

# Directors' Report

The directors of COSCO International Holdings Limited (the "Company") present this report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December 2003.

## PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding. The principal activities of the Group include ship trading & supplying services, property investment & development, infrastructure investment and building construction.

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 2003 and the state of affairs of the Company and the Group as at that date are set out on pages 66 to 68.

## DIVIDEND

The Board of directors of the Company (the "Board") does not recommend the payment of a dividend for the year ended 31st December 2003 (2002: nil).

## 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\$85,000 (2002: HK\$2,000).

## FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on pages 126 and 127.

## DIRECTORS

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

### *Executive Directors*

Dr. Wei Jiafu (*Chairman*)

Mr. Liu Guoyuan (*Vice-Chairman*)

Mr. Li Jianhong

Mr. Zhou Liancheng

Mr. Liu Hanbo (*Managing Director*)

Mr. He Jiale (appointed on 27th November 2003)

Dr. Guo Huawei (appointed on 16th April 2004)

Mr. Chen Pisen

Mr. Meng Qinghui

Mr. Zhao Kaiji (appointed on 5th February 2004)

Mr. Lin Libing (appointed on 5th February 2004)

Mr. Lu Zhiming (resigned on 27th November 2003)

Mr. Dong Shu Sen (resigned on 13th July 2003)

Mr. Liang Yanfeng (resigned on 16th April 2004)

### *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

Mr. Tsui Yiu Wa, Alec (appointed on 5th February 2004)

In accordance with Bye-laws 99 and 102B of the Company's Bye-laws, all the current directors of the Company shall retire from office at the forthcoming annual general meeting and shall then be eligible to offer themselves for re-election. Except Mr. Alexander Reid Hamilton, all the current directors 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 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 of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as set out below:

Name of director	Name of businesses which 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 director's interest in the entity
Dr. Wei Jiafu	Companies controlled by 中國遠洋運輸 (集團) 總公司 (China Ocean Shipping (Group) Company) ("COSCO")	— Property investment and development — Ship trading and supplying services	Director
Mr. Liu Guoyuan	COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") and its associated companies	— Property investment and development — Ship trading and supplying services	Director
Mr. Li Jianhong	Companies controlled by COSCO	— Property investment and development — Ship trading and supplying services	Director
Mr. Zhou Liancheng	COSCO Hong Kong and its associated companies	— Property investment and development — Ship trading and supplying services	Director

<b>Name of director</b>	<b>Name of businesses which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of director's interest in the entity</b>
Mr. Liu Hanbo	Soundwill Holdings Limited	— Property investment and development	Non-executive Vice-chairman
Mr. He Jiale	COSCO Hong Kong and its associated companies	— Property investment and development — Ship trading and supplying services	Director
Dr. Guo Huawei	Companies controlled by COSCO	— Property investment and development — Ship trading and supplying services	Director
Mr. Chen Pisen	Companies controlled by COSCO Hong Kong	— Property investment and development — Ship trading and supplying services	Director

Name of director	Name of businesses which 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 director's interest in the entity
Mr. Meng Qinghui	Companies controlled by COSCO Hong Kong	— Property investment and development — Ship trading and supplying services	Director
	Soundwill Holdings Limited	— Property investment and development	Non-executive Director
<b>Ex-director</b>			
Mr. Lu Zhiming (Note 1)	COSCO Hong Kong and its associated companies	— Property investment and development — Ship trading and supplying services	Director
Mr. Liang Yanfeng (Note 2)	Companies controlled by COSCO	— Property investment and development — Ship trading and supplying services	Director

*Notes:*

1. Mr. Lu Zhiming resigned as an Executive Director of the Company on 27th November 2003.
2. Mr. Liang Yanfeng resigned as an Executive Director of the Company on 16th April 2004.

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

1. On 29th May 2002, the Stock Exchange granted the Company conditional waivers from strict compliance with the Listing Rules to the connected transactions for the provision of agency services (the "Transactions") entered into between COSCO International Ship Trading Company Limited ("COSCO Ship Trading"), a 60% owned subsidiary of the Company, and COSCO and its subsidiaries (the "COSCO Group") (other than the Group) for each of the Group's three financial years ending 31st December 2002, 2003 and 2004 in respect of (a) the sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) the sale and purchase of marine equipment for new ship-building projects, which were of a regular and continuing nature. The Transactions for the year ended 31st December 2003 amounted to US\$5,235,106 (equivalent to HK\$40,833,827).

The Independent Non-Executive Directors of the Company reviewed the Transactions and confirmed that

- (a) the Transactions were approved by the Independent Shareholders at a special general meeting held on 18th June 2002, of which COSCO and its associates abstained from voting;
- (b) the Transactions had 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 amount of the Transactions for the financial year ended 31st December 2003 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 amount of the Transactions for the financial year ended 31st December 2003 did not exceed HK\$52,000,000.
2. On 24th January 2003, the Group entered into a share transfer and capital injection agreement and a joint venture agreement for the acquisition of a 23.4% equity interest in 中遠房地產開發有限公司 (COSCO Real Estate Development Co., Ltd) (“CRED”), a former 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 RMB26,510,000. Completion took place on 31st July 2003 with the Group then owning a 20% of the enlarged registered capital in CRED. On 24th January 2003, a sale and purchase agreement was signed for the sale of the Group’s entire 49% equity interest in Tian Lin Property Development Co., Ltd. (“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. Completion of the transaction took place on 31st July 2003.
  3. On 14th May 2003, a sale and purchase agreement was entered into between Top Expert Enterprises Limited, a wholly-owned subsidiary of the Company, as vendor and COSCO Information Technology Limited, a wholly-owned subsidiary of COSCO Hong Kong, as purchaser for the sale and purchase of 0.91% of the issued share capital of COSCO Network Limited at a consideration of US\$1,000,000.
  4. On 12th June 2003, a conditional co-operative agreement was entered into among Success Gate Investments Limited (“Success Gate”), 廣州遠洋建設實業公司 (COSCO Guangzhou Construction Industry Company) (“COSCO GZ”) and 廣州頤和投資發展有限公司 (Guangzhou Yihe Investment and Development Co., Ltd) (“Guangzhou Yihe”) to form a sino-foreign equity joint venture company, Shenyang COSCO Yihe Property Development Co., Ltd (“Shenyang COSCO”), to develop a real estate development project in Shenyang — Yihe Garden (the “Development”). Success Gate is a wholly-owned subsidiary of the Company and COSCO GZ is a wholly-owned subsidiary of COSCO. The total investment amount for Shenyang COSCO was RMB240,000,000. Completion took place on 31st July 2003 and Success Gate has a 51% equity interest in Shenyang COSCO. As part of the co-operative agreement, Success Gate will advance shareholder’s loan of up to an aggregate sum of US\$6,160,000, on a pro-rata basis according to the equity interests of the joint venture parties, to Shenyang COSCO to finance the Development. The shareholder’s loan is interest-free for the first US\$3,840,000 and LIBOR + 5% per annum for the balance of the shareholder’s loan. The shareholder’s loan will be fully repaid on or before 21st July 2008. Success Gate has not advanced any shareholder’s loan during the year of 2003.

5. On 14th August 2003, two conditional sale and purchase agreements were entered into between the Company as purchaser, and 中遠工業公司 (COSCO Industry Company) (“COSCO Industry”) and Shen-John Investment Company L. L. C. (“Shen-John”) as vendors, for the sale and purchase of an aggregate 34.19% equity interest in each of Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. (the “Kansai Companies”).

Subsequently on 25th November 2003, a further four conditional sale and purchase agreements were entered into between the Company as purchaser, and 中遠太平洋 (中國) 投資有限公司 (COSCO Pacific (China) Investments Co., Ltd) (“COSCO Pacific China”), Florens Industrial Holdings Limited (“Florens”) and 天津遠洋運輸公司 (Tianjin COSCO Ocean Shipping Company) (“Tianjin Transport”) as vendors, for the sale and purchase of an aggregate 28.88% equity interest in each of the Kansai Companies. COSCO Industry, Shen-John, COSCO Pacific China, Florens and Tianjin Transport are subsidiaries of COSCO. The total consideration for the acquisition of an aggregate of the 63.07% equity interest in the Kansai Companies was RMB116,830,990. Completion of the transactions took place on 7th January 2004.

6. The Stock Exchange granted the Company conditional waivers on 18th February 2004 from strict compliance with connected transaction provisions of the Listing Rules for the transactions (the “Kansai Ongoing Transactions”) entered into between the Kansai Companies, and COSCO Group (other than the Group) and Kansai Paint Co., Ltd. (“Japan Kansai”) such that (a) the annual technology usage fee payable by the Kansai Companies to Japan Kansai shall not exceed HK\$4 million, (b) the annual purchase of raw materials by the Kansai Companies from Japan Kansai and its subsidiaries (the “Kansai Group”) should not exceed HK\$44 million, (c) the annual commission paid by the Kansai Companies to Kansai Group shall not exceed HK\$5 million, (d) the annual sale of container paints and vessels paints paid by the Kansai Companies to COSCO Group shall not exceed HK\$178 million, and (e) the annual commission paid by the Kansai Companies to COSCO Group shall not exceed HK\$11 million for each of the Group’s three financial years ending 31st December 2003, 2004 and 2005. As completion of the transactions took place on 7th January 2004, there were no Kansai Ongoing Transactions for the year ended 31st December 2003.
7. On 14th August 2003, a conditional sale and purchase agreement was entered into between the Company as purchaser and COSCO Industry as vendor for the sale and purchase of a 10% equity interest in International Paint of Shanghai Co., Ltd. (“Shanghai International”) at a consideration of RMB17,138,000. The acquisition will be completed by the midst of 2004 when the conditions precedent are fulfilled.



8. On 12th January 2004, eleven tenancy agreements (the "Tenancy Agreements") were entered into between Tian Lee Property Limited, Velu Exports Limited, Wing Thye Holdings Limited, Year Of The Rat Corp. and 99 Prove Finance Limited, wholly-owned subsidiaries of the Company, as landlords, and COSCO Hong Kong and certain subsidiaries of COSCO Hong Kong as tenants for the leasing of portions of the 47th–51st floors of COSCO Tower (the "Tenancy Transactions") for a term of about 3 years (except for the term of COSCO Pacific Management Company Limited which is for 2 years) and an option to renew for a further 3 years (except for COSCO Pacific Management Company Limited which has a renewable option for a further 1 year), at an aggregate monthly rental of HK\$2,428,744. COSCO Hong Kong guarantees the performance of each tenant, excluding itself as a tenant, under the tenancy agreements for an amount, equal to 3 times of the monthly rent under the respective tenancy agreements.

The Stock Exchange granted to the Company conditional waivers on 5th February 2004 from strict compliance with connected transaction provisions of the Listing Rules for the tenancies contemplated under the Tenancy Agreements (the "Tenancy Transactions") in respect of the rent receivable by the Group under the initial term and subsequent renewed term (if applicable) of the Tenancy Transactions for each of the three financial years ending 31st December 2004, 2005 and 2006 which shall not exceed HK\$30,054,000.

#### **SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDER**

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

1. A HK\$700,970,000 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 and 20th October 2003 to finance the acquisition of the eight floors of COSCO Tower. The secured term loan facility is repayable on or before 19th October 2008. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that:
  - (a) it will procure that COSCO will maintain an equity or shareholding interest, either directly or indirectly, giving rise to more than 50% of the voting rights attached to the issued share capital of COSCO Hong Kong and will ensure that such equity or shareholding interest is not disposed of in any way by COSCO and remains free from any security interest (save for any of such existing thereon prior to the date of the guarantee);

- (b) it will maintain an equity interest, either directly or indirectly, of not less than 35% in COSCO Pacific Limited (“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
  - (c) 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 or shareholding interest being the single largest equity or shareholding interest in the Company.
- 2. An un-secured 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 un-secured loan and credit facility will be repayable on or before 8th March 2009. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that:
  - (a) 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 each of the Company and COSCO Pacific, which shall maintain their listings on the Stock Exchange.
  - (b) it shall be more than 50% beneficially owned by COSCO .

## SHARE OPTIONS

Pursuant to the Company’s share option scheme (the “Scheme”) approved by the shareholders 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) For the Group to attract, retain and motivate talented participants to strive for future development and expansion of the Group.
  - (b) 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 shareholder 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 % as against issued share capital as at 31st December 2003:

The number of share options available for issue under the Scheme is 139,438,929 shares representing 10% of the issued share capital as at 31st December 2003.

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 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 shares of the Company in issue. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the Scheme.

5. The period within which shares must be taken up under an option:

Not applicable.

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.

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. If 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 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.

Details of the share options to subscribe for shares of the Company granted to eligible persons during the year under review are shown as follows:

	Number of share options				Outstanding as at 31st December 2003	Percentage of total issued share capital
	Outstanding at 1st January 2003	Granted during the year	Exercised during the year	Lapsed during the year		
<b>Directors</b>						
Dr. Wei Jiafu	–	1,800,000	–	–	1,800,000	0.129%
Mr. Liu Guoyuan	–	1,800,000	–	–	1,800,000	0.129%
Mr. Li Jianhong	–	1,800,000	–	–	1,800,000	0.129%
Mr. Zhou Liancheng	–	1,800,000	–	–	1,800,000	0.129%
Mr. Liu Hanbo	–	1,800,000	–	–	1,800,000	0.129%
Mr. He Jiale	–	1,800,000	–	–	1,800,000	0.129%
Mr. Chen Pisen	–	1,200,000	–	–	1,200,000	0.086%
Mr. Meng Qinghui	–	1,200,000	–	–	1,200,000	0.086%
Mr. Zhao Kaiji	–	1,200,000	–	–	1,200,000	0.086%
Mr. Lin Libing	–	1,200,000	–	–	1,200,000	0.086%
<b>Ex-director</b>						
Mr. Liang Yanfeng	–	1,200,000	–	–	1,200,000	0.086%
<b>Continuous contract</b>						
<b>employees of the Group</b>	–	28,000,000	–	–	28,000,000	2.008%
<b>Other participants</b>	–	34,200,000	–	–	34,200,000	2.453%

*Notes:*

1. 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. Other participants include employees of COSCO Group (other than the directors of the Company and the continuous contract employees of the Group).
3. The closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on 25th November 2003, being the trading day immediately preceding the date of grant of the relevant share options, was HK\$0.58 per share.

During the year, no share options were exercised and no weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised can be calculated.

Concerning the share options granted during the year, the directors do not consider it appropriate to disclose a theoretical value of the options granted because a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period and the conditions that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful.

Particulars and movements of the Company's share options during the year are also set out in note 24 to the financial statements.

### **DIRECTORS' INTERESTS IN SECURITIES**

As at 31st December 2003, 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 Companies to be notified to the Company and the Stock Exchange were as follows:

#### **1. Long positions in shares of associated corporation**

<b>Name of associated corporation</b>	<b>Name of director</b>	<b>Capacity</b>	<b>Number of shares held Personal interests</b>	<b>Percentage of total issued share capital</b>
COSCO Pacific	Mr. Kwong Che Keung, Gordon	Beneficial owner	250,000	0.012%

## 2. Long positions in underlying shares of equity derivatives of associated corporation

Name of associated corporation	Director	Capacity	Number of share options					
			Personal interest				Outstanding as at 31st December, 2003	Percentage of total issued share capital
			Outstanding as at 1st January, 2003	Granted during the year	Exercised during the year	Lapsed during the year		
<b>Directors</b>								
COSCO Pacific	Dr. Wei Jiafu	Beneficial owner	–	1,000,000	–	–	1,000,000	0.047%
COSCO Pacific	Mr. Liu Guoyuan	Beneficial owner	–	1,000,000	–	–	1,000,000	0.047%
COSCO Pacific	Mr. Li Jianhong	Beneficial owner	–	800,000	–	–	800,000	0.037%
COSCO Pacific	Mr. Zhou Liancheng	Beneficial owner	–	800,000	–	–	800,000	0.037%
COSCO Pacific	Mr. Liu Hanbo	Beneficial owner	–	700,000	–	–	700,000	0.033%
COSCO Pacific	Mr. He Jiale	Beneficial owner	–	700,000	–	–	700,000	0.033%
COSCO Pacific	Mr. Chen Pisen	Beneficial owner	–	250,000	–	–	250,000	0.012%
COSCO Pacific	Mr. Meng Qinghui	Beneficial owner	–	800,000	–	–	800,000	0.037%
<b>Ex-director</b>								
COSCO Pacific	Mr. Liang Yanfeng	Beneficial owner	–	800,000	–	–	800,000	0.037%

*Note:* 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 10 years from their respective date on which an offer is accepted or deemed to be accepted pursuant to the share option scheme adopted on 23rd May 2003.

Save as disclosed above and in the section headed “Share Options”, as at 31st December 2003, none of the directors and the chief executive of the Company had any interest in the share capital or debt securities 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 of Listed Companies to be notified to the Company and the Stock Exchange.

### 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 2003, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name 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	59.48%
COSCO Hong Kong *	Interest of controlled corporation	Corporate interest	829,360,511	59.48%
True Smart International Limited *	Beneficial owner	Beneficial interest	527,060,904	37.80%
COSCO Investments Limited *	Beneficial owner	Beneficial interest	302,299,607	21.68%

\* 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.

Save as disclosed above, as at 31st December 2003, the Company has not been notified of any interests in the shares of the Company and underlying and short positions in shares of the Company, which had been recorded in the register required to be kept under Section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year ended 31st December 2003, neither the Company nor any of its subsidiaries had redeemed, purchased or sold any of the Company's listed shares.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st December 2003 with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules.

## AUDIT COMMITTEE

The Company has established an Audit Committee for the 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.

## 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, 16th April 2004