing prices of the shares of the Company for the five trading days immediately preceding the date of offer of the options. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company at the time of granting of the options. Under the terms of the Terminated Scheme, a director or employee may only exercise share options granted after he or she has completed two years service with the Group.

The Terminated Scheme was terminated on 20 December 2001 ("Termination Date") without prejudice to the rights and benefits of and attached to those options granted thereunder which were outstanding as at that date. No further grants were made after the Termination Date. Following the termination, the provisions of the Terminated Scheme remain in force and effect to the extent necessary to give effect to the exercise of any option granted prior to the Termination Date.

The share options granted are not recognised in the financial statements until they are exercised. As at 31 December 2002, the total number of shares which might be issued pursuant to exercise of options granted under the Terminated Scheme was 8,386,000 shares, which represented approximately 0.4% of the total issued share capital of the Company as at 31 December 2002.

Report of the Directors

SHARE OPTION SCHEMES – Continued

(a) Terminated Scheme – Continued

Details of the share options outstanding at 31 December 2002 which have been granted under the Terminated Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2002	Options exercised during the year Note	Options cancelled during the year	Options held at 31 December 2002
Director						
Dr. Fu Yuning	1 March 2000	5.054	2,000,000	250,000	–	1,750,000
Mr. Zhou Qifang	19 September 2000	5.615	350,000	–	–	350,000
Mr. Zhao Huxiang	1 March 2000	5.054	1,470,000	250,000	–	1,220,000
Mr. To Wing Sing	1 March 2000	5.054	320,000	320,000	–	–
Mr. Yu Liming	1 March 2000	5.054	350,000	–	–	350,000
			4,490,000	820,000	–	3,670,000
Continuous contract employees						
(I)	1 March 2000	5.054	4,269,000	1,955,000	–	2,314,000
(II)	19 September 2000	5.615	1,002,000	–	–	1,002,000
(III)	24 May 2001	5.630	738,000	38,000	–	700,000
(IV)	6 July 2001	5.610	700,000	–	–	700,000
			6,709,000	1,993,000	–	4,716,000
			11,199,000	2,813,000	–	8,386,000

The above outstanding share options may be exercised at any time during a period of 6 years commencing on the date of grant of the options.

Note: The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK\$6.10.

SHARE OPTION SCHEMES – Continued**(b) Existing Scheme**

Under the share option scheme (the “Existing Scheme”) approved by the shareholders of the Company at an Extraordinary General Meeting of the Company held on 20 December 2001 (“Adoption Date”), the Board may, at their discretion, invite any director or employee of the Company or any of its subsidiaries or associates (“Eligible Person”), to take up options to subscribe for fully paid ordinary shares (“Shares”) in the Company subject to the terms and conditions stipulated therein.

In view of the on-going support given to the Company by the CMHK Group (representing China Merchants Holdings (Hong Kong) Company Limited, an intermediate holding company of the Company, together with its subsidiaries (excluding the Group) and associated companies), the Board considered that it is in the best interest of the Company to extend the Existing Scheme to directors and employees of members of the CMHK Group. A resolution was passed at the Extraordinary General Meeting held on 27 August 2002 to amend the Existing Scheme to effect such extension of Eligible Persons.

Details of the Existing Scheme are as follows:

(i) Purpose

The purpose of the Existing Scheme is to provide the Company with a flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to Eligible Persons.

(ii) Qualifying participants

Any Eligible Person.

*(iii) Maximum number of shares**(1) 10% limit*

Subject to (iii) (2) and (iii) (3) below, the total number of Shares which may be issued upon exercise of all options to be granted under the Existing Scheme and any options granted under the Terminated Scheme must not in aggregate exceed 10% of the Shares in issue as at the Adoption Date. Options lapsed in accordance with the terms of the Existing Scheme and the Terminated Scheme will not be counted for the purpose of calculating the 10% limit.

SHARE OPTION SCHEMES – Continued**(b) Existing Scheme – Continued***(iii) Maximum number of shares – Continued*

(2) Refreshing the 10% limit

Subject to (iii) (5) below if applicable, the Board may, with the approval of the shareholders in general meeting “refresh” the 10% limit under (iii) (1) above (and may further “refresh” such limit once refreshed in accordance with the provisions of this rule), provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Existing Scheme and options granted under the Terminated Scheme is below the limit as “refresh” shall not exceed 10% of the Shares in issue at the date on which the shareholders approve the “refreshed” limit. Options previously granted under the Existing Scheme and the Terminated Scheme (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the relevant schemes) will not be counted for the purpose of calculating the limit as “refreshed”.

(3) Exceeding the 10% limit

The Board may grant option to any Eligible Person or Eligible Persons specifically identified by them which would cause the limit under (iii) (1) above (including, for the avoidance of doubt, any such limit as “refreshed” under (iii) (2) above) to be exceeded, but only with the approval of the shareholders of the Company in general meeting, and subject always to (iii) (5) below.

(4) Individual limit

(a) Subject to (iii) 4 (b) below (and subject always to (iii) (5) below), the Board shall not grant any option (the “Relevant Options”) to any Eligible Person which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him in the 12 month period up to and including the offer date of the relevant options, exceed 1% of the Shares in issue at such date.

(b) Notwithstanding (iii) 4 (a) above, the Board may grant options to any Eligible Person or Eligible Persons causing the limit under (iii) 4 (a) above in relation to such Eligible Person to be exceeded, but only with the approval of the shareholders of the Company in general meeting (with such Eligible Person and his associates abstaining from voting), and subject always to (iii) (5) below.

SHARE OPTION SCHEMES – Continued**(b) Existing Scheme – Continued***(iii) Maximum number of shares – Continued**(5) 30% maximum limit*

The limit on the number of Shares which may be issued upon the exercise of all outstanding options granted and not yet exercised under the Existing Scheme and the Terminated Scheme to Eligible Persons must not exceed 30% of the Shares in issue from time to time.

(iv) Option period

Subject to certain provisions, an option under the Existing Scheme which is vested and has not lapsed may be exercised at any time up to the expiry of 10 years (or less, as the case may be) from the date of grant of the option. The exercise of the options may be subject to any conditions imposed by the Board at the time of offer. The rules of the Existing Scheme do not contain specific provisions for the minimum period which an option must be held before exercise or performance targets applicable to the options.

(v) Payment on acceptance of option offer

Option-holders are not required to pay for the grant of an option.

(vi) Exercise price

The subscription price for the shares in respect of which options are granted shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date and the nominal value of the shares.

(vii) The remaining life of the Existing Scheme

The life of the Existing Scheme is 10 years commencing on the Adoption Date and will end on 19 December 2011.

(viii) Shares available for issue under the Existing Scheme

As at 31 December 2002, the total number of shares available for issue under the Existing Scheme was 29,900,000 shares, which represented approximately 1.5% of the total issued share capital of the Company.

Report of the Directors

SHARE OPTION SCHEMES – Continued

(b) Existing Scheme – Continued

(viii) Shares available for issue under the Existing Scheme – Continued

Details of the share options outstanding at 31 December 2002 which have been granted under the Existing Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2002	Options granted during the year ¹	Options exercised during the year ²	Options held at 31 December 2002
Director						
Dr. Fu Yuning	11 October 2002	4.985	–	1,200,000	–	1,200,000
Mr. Zhou Qifang	11 October 2002	4.985	–	700,000	–	700,000
Mr. Zhao Huxiang	11 October 2002	4.985	–	900,000	–	900,000
Mr. Li Yi	11 October 2002	4.985	–	1,200,000	–	1,200,000
Mr. To Wing Sing	11 October 2002	4.985	–	800,000	–	800,000
Mr. Li Yinquan	11 October 2002	4.985	–	700,000	–	700,000
Mr. Meng Xi	11 October 2002	4.985	–	700,000	–	700,000
Mr. Yu Liming	11 October 2002	4.985	–	700,000	–	700,000
			–	6,900,000	–	6,900,000
Continuous contract employees						
(I) The Group	11 October 2002	4.985	–	13,200,000	–	13,200,000
(II) CMHK Group	11 October 2002	4.985	–	10,100,000	300,000	9,800,000
			–	23,300,000	300,000	23,000,000
			–	30,200,000	300,000	29,900,000

The above outstanding share options may be exercised at any time during a period of 10 years commencing from the date of grant of the options.

SHARE OPTION SCHEMES – Continued**(b) Existing Scheme – Continued***(viii) Shares available for issue under the Existing Scheme – Continued*

Notes:

1. The closing market price per share at the date preceding the date on which the share options were granted was HK\$4.825.
2. The closing market price per share immediately before the date of which the share options were exercised was HK\$5.50.
3. Value of options

The value of the options that were granted under the Existing Scheme as of 11 October 2002 is reasonably stated by the amount of HK\$2.32. The valuation of each option is based on the closing price of the shares of the Company as at the date of grant of the option or the following trading day if the date of grant falls on either a Saturday or a Sunday.

The methodology applied in valuing each option is the Black-Scholes option pricing model. As the Black-Scholes option pricing model applies to stocks that do not pay dividends, a popular approach was suggested to approximate the option value of dividend-paying stock, that is adjusting the stock price downward by the present value of any dividends that are to be paid before the exercise of option.

In the calculation of the value of an option to be granted under the Existing Scheme, we have made the following assumptions:

- (a) the Eligible Person has the right to exercise the option at any time within the 10-year period from the date of grant to the expiration date of the option (“Option Period”);
- (b) in the event the option is not exercised within the Option Period, the Eligible Person will hold the option until the expiration date of the option;
- (c) if the option is exercised within the Option Period and before the last day of the Option Period, the exercise will happen on the day immediately before any of the ex-dividend dates;
- (d) dividends will be distributed to the Shareholders twice a year. The ex-dividend dates will be on 31 May and 15 October, or the following trading day if 31 May or 15 October falls on either a Saturday or a Sunday;
- (e) the growth rate of the future dividends of the Company will follow the growth rate of earnings per share that are assumed in the Bloomberg Professional service; and
- (f) number of trading days per year is 250.

Given the above assumptions and the inherent limitations of the Black-Scholes option pricing model, shareholders and other investors are hereby warned of the subjectivity and uncertainty of the aforementioned values of the options.

*Report of the Directors***SUBSTANTIAL SHAREHOLDERS**

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of ordinary shares of the Company beneficially held	Percentage of total issued share capital
Cheer Far Development Limited	510,513,584	24.82%
China Merchants Holdings (Hong Kong) Company Limited (<i>note 1</i>)	1,053,333,584	51.22%
China Merchants Steam Navigation Company, Limited (<i>note 2</i>)	1,053,333,584	51.22%
China Merchants Group Limited (<i>note 3</i>)	1,099,493,351	53.46%

Notes:

- The 1,053,333,584 shares beneficially held by China Merchants Holdings (Hong Kong) Company Limited ("CMHK") represent the aggregate of 510,513,584 shares held by Cheer Far Development Limited ("Cheer Far"), 149,286,410 shares held by China Merchants Union (BVI) Limited ("CMU"), 173,533,590 shares held by Blue Sky International Investments Limited ("Blue Sky"), 120,000,000 shares held by Shining Hope Limited ("Shining Hope"), and 100,000,000 shares held by Bluewater International Investments Limited ("Bluewater"). Cheer Far, CMU, Blue Sky, Shining Hope and Bluewater are wholly-owned subsidiaries of CMHK. By virtue of the SDI Ordinance, CMHK was deemed to be interested in 1,053,333,584 shares of the Company.
- CMHK is the wholly-owned subsidiary of China Merchants Steam Navigation Company, Limited ("CMSN"). By virtue of the SDI Ordinance, CMSN was deemed to be interested in 1,053,333,584 shares of the Company.
- The 1,099,493,351 shares beneficially held by China Merchants Group Limited ("CMG") represent the aggregate of 1,053,333,584 shares beneficially held by CMSN and 46,159,767 shares held by Orienture Holdings Company Limited ("Orienture"). CMSN and Orienture are both wholly-owned subsidiaries of CMG. By virtue of the SDI Ordinance, CMG was deemed to be interested in 1,099,493,351 shares of the Company.

CONNECTED TRANSACTIONS

During the year ended 31 December 2002, the Group entered into the following transactions, which constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14 of the Listing Rules:

- (a) I.C.H. Industrial & Commercial Holdings ApS ("ICH") is a substantial shareholder of a non wholly-owned subsidiary of the Group and the following transactions were entered into with ICH during the year:

Name of party	Nature of transaction	Income/ (expenses)	
		Note	HK\$'000
ICH and its fellow subsidiaries	Royalties charged to the Group	(i)	(28,915)
	Sales of paints by the Group	(i)	72,000
ICH	Interest charged to the Group	(ii)	(691)

(i) Royalties and sales were charged at negotiated prices by reference to market rates.

(ii) Interest was charged at 0.5% above the Hong Kong Interbank Offer Rate per annum on the principal amounts of the respective loans.

- (b) Throughout the year, the Group had several bank loan facilities which were secured by corporate guarantees and an undertaking by CMG, the ultimate holding company. Pursuant to the undertaking from CMG, it has agreed to maintain directly or indirectly more than 35% of the issued voting share capital or remain as the largest single shareholder of the Company. At 31 December 2002, there were bank loans of HK\$89,211,000 which were covered by the undertaking of CMG.

- (c) On 4 April 2002, the Group entered into two Tenancy Agreements for a term of two years commencing on 1 February 2002 with CMHK and Hong Kong Ming Wah Shipping Co. Ltd. ("Ming Wah") respectively, in respect of the lease of the 37/F, 39/F and 40/F, China Merchants Tower at monthly rental of HK\$1,338,168 and HK\$465,030, respectively. The Group also entered into a tenancy agreement for a term of two years commencing on 1 March 2002 with Hoi Tung Marine Machinery Suppliers Limited ("Hoi Tung") in respect of the lease of a portion of 38/F, China Merchants Tower at monthly rental of HK\$229,536.

By virtue of the fact that the Company is a 53.46% indirectly owned subsidiary of CMG which in turn owns 100% of CMHK, Ming Wah and Hoi Tung, the tenancy agreements constitute connected transactions for the Company. Details of the transactions are contained in a press announcement of the Company dated 8 April 2002.

Report of the Directors

CONNECTED TRANSACTIONS – Continued

- (d) On 16 July 2002, the Group entered into the Shareholders' Agreement and Articles of Association with Achieve Ridge Holdings Limited ("ARH") in relation to the establishment of Shekou Container Terminals (Phase II) Company Limited ("SCT2"), a wholly foreign-owned enterprise company in the PRC. ARH is a joint venture company incorporated in the British Virgin Islands and is owned as to 39.45% by MTL Shekou Holdings Limited ("MTL Shekou"), as to 40.82% by P&O Overseas Holdings Limited and as to 19.73% by Swire Pacific Limited.

The total investment of SCT2 is RMB1,738,505,000 (approximately HK\$1,640,099,000). The registered capital of SCT2 is RMB608,475,000 (approximately HK\$574,033,000) and is to be contributed by the Group and ARH in 2003 according to their equity interest of 51% and 49% respectively.

SCT2 is to develop and operate a container terminal at Shekou Industrial Zone, Shenzhen, the PRC. SCT2 will, upon its establishment in 2003, acquire from China Merchants Shekou Industrial Zone Company Limited ("SIZ") for a consideration of HK\$500 million in cash and a separate amount of RMB17.5 million (approximately HK\$16.5 million) in cash the land use rights in relation to the land located at Jetty Three, Shekou Industrial Zone, Shenzhen over which the two berths and other facilities of SCT2 are expected to be built.

In addition, pursuant to the SCT (Overseas) Further Supplemental Shareholders' Agreement entered into between the Group, SIZ, MTL Shekou, P&O Australia Ports Pty. Limited, Swire Pacific Limited and SCT (Overseas) Limited, SCT2 will acquire from the Group the preliminary studies and advanced construction works for the development of the berths.

To the extent that such works are not acquired by SCT2, each of MTL Shekou, P&O Australia Ports Pty. Limited and Swire Pacific Limited has agreed to indemnify the Group against, inter alia, 49% of the value of the works. As at 31 December 2002, the preliminary studies and advanced construction works incurred by the Group amounted to HK\$196,186,000.

The Company is a 53.46% indirectly-owned subsidiary of CMH. SIZ is an indirect wholly-owned subsidiary of CMG. ARH is an associate of MTL Shekou as it is approximately 39% owned by MTL Shekou, which is a wholly-owned subsidiary of Modern Terminals Limited, a substantial shareholder of a subsidiary of the Company, MTL Chiwan Holdings Limited. Accordingly, SIZ, ARH and MTL Shekou are connected persons of the Company.

Details of the above transactions are contained in a circular of the Company dated 5 August 2002. The above transactions were approved by the shareholders of the Company on 27 August 2002.

CONNECTED TRANSACTIONS – Continued

- (e) On 16 July 2002, the Company entered into the Silverflow Sale and Purchase Agreement with China Merchants Development Company Limited (“CMD”) and International China Merchants Investments Limited (“ICMI”) for the purchase of the entire issued share capital of Silverflow Company Limited (“Silverflow”) and all outstanding shareholder’s loans advanced by CMD to Silverflow for a cash consideration of HK\$3,735,000.

Silverflow holds a 0.496% interest in China Nanshan Development (Group) Incorporation which is mainly engaged in port operation, warehousing and transportation, petroleum services and property development in the PRC.

By virtue of the fact that each of CMD and ICMI is an indirect wholly-owned subsidiary of CMG, accordingly, the transaction constitutes a connected party transaction for the Company. Details of the transaction are contained in a press announcement of the Company dated 16 July 2002.

- (f) On 30 September 2002, the Company entered into the Shareholder’s Agreement with Shenzhen Chiwan Wharf Holdings Limited (“SCWH”) whereby the Company and SCWH will each have a 50% interest in Media Port Investments Ltd. (“Media Port”). Gang Hang International Company Limited, a joint venture in which SCWH and the Company hold directly or indirectly a 51% and 49% interest respectively, will then transfer its interest in Berth No. 8 at Mawan Port, Mawan, Shenzhen at a cost of RMB99,508,000 to the JV Companies (as defined below).

The Company has also entered into the Co-operation Agreement with Shenzhen Nanyou (Group) Company Limited (“Nanyou”). Pursuant to the Co-operation Agreement, Media Port and Nanyou will hold equity interests of 60% and 40% respectively in the sino-foreign equity joint venture companies to be established (“JV Companies”) for the development of Berths No. 0, 5, 6, 7 and 8 and a land site with an area of 160,000 square metres located at Mawan Port in Mawan, Shenzhen.

Nanyou shall transfer certain assets estimated to be valued at RMB655 million to the JV Companies partly by way of sale at RMB415 million and partly by way of contribution to registered capital at RMB240 million.

Media Port will then advance loans of up to RMB480 million to Nanyou (“Nanyou Loans”) comprising three equal instalments of RMB100 million each within 45 days, 90 days and 360 days from the date of the Co-operation Agreement, and an additional loan of not more than RMB180 million in aggregate. The RMB180 million loan will be given to finance the shareholder’s loans to be advanced by Nanyou to the JV Companies after the JV Companies are established.

Report of the Directors

CONNECTED TRANSACTIONS – Continued

(f) – Continued

As at 31 December 2002, a loan of RMB200 million was made to Nanyou, of these RMB100 million was attributable to the Group. Shenzhen Investment Management Company Limited, the holding company of Nanyou, has provided a guarantee in full in RMB in relation to the Nanyou Loans.

The total potential investment of Media Port in the JV Companies (including the Nanyou Loans) is RMB1,827 million.

SCWH is a connected person of the Company as it is indirectly a 16.7% substantial shareholder of Hidoney Developments Limited (“Hidoney”), an indirect subsidiary of the Company. The transactions constitute connected party transactions for the Company. Details of the above transactions are contained in a circular of the Company dated 18 October 2002. The Company has obtained a conditional waiver from the requirement to obtain shareholders’ approval in a general meeting from the Stock Exchange on the condition, among other things, that CMG, the ultimate holding company which holds approximately 53.46% of the issued shares of the Company, will issue a written approval of the above mentioned transactions.

(g) Details of other disclosable connected transactions for the year, which also constitute related party transactions, are included in note 33(a), (b) and (c) to the financial statements.

The independent non-executive Directors have reviewed the connected transactions set out in paragraph (a) of this section and the related party transactions set out in note 33(a), (b) and (c) to the financial statements, in their opinion, these transactions were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms;
- (iii) in accordance with the terms of the agreement governing each such transactions or (where there is no such agreement) on terms no less favourable than terms available from/to independent third parties;
- (iv) fair and reasonable so far as the shareholders are concerned; and
- (v) the total value of the management fee receivable, as set out in note 33(a)(vi) to the financial statements, did not exceed the higher of either HK\$10,000,000 or 3% of the audited book value of the net tangible assets of the Group.

CONNECTED TRANSACTIONS – Continued

(h) Subsequent to the year end and up to the latest practicable date, the following connected transactions were entered into by the Group:

- (i) On 20 February 2003, the Company entered into the Articles of Association pursuant to which Hai Hong Industry (Shenzhen) Co., Ltd. (“Hai Hong”), an indirect wholly-owned subsidiary of the Company, and SCWH agreed to establish Shenzhen Municipal China Merchants Shipping Logistics Co., Ltd. (“CM Logistics”), a PRC limited liability company.

CM Logistics will be owned as to 60% by Hai Hong and 40% by SCWH. The registered capital of CM Logistics will be RMB10 million (approximately HK\$9,433,962) and will be contributed by Hai Hong and SCWH in accordance with their respective equity interest. The business scope of CM Logistics include warehousing, order processing and distribution, container land transportation, land-sea transportation, ports operation, freight forwarding agent, custom declaration and insurance services.

By virtue of the fact that SCWH is an indirect 16.7% substantial shareholder of Hidoney, an indirect subsidiary of the Company, the transaction constitutes a connected transaction for the Company. Details of the transaction are contained in a press announcement of the Company dated 20 February 2003.

- (ii) On 26 February 2003, the Company entered into a Sale and Purchase Agreement with SCWH for the transfer of SCWH’s entire 16.7% interest in Hidoney (a subsidiary of the Company) as well as the shareholders’ loans to MTL Chiwan Holdings Limited, a subsidiary of the Company. The Company also entered into a PRC equity interest transfer agreement for the transfer of 4% of Hidoney’s equity interest in Chiwan Container Terminal Company Limited (“CCT”), a PRC sino-foreign joint venture enterprise company, as well as shareholders’ loans to SCWH. The consideration for each of the two transfers will be HK\$53 million.

By virtue of the fact that SCWH is a substantial shareholder of Hidoney, which is also a subsidiary of the Company, the transaction constitutes a connected transaction of the Company. Details of the transaction are contained in a press announcement of the Company dated 26 February 2003.

*Report of the Directors***PRACTICE NOTE 19 TO THE LISTING RULES**

The Group has certain bank loan facilities, throughout the continuance of these, CMG, the controlling shareholder of the Company, which held 53.46% of the issued share capital of the Company as at 31 December 2002, is required to maintain directly or indirectly a particular percentage of the issued voting share capital of the Company. Details of the bank loan facilities utilised at 31 December 2002 and the performance obligation of CMG disclosed in accordance with paragraph 3.9 of Practice Note 19 to the Listing Rules are as follows:

Bank loan facility	Percentage of the issued voting share capital of the Company required to be held by CMG
US\$110,000,000 undrawn amount	At least 35%
US\$11,437,500 repayable by 5 equal semi-annual instalments with the final repayment date on or before 8 June 2005	Largest single shareholder

Save as disclosed above, there are no other disclosures required to be made by the Company pursuant to Practice Note 19 to the Listing Rules.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of sales and purchases attributable to the Group's five largest customers and suppliers represented less than 30% of the Group's total sales and purchases in 2002 respectively.

At no time during the Current Year had the directors, their associates or any shareholder (who to the knowledge of the directors own(s) more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CORPORATE GOVERNANCE

The Company has complied throughout the Current Year with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except for paragraph 7 of Appendix 14, which requires that non-executive directors should be appointed for a specific term. The non-executive directors of the Company are subject to retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adapted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters falling within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises four independent non-executive directors, namely Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Koo Kou Hwa and Mr. Lee Yip Wah, Peter. Two meetings were held during the current financial year.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Deloitte Touche Tohmatsu were auditors of the Company for the three financial years ended 31 December 2000.

On behalf of the Board

Dr. Fu Yuning

Chairman

Hong Kong, 10 April 2003