

The Board have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2003.

### **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 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 income statement account on page 65.

The Board had declared an interim dividend of HK 13 cents per share, totalling HK\$277,173,000, which was paid on 14 October 2003.

The Board recommends the payment of a final dividend of HK 29 cents per share, totalling HK\$620,641,000.

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

### **INVESTMENT PROPERTY**

Details of the investment property of the Group are set out on page 135.

### **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 29 to the financial statements.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2003, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$737,740,000 (2002: HK\$581,474,000).

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 42.

## 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. Zhao Huxiang (*Vice Chairman*)  
 Mr. Li Yinquan  
 Mr. Meng Xi  
 Mr. Zhou Qifang  
 Mr. Li Yi (*Managing Director*)  
 Mr. To Wing Sing  
 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 Article 91 of the Company's Articles of Association, Mr. Zhao Huxiang, Mr. Li Yinquan, Mr. Meng Xi and Mr. Zhou Qifang 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.

## 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 2003, the interests of the directors of the Company in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO were as follows:

- (a) The following director holds ordinary shares of HK\$0.10 each in the Company :

	Number of Shares
Mr. Lee Yip Wah Peter	60,000

- (b) Share Option Schemes

Name of Director	Capacity	Nature of interest	Number of shares of the Company	Number of shares subject to share options granted*	Percentage of aggregate long position in shares to the issued share capital as at 31 December 2003
					the Company
Dr. Fu Yuning	Beneficial owner	Personal interest	—	2,100,000	0.10%
Mr. Zhao Huxiang	Beneficial owner	Personal interest	—	1,400,000	0.07%
Mr. Li Yinquan	Beneficial owner	Personal interest	—	300,000	0.01%
Mr. Meng Xi	Beneficial owner	Personal interest	—	700,000	0.03%
Mr. Zhou Qifang	Beneficial owner	Personal interest	—	350,000	0.02%
Mr. Li Yi	Beneficial owner	Personal interest	—	900,000	0.04%
Mr. Yu Liming	Beneficial owner	Personal interest	—	450,000	0.02%
			—	6,200,000	0.29%

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

## DIRECTORS' INTERESTS IN SECURITIES - Continued

Save as disclosed above, as at 31 December 2003, none of the directors or chief executive of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of the SFO) which are required, pursuant to section 352 of the SFO, to be entered in the register which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange.

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 remained in force and effect to the extent necessary to give effect to the exercise of any option granted prior to the Termination Date.

## SHARE OPTION SCHEMES - Continued

### (a) Terminated Scheme - Continued

The share options granted are not recognised in the financial statements until they are exercised. As at 31 December 2003, the total number of shares which might be issued pursuant to exercise of options granted under the Terminated Scheme was 6,550,000 shares, which represented approximately 0.3% of the total issued share capital of the company as at 31 December 2003.

Details of the share options outstanding at 31 December 2003 which have been granted under the Terminated Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2003	Options exercised during the year Note	Options cancelled during the year	Options held at 31 December 2003
Director						
Dr. Fu Yuning	1 March 2000	5.054	1,750,000	250,000	—	1,500,000
Mr. Zhao Huxiang	1 March 2000	5.054	1,220,000	120,000	—	1,100,000
Mr. Zhou Qifang	19 September 2000	5.615	350,000	—	—	350,000
Mr. Yu Liming	1 March 2000	5.054	350,000	350,000	—	—
			<u>3,670,000</u>	<u>720,000</u>	<u>—</u>	<u>2,950,000</u>
Continuous contract employees						
(I)	1 March 2000	5.054	2,314,000	264,000	—	2,050,000
(II)	19 September 2000	5.615	1,002,000	226,000	26,000	750,000
(III)	24 May 2001	5.630	700,000	600,000	—	100,000
(IV)	6 July 2001	5.610	700,000	—	—	700,000
			<u>4,716,000</u>	<u>1,090,000</u>	<u>26,000</u>	<u>3,600,000</u>
			<u>8,386,000</u>	<u>1,810,000</u>	<u>26,000</u>	<u>6,550,000</u>

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 of which the share options were exercised was HK\$8.24.

## 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 Persons”), 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 incentivizing, 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”, which 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.

## SHARE OPTION SCHEMES - Continued

### (b) Existing Scheme - Continued

#### (iii) Maximum number of shares - Continued

##### (4) Individual limit - Continued

(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.

##### (5) 30% maximum limit

The limit on the number of Shares which may be issued upon 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.



## SHARE OPTION SCHEMES - Continued

### (b) Existing Scheme - Continued

#### (viii) Shares available for issue under the Existing Scheme

As at 31 December 2003, the total number of shares available for issue under the Existing Scheme was 9,650,000 shares, which represented approximately 0.45% of the total issued share capital of the Company.

Details of the share options outstanding at 31 December 2003 which have been granted under the Existing Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2003	Options exercised during the year	Options cancelled during the year	Options held at 31 December 2003
Director						
Dr. Fu Yuning	11 October 2002	4.985	1,200,000	600,000	—	600,000
Mr. Zhao Huxiang	11 October 2002	4.985	900,000	600,000	—	300,000
Mr. Li Yinquan	11 October 2002	4.985	700,000	400,000	—	300,000
Mr. Meng Xi	11 October 2002	4.985	700,000	—	—	700,000
Mr. Zhou Qifang	11 October 2002	4.985	700,000	700,000	—	—
Mr. Li Yi	11 October 2002	4.985	1,200,000	300,000	—	900,000
Mr. To Wing Sing	11 October 2002	4.985	800,000	800,000	—	—
Mr. Yu Liming	11 October 2002	4.985	700,000	250,000	—	450,000
			<u>6,900,000</u>	<u>3,650,000</u>	<u>—</u>	<u>3,250,000</u>
Continuous contract employees						
(I) The Group	11 October 2002	4.985	13,200,000	8,600,000	500,000	4,100,000
(II) CMHK Group	11 October 2002	4.985	9,800,000	7,500,000	—	2,300,000
			<u>23,000,000</u>	<u>16,100,000</u>	<u>500,000</u>	<u>6,400,000</u>
			<u>29,900,000</u>	<u>19,750,000</u>	<u>500,000</u>	<u>9,650,000</u>

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

Note:

The weighted average closing market price per share immediately before the date of which the share options were exercised was HK\$8.26.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following persons, other than a director or chief executive of the Company, have interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO:

### Long Positions

Name of Substantial Shareholder	Capacity	Number of Shares/ underlying Shares held	Total interest	Total interest as percentage of issued shares
China Merchants Group Limited	Interest of Controlled Corporation	1,347,085,604	1,347,085,604 (Notes 1 & 2)	62.94%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,322,691,837	1,322,691,837 (Notes 1 & 2)	61.80%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,322,691,837	1,322,691,837 (Notes 1 & 2)	61.80%
China Merchants Union (BVI) Limited	Beneficial Owner	149,286,410	149,286,410 (Notes 1 & 2)	6.98%
Cheer Far Development Limited	Beneficial Owner	510,513,584	510,513,584 (Notes 1 & 2)	23.85%

**SUBSTANTIAL SHAREHOLDERS - Continued****Long Positions - Continued**

Name of Substantial Shareholder	Capacity	Number of Shares/ underlying Shares held		Total interest as percentage of issued shares
			Total interest	
Shining Hope Limited	Beneficial Owner	120,000,000	120,000,000 (Notes 1 & 2)	5.61%
Bluewater International Investments Limited	Beneficial Owner	100,000,000	100,000,000 (Notes 1 & 2)	4.67%
Blue Sky International Investments Limited	Beneficial Owner	442,891,843	442,891,843 (Notes 1 & 2)	20.69%
J.P. Morgan Chase & Co.	Beneficial Owner	7,272,700	219,501,926 (Notes 3 & 4)	10.26%
	Investment Manager	71,444,000		
	Custodian corporation/ approved lending agent	70,392,613		

## Notes:

- 1,347,085,604 shares held by China Merchants Group Limited represent the aggregate of 149,286,410 shares held by China Merchants Union (BVI) Limited, 510,513,584 shares held by Cheer Far Development Limited, 120,000,000 shares held by Shining Hope Limited, 100,000,000 shares held by Bluewater International Investments Limited, 442,891,843 shares held by Blue Sky International Investments Limited and 24,393,767 shares held by Orienture Holdings Company Limited. Among these 1,347,085,604 shares, 50,000,000 shares are physically settled unlisted derivatives and 219,358,253 shares are cash settled unlisted derivatives.
- China Merchants Group Limited are deemed to be interested in the shares held by its wholly owned subsidiaries Orienture Holdings Company Limited, Blue Sky International Investments Limited, Bluewater International Investments Limited, Shining Hope Limited, Cheer Far Development Limited, China Merchants Union (BVI) Limited, China Merchants Holdings (Hong Kong) Company Limited and China Merchants Steam Navigation Company.

## SUBSTANTIAL SHAREHOLDERS - Continued

### Long Positions - Continued

3. Among 219,501,926 shares held by J.P. Morgan Chase & Co., 70,392,613 shares are shares in the lending pool and 1,154,000 shares are physically settled unlisted derivatives.
4. The following is a breakdown of the interests in shares held by J.P. Morgan Chase & Co.:

Name of Controlled Corporation	Name of Controlling Shareholder	Percentage of control	Long Position Number of Shares held
JP Morgan Chase Bank	J.P. Morgan Fleming Asset Management (Asia) Inc.	100	70,392,613
J.P. Morgan Fleming Asset Management Holdings Inc	J.P. Morgan Chase & Co.	100	71,444,000
J.P. Morgan Fleming Asset Management (Asia) Inc.	J.P. Morgan Fleming Asset Management Holdings Inc	100	71,126,000
JF Asset Management Limited	J.P. Morgan Fleming Asset Management (Asia) Inc.	99.99	70,264,000
JF International Management Inc.	J.P. Morgan Fleming Asset Management (Asia) Inc.	100	862,000
J.P. Morgan Fleming Asset Management (UK) Limited	Robert Fleming Asset Management Limited	100	318,000
Robert Fleming Asset Management Ltd.	Robert Fleming Holdings Ltd.	99.96	318,000
Robert Fleming Holdings Ltd.	J.P. Morgan Fleming Asset Management Holdings Inc	96	318,000
J.P. Morgan Whitefriars Inc.	J.P. Morgan Overseas Capital Corporation	100	3,272,700
J.P. Morgan Overseas Capital Corporation	J.P. Morgan International Finance Limited	100	3,272,700
J.P. Morgan International Finance Limited	J.P. Morgan International Inc	100	7,272,700
J.P. Morgan International Inc.	J.P. Morgan Chase Bank	100	7,272,700
JP Morgan Chase Bank	J.P. Morgan Chase & Co.	90	4,000,000
J.P. Morgan Securities	J.P. Morgan Holdings (UK) Limited	90	4,000,000
J.P. Morgan Holdings (UK) Limited	J.P. Morgan International Finance Limited	100	4,000,000

**SUBSTANTIAL SHAREHOLDERS - Continued****Short Positions**

Name of Substantial Shareholder	Capacity	Number of Shares/ underlying Shares held	Total interest	Total interest as percentage of issued shares
China Merchants Group Limited	Beneficial Owner	183,558,253	417,116,506 (Notes 1 & 2)	19.49%
	Interest of Controlled Corporation	233,558,253		
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	233,558,253	233,558,253 (Notes 1 & 2)	10.91%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	233,558,253	233,558,253 (Notes 1 & 2)	10.91%
Bluewater International Investments Limited	Beneficial Owner	93,053,985	93,053,985 (Notes 1 & 2)	4.35%
Blue Sky International Investments Limited	Beneficial Owner	140,504,268	140,504,268 (Notes 1 & 2)	6.57%

## SUBSTANTIAL SHAREHOLDERS - Continued

### Short Positions - Continued

Notes:

- 417,116,506 shares held by China Merchants Group Limited represent the aggregate of 93,053,985 shares held by Bluewater International Investments Limited and 140,504,268 shares held by Blue Sky International Investments Limited. Among these 417,116,506 shares, 367,116,506 shares are physically settled unlisted derivatives and 50,000,000 shares are cash settled unlisted derivatives.
- China Merchants Group Limited are deemed to be interested in the shares held by its wholly owned subsidiaries Orienture Holdings Company Limited, Blue Sky International Investments Limited, Bluewater International Investments Limited, Shining Hope Limited, Cheer Far Development Limited, China Merchants Union (BVI) Limited, China Merchants Holdings (Hong Kong) Company Limited and China Merchants Steam Navigation Company.

Save as disclosed above, there was no person, other than a director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company kept under section 336 of the SFO.

## CONNECTED TRANSACTIONS

During the year ended 31 December 2003, 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	Note	Income/(expenses)
			HK\$'000
ICH and its fellow subsidiaries	Royalties charged to the Group	(i)	(36,439)
	Sales of paints by the Group	(i)	79,984
ICH	Interest charged to the Group	(ii)	(446)

(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.

## CONNECTED TRANSACTIONS - Continued

- (b) On 26 February 2003, the Company entered into an agreement with Shenzhen Chiwan Wharf Holdings Limited ("SCWH") for the transfer of the entire 16.7% equity interest in Hidoney, a indirect subsidiary of the Group, as well as the shareholders' loans to MTL Chiwan Holdings Limited, a subsidiary of the Company. The Company also entered into an agreement for the transfer of 4% equity interest held by Hidoney in Chiwan Container Terminal Company Limited as well as shareholders' loans to SCWH. The consideration for each of the two transfers were HK\$53,000,000.
- (c) On 11 September 2003, the Company entered into an agreement with a wholly-owned subsidiary of China Merchant Shekou Industrial Zone Company Limited ("CMSIZ"), an indirect wholly-owned subsidiary of CMG, for the purpose of acquiring a piece of land at Jetty Three, Shekou Industrial Zone, Shenzhen, the PRC for a project to develop, construct and operate Berths number 5, 6 and 7 at Shekou Container Terminal located at the same. Pursuant to the agreement, the Company will pay HK\$950,000,000 to the subsidiary of CMSIZ. As at 31 December 2003, the Company has paid a deposit of HK\$500,000,000 to CMSIZ.
- (d) On 11 September 2003, the Group entered into agreements with Orienture Holdings Company Limited, a wholly-owned subsidiary of CMSIZ to dispose of the entire 100% interest in Full Space Investment Limited, Foxtrot International Limited and Orienture Investment Limited, which all together hold 17.32% equity interest in China Merchants Shekou Holdings Co. Ltd ("CMSH"), a company listed on the Shenzhen Stock Exchange, for an aggregate consideration of HK\$494,891,000.
- (e) On 28 October 2003, the Company entered into an agreement with a jointly controlled entity to the provision of a RMB300,000,000 (approximately HK\$272,700,000) credit facility for a term of three years to the jointly controlled entity.
- (f) In October 2003, the Group completed the acquisition of an additional 11% equity interest in a jointly controlled entity from the PRC joint venture partner with a consideration of RMB80,000,000 (approximately HK\$75,068,000). Immediately after the acquisition, the jointly controlled entity became a subsidiary of the Group. The subsidiary is engaged mainly in ports operations.
- (g) Details of other disclosable connected transactions, which also constitute related party transactions, for the year are set out in note 34 (a), (b) and (c) to the financial statements.

## CONNECTED TRANSACTIONS - Continued

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 35(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 transaction 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 did not exceed the higher of either HK10,000,000 or 3% of the audited book value of the net tangible assets of the Group.

## PRACTICE NOTE 19 TO THE LISTING RULES

There is no disclosure 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 2003 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.

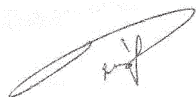
The Audit Committee provides an important link between the Board and the Company's auditors in matters falling within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises of four 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 retired and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

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

On behalf of the Board



**Dr. Fu Yuning**  
*Chairman*

Hong Kong, 29 March 2004