



The Board have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2004.

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 39, 40 and 41 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 4 to the financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 69.

The Board had declared an interim dividend of HK15 cents per share, totalling HK\$321,201,000, which was paid on 14 October 2004.

The directors have resolved to recommend the payment of a final scrip dividend of HK30 cents per share, totalling HK\$642,658,000 for the year ended 31 December 2004 of HK 30 cents per share (2003: HK 29 cents), payable on or about 28 June 2005 to the shareholders whose names appear on the Register of Members of the Company as at the date of the 2005 Annual General Meeting, with an alternative to the shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment (the "Scrip Dividend Scheme").

Subject to the approval by shareholders in the 2005 Annual General Meeting, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or before 30 May 2005. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued

pursuant thereto. It is expected that the final dividend warrants and certificates for the new shares will be despatched to shareholders on or around 28 June 2005.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 33 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 15 to the financial statements.

Share capital

Details of the movements in share capital of the Company are set out in note 32 to the financial statements.

Distributable reserves

Distributable reserves of the Company at 31 December 2004, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,507,226,000 (2003: HK\$737,740,000).

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 26.

Purchase, sale or redemption of shares

The Company and any of its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities during the year.

Directors

The directors in the current year were:

Executive Directors:

Dr. Fu Yuning (*Chairman*)

Mr. Zhao Huxiang (*Vice Chairman*)

Mr. Li Yinquan

Mr. Hu Zheng (appointed on 29 June 2004)

Mr. Meng Xi

Mr. Li Yi (*Managing Director*)

Mr. To Wing Sing

Mr. Yu Liming

Mr. Zhou Qifang (resigned on 29 June 2004)

Independent non-executive Directors:

Mr. Tsang Kam Lan

Mr. Kut Ying Hay

Mr. Koo Kou Hwa (passed away on 21 January 2005)

Mr. Lee Yip Wah Peter

Mr. Li Kwok Heem John (appointed on 8 October 2004)

In accordance with Articles 91 and 97 of the Company's Articles of Association, Mr. Hu Zheng, Mr. To Wing Sing, Mr. Yu Liming, Mr. Tsang Kam Lan, Mr. Lee Yip Wah Peter and Mr. Li Kwok Heem John will retire from the Board at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

Each of the independent non-executive directors has been appointed for a term of three years commencing 22 March 2005. In addition, the appointment of each of the independent non-executive directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Directors - Continued

The Company has received annual confirmations from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

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 year or at any time during the year.

Directors' interests in securities

As at 31 December 2004, 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:

Share Option Schemes

Shares and Share Options in the Company

| Name of director | Capacity | Nature of interest | Number of shares in the Company | Number of shares in the Company subject to share options granted ¹ | Percentage of aggregate long position in shares to the issued share capital as at |
|-----------------------|------------------|--------------------|---------------------------------|---|---|
| | | | | | 31 December 2004 |
| Dr. Fu Yuning | Beneficial owner | Personal interest | — | 3,100,000 | 0.145% |
| Mr. Zhao Huxiang | Beneficial owner | Personal interest | — | 2,100,000 | 0.098% |
| Mr. Li Yinquan | Beneficial owner | Personal interest | — | 800,000 | 0.037% |
| Mr. Hu Zheng | Beneficial owner | Personal interest | — | 500,000 | 0.023% |
| Mr. Meng Xi | Beneficial owner | Personal interest | — | 1,200,000 | 0.056% |
| Mr. Li Yi | Beneficial owner | Personal interest | — | 1,900,000 | 0.089% |
| Mr. To Wing Sing | Beneficial owner | Personal interest | — | 600,000 | 0.028% |
| Mr. Yu Liming | Beneficial owner | Personal interest | — | 950,000 | 0.044% |
| Mr. Lee Yip Wah Peter | Beneficial owner | Personal interest | 130,000 | — | 0.006% |
| | | | <u>130,000</u> | <u>11,150,000</u> | <u>0.526%</u> |

¹ Included share options granted under the Terminated Scheme and Existing Scheme.

Directors' interests in securities - Continued

Save as disclosed above and based on the register maintained by the Company under Section 352 of the SFO, as at 31 December 2004, 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 or 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 purpose of the Terminated Scheme was to provide an incentive to the employees and directors of the Group. 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.

Share option schemes - Continued

(a) Terminated Scheme - Continued

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 are 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 2004, the total number of shares which may be issued pursuant to exercise of options granted under the Terminated Scheme was 6,350,000 shares, which represented approximately 0.3% of the total issued share capital of the company as at 31 December 2004.

Details of the share options outstanding at 31 December 2004 which have been granted under the Terminated Scheme are as follows:

| Name | Date of grant | Exercise price HK\$ | Options held at 1 January 2004 | Options exercised during the year Note | Options cancelled during the year | Other changes during the Year | Options held at 31 December 2004 |
|------------------|---------------|------------------------|--------------------------------------|---|---|-------------------------------------|--|
| Directors | | | | | | | |
| Dr. Fu Yuning | 1 March 2000 | 5.054 | 1,500,000 | — | — | — | 1,500,000 |
| Mr. Zhao Huxiang | 1 March 2000 | 5.054 | 1,100,000 | — | — | — | 1,100,000 |
| | | | 2,600,000 | — | — | — | 2,600,000 |

Share option schemes - Continued

(a) Terminated Scheme - Continued

| Name | Date of grant | Exercise price HK\$ | Options | Options | Options | Other | Options |
|-------------------------------|-------------------|------------------------|------------------------------|---------------------------------|--|-------------------------------|--------------------------------|
| | | | held at 1 January 2004 | exercised during the year | lapsed/ cancelled during the year | changes during the Year | held at 31 December 2004 |
| Continuous contract employees | | | | | | | |
| (I) | 1 March 2000 | 5.054 | 2,050,000 | 50,000 | — | — | 2,000,000 |
| (II) | 19 September 2000 | 5.615 | 750,000 | 50,000 | — | 350,000* | 1,050,000 |
| (III) | 24 May 2001 | 5.630 | 100,000 | 100,000 | — | — | — |
| (IV) | 6 July 2001 | 5.610 | 700,000 | — | — | — | 700,000 |
| | | | <u>3,600,000</u> | <u>200,000</u> | <u>—</u> | <u>350,000</u> | <u>3,750,000</u> |
| | | | <u>6,200,000</u> | <u>200,000</u> | <u>—</u> | <u>350,000</u> | <u>6,350,000</u> |

* These options are held by Mr. Zhou Qifang who resigned as Director on 29 June 2004 and remains as an employee of China Merchants Holdings (Hong Kong) Co., Ltd., the intermediate holding company of the Company.

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\$10.98.

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 incentivising, rewarding, remunerating, compensating and/or providing benefits to Eligible Persons.

(ii) *Qualifying participants*

Any Eligible Person.

Share option schemes - Continued

(b) Existing Scheme - Continued

(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 issues 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.

(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 under the limit as refreshed 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”.

Share option schemes - Continued

(b) Existing Scheme - Continued

(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

(5) 30% maximum limit

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 2004, the total number of shares which may be issued pursuant to the exercise of options granted under the Existing Scheme was 33,860,000 shares, which represented approximately 1.58% of the total issued share capital of the Company.

As at 31 December 2004, the total number of shares available for issue under the Existing Scheme was 149,087,238 shares, which represented approximately 6.96% of the total issued share capital of the Company.

Details of the share options outstanding at 31 December 2004 which have been granted under the Existing Scheme are as follows:

| Name | Date of grant | Exercise price HK\$ | Options held at 1 January 2004 | Options granted during the year | Options exercised during the year | Options lapsed/ cancelled during the year | Options held at 31 December 2004 |
|------------------|-----------------|------------------------|--------------------------------------|---------------------------------------|---|---|--|
| Directors | | | | | | | |
| Dr. Fu Yuning | 11 October 2002 | 4.985 | 600,000 | — | — | — | 600,000 |
| | 27 October 2004 | 11.08 | — | 1,000,000 | — | — | 1,000,000 |
| Mr. Zhao Huxiang | 11 October 2002 | 4.985 | 300,000 | — | — | — | 300,000 |
| | 27 October 2004 | 11.08 | — | 700,000 | — | — | 700,000 |
| Mr. Li Yinquan | 11 October 2002 | 4.985 | 300,000 | — | — | — | 300,000 |
| | 27 October 2004 | 11.08 | — | 500,000 | — | — | 500,000 |
| Mr. Hu Zheng | 27 October 2004 | 11.08 | — | 500,000 | — | — | 500,000 |
| Mr. Meng Xi | 11 October 2002 | 4.985 | 700,000 | — | — | — | 700,000 |
| | 27 October 2004 | 11.08 | — | 500,000 | — | — | 500,000 |
| Mr. Li Yi | 11 October 2002 | 4.985 | 900,000 | — | — | — | 900,000 |
| | 27 October 2004 | 11.08 | — | 1,000,000 | — | — | 1,000,000 |
| Mr. To Wing Sing | 27 October 2004 | 11.08 | — | 600,000 | — | — | 600,000 |
| Mr. Yu Liming | 11 October 2002 | 4.985 | 450,000 | — | — | — | 450,000 |
| | 27 October 2004 | 11.08 | — | 500,000 | — | — | 500,000 |
| | | | 3,250,000 | 5,300,000 | — | — | 8,550,000 |

Share option schemes - Continued

(b) Existing Scheme - Continued

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

| Name | Date of grant | Exercise price HK\$ | Options held at 1 January 2004 | Options granted during the year | Options exercised during the year | Options lapsed/ cancelled during the year | Options held at 31 December 2004 |
|-------------------------------|-----------------|------------------------|--------------------------------------|---------------------------------------|---|---|--|
| Continuous contract employees | | | | | | | |
| (I) The Group | 11 October 2002 | 4.985 | 4,100,000 | — | 1,150,000 | — | 2,950,000 |
| | 27 October 2004 | 11.08 | — | 14,360,000 | — | — | 14,360,000 |
| (II) The CMHK Group | 11 October 2002 | 4.985 | 2,300,000 | — | 700,000 | — | 1,600,000 |
| | 27 October 2004 | 11.08 | — | 6,400,000 | — | — | 6,400,000 |
| | | | <u>6,400,000</u> | <u>20,760,000</u> | <u>1,850,000</u> | <u>—</u> | <u>25,310,000</u> |
| | | | <u>9,650,000</u> | <u>26,060,000</u> | <u>1,850,000</u> | <u>—</u> | <u>33,860,000</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:

1. The closing price of the share immediately before the date of grant (i.e. 26 October 2004) during the year was HK\$10.9.
2. The weighted average closing market price per share immediately before the date of which the share options were exercised was HK\$11.62.
3. Value of options

The value of the options that were granted under the Existing Scheme as of 27 October 2004 is reasonably stated by the amount of HK\$7.644 per option. 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.

Share option schemes - Continued

(b) Existing Scheme - Continued

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

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 29 April and 28 September, or the following trading day if 29 April or 28 September 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 260.

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.

Share option schemes - Continued

(c) China Merchants Holdings (Pacific) Limited – CMHP Terminated Scheme

The HTP Holdings Executives' Share Option Scheme (the "CMHP Terminated Scheme") was adopted by the members of China Merchants Holdings (Pacific) Limited ("CMHP") at an extraordinary general meeting of CMHP held on 29 September 1995. Under the CMHP Terminated Scheme, the Directors of CMHP may, at their discretion, grant options to any director or employee of the CMHP or any of its subsidiaries (the "CMHP Group") to subscribe for shares in CMHP ("CMHP Shares"). The exercise price shall be equal to the average of the last trading prices per CMHP Share for three (3) consecutive trading days immediately preceding the date of offer of that option but in no instance shall the offer price per share be less than its par value.

The purpose of the CMHP Terminated Scheme was to provide an incentive to the employees and directors of the CMHP Group. The maximum number of CMHP shares in respect of which options may be granted may not exceed 5% of the issued share capital of CMHP at the time of granting of the options.

The CMHP Terminated Scheme was terminated on 30 May 2002 (the "CM Termination Date") without prejudice to the rights and benefits of and attached to those options granted thereunder which are outstanding as at that date. No further grants were made after the CM Termination Date. Following the termination, the provisions of the CMHP Terminated Scheme remain in force and effect to the extent necessary to give effect to the exercise of any option granted prior to the CM Termination Date.

The options granted are not recognised in the financial statements until they are exercised. As at 31 December 2004, the total number of CMHP Shares which may be issued pursuant to exercise of options granted under the CMHP Termination Scheme was 155,000, which represented approximately 0.03% of the total issued share capital of CMHP as at 31 December 2004.

Share option schemes - Continued

(d) China Merchants Holdings (Pacific) Limited – 2002 Scheme

China Merchants Holdings (Pacific) Limited Share Option Scheme 2002 (the “CMHP 2002 Scheme”) was approved and adopted by its members at an extraordinary general meeting held on 30 May 2002. The CMHP 2002 Scheme is administered by the CMHP Remuneration Committee, which comprises the following directors of CMHP:

Mr Teng Ngiek Lian (*Chairman*)

Dr Lim Heng Kow

Mr Jiang Yan Fei

Details of the CMHP 2002 Scheme are as follows:

(i) *Purpose*

The purpose of the CMHP 2002 Scheme is to provide CMHP with a flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to the employees of the CMHP Group.

(ii) *Qualifying participants*

Confirmed employees, directors of the CMHP Group and employees of associates are eligible to participate in the CMHP 2002 Scheme at the absolute discretion of the CMHP Remuneration Committee.

Directors and employees of the CMHP’s parent company and its subsidiaries (other than the CMHP Group) are not allowed to participate in the CMHP 2002 Scheme. Controlling shareholders and their associates are also not eligible to participate in the CMHP 2002 Scheme.

Share option schemes - Continued

(d) China Merchants Holdings (Pacific) Limited – 2002 Scheme - Continued

(ii) Qualifying participants - Continued

(b) Maximum number of shares

Total number of CMHP shares which may be granted in accordance with the CMHP 2002 Scheme to any of the participants shall not exceed 10% of the total number of CMHP Shares available throughout the entire duration of the CMHP 2002 Scheme.

(c) Size of Scheme

Total number of shares issued under the CMHP Terminated Scheme and the CMHP 2002 Scheme shall not exceed 15% of CMHP's issued share capital.

(d) Exercise Price

Exercise price may be exercised at the market price as well as at a price set at a discount to the market price provided that maximum discount shall not exceed 20% of the market price.

The exercise price shall, in no event, be less than the nominal value of the CMHP Shares.

Share option schemes - Continued

(d) China Merchants Holdings (Pacific) Limited – 2002 Scheme - Continued

(ii) *Qualifying participants - Continued*

(e) Option Period

Options granted with the exercise price set at market price may be exercised after the first anniversary of the offer date. If options are granted with exercise price set at a discount to market price, options may be exercised after the second anniversary of the offer date.

The life span of an option granted to a CMHP non-executive director is 5 years from the offer date. The life span of options granted to an employee or an executive director of the CMHP Group is 10 years from the offer date.

(f) Options granted during the year

During the financial year, no options were granted under the CMHP 2002 Scheme.

(g) Issue of shares under option

During the financial year, CMHP issued a total of 200,000 ordinary shares of S\$0.50 each fully paid at the exercise price of S\$0.50 per share for cash upon the exercise of options granted under the CMHP 2002 Scheme.

Share option schemes - Continued

(d) China Merchants Holdings (Pacific) Limited – 2002 Scheme - Continued

(ii) Qualifying participants - Continued

(h) CMHP Shares available for issue under the CMHP 2002 Scheme

As at 31 December 2004, the total number of shares which may be issued pursuant to the exercise of the options granted under the CMHP 2002 Scheme was 2,450,000 CMHP Shares, which represented approximately 0.55% of the total issued share capital of CMHP.

Details of the share options outstanding at 31 December 2004 which have been granted under the CMHP 2002 Scheme are as follows:

| Name | Date of grant | Exercise price per share S\$ | Options | | | | Options held at 2004 |
|-------------------------------|------------------|---------------------------------|--------------------------------|-----------------------------------|--|-------------------------------|----------------------|
| | | | Options held at 1 January 2004 | Options exercised during the year | Options lapsed/cancelled during the year | Other changes during the year | |
| Directors | | | | | | | |
| Zhao Huxiang | 10 February 2003 | 0.5 | 400,000 | NIL | NIL | NIL | 400,000 |
| Continuous contract employees | | | | | | | |
| | 10 February 2003 | 0.5 | 2,250,000 | (200,000) | NIL | NIL | 2,050,000 |

Share option schemes - Continued

(d) China Merchants Holdings (Pacific) Limited – 2002 Scheme - Continued

(ii) *Qualifying participants - Continued*

(h) CMHP Shares available for issue under the CMHP 2002 Scheme - Continued

The above outstanding share options can be exercised at any time during a period of 5 or 10 years commencing on the date of grant of the options.

Note:

1. CMHP is a company listed in Singapore. The Company has been a minority shareholder of CMHP owning 23.95% interest. On 30 December 2004, the Company completed the acquisition of a further 48.29% interest in CMHP and CMHP became a 72.24%-owned subsidiary of the Company.
2. Since 10 February 2003, CMHP has not issued any share options pursuant to the CMHP Terminated Scheme or the CMHP 2002 Scheme.

Substantial shareholders

As at 31 December 2004, 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 | 1,121,011,351 | 1,121,011,351 (Notes 1 & 2) | 52.33% |
| China Merchants Steam Navigation Company Limited | Interest of Controlled Corporation | 1,094,567,584 | 1,094,567,584 (Notes 1 & 2) | 51.10% |
| China Merchants Holdings (Hong Kong) Company Limited | Interest of Controlled Corporation | 1,094,567,584 | 1,094,567,584 (Notes 1 & 2) | 51.10% |
| China Merchants Union (BVI) Limited | Beneficial Owner | 310,520,410 | 310,520,410 (Notes 1 & 2) | 14.50% |
| Cheer Far Development Limited | Beneficial Owner | 510,513,584 | 510,513,584 (Notes 1 & 2) | 23.83% |
| Bluewater International Investments Limited | Beneficial Owner | 100,000,000 | 100,000,000 (Notes 1 & 2) | 4.67% |
| Blue Sky International Investments Limited | Beneficial Owner | 173,533,590 | 173,533,590 (Notes 1 & 2) | 8.10% |

Substantial shareholders - Continued

Long Positions - Continued

Notes:

1. 1,121,011,351 shares held by China Merchants Group Limited represent the aggregate of 310,520,410 shares held by China Merchants Union (BVI) Limited, 510,513,584 shares held by Cheer Far Development Limited, 100,000,000 shares held by Bluewater International Investments Limited, 173,533,590 shares held by Blue Sky International Investments Limited and 26,443,767 shares held by Orienture Holdings Company Limited.
2. 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, Cheer Far Development Limited, China Merchants Union (BVI) Limited, China Merchants Holdings (Hong Kong) Company Limited and China Merchants Steam Navigation Company.

Short Positions

Nil

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 2004, the Group entered into the following transactions, which constituted connected transactions under The Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules"), and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

- (a) On 2 April 2004, three tenancy agreements were entered into between Universal Sheen Investment Limited, a wholly-owned subsidiary of the Company, and China Merchants Holdings (Hong Kong) Company Limited, Hong Kong Ming Wah Shipping Co., Ltd. and Hoi Tung Marine Machinery Suppliers Ltd. respectively, for lease of certain office premises with an area of 51,468 square feet, 25,835 square feet and 12,752 square feet at monthly rentals of HK\$1,338,168, HK\$465,030 and HK\$229,536 respectively. The tenancy agreements with China Merchants Holdings (Hong Kong) Company Limited and Hong Kong Ming Wah Shipping Co., Ltd. are for a term of two years commencing 1 February 2004. The tenancy agreement with Hoi Tung Marine Machinery Suppliers Ltd. is for a term of two years commencing 1 March 2004. Each of China Merchants Holdings (Hong Kong) Company Limited, Hong Kong Ming Wah Shipping Co., Ltd. and Hoi Tung Marine Machinery Suppliers Ltd. is a subsidiary of China Merchants Group Limited ("CMG");
- (b) On 29 June 2004, 漳州招商局碼頭有限公司 (the unofficial name being Zhangzhou China Merchants Port Co. Ltd.) entered into an agreement with 招商局漳州開發區有限公司 (the unofficial English name being China Merchants Zhangzhou Economic Development Zone Co., Ltd.), a subsidiary of China Merchants Group Limited, in respect of acquisition of the land use rights of a piece of land with an area of approximately 532,763.3 square metres within the Zhangzhou Development Zone, Zhangzhou Municipal, Fujian Province for the construction of berths number 7, 8, 9 and 10 as well as a new port storage logistics centre. Zhangzhou China Merchants Port Co. Ltd. is a 60% owned subsidiary of the Group. Pursuant to the agreement, the consideration for the piece of land payable by Zhangzhou China Merchants Port Co. Ltd. is RMB159,830,000 (approximately HK\$150,783,000) in cash.

Connected transactions - Continued

- (c) On 25 August 2004, the Company entered into a sale and purchase agreement with Market Ocean Holdings Limited, a wholly-owned subsidiary of the Company, China Merchants Energy Transport Investment Company Limited and China Merchants Holdings (Hong Kong) Company Limited in relation to the disposal by the Group of a 100% equity interest in Ming Wah Universal (Bermuda) Co., Ltd., a wholly owned subsidiary engaged in the oil tanker business, for a cash consideration of HK\$1,310,000,000.
- (d) On 23 November 2004, a joint venture contract was entered into between Zhangzhou Terminal Holdings Company Limited, a wholly-owned subsidiary of the Company, and 漳州招商局碼頭有限公司 (the unofficial English name being Zhangzhou China Merchants Port Co. Ltd), in relation to the establishment of Zhangzhou China Merchants Tugboat Company Limited with a total investment and registered capital of RMB45,000,000 (approximately HK\$42,453,000) and RMB15,000,000 (approximately HK\$14,151,000) respectively. Zhangzhou China Merchants Port Co. Ltd. is a 60% owned subsidiary of the Group and is also an associate (as defined in the Listing Rules) of China Merchants Group Limited. Zhangzhou China Merchants Tugboat Company Limited is owned as to 25% by Zhangzhou Terminal Holdings Company Limited and 75% by Zhangzhou China Merchants Port Co. Ltd..

Connected transactions - Continued

(e) Details of the continuing connected transactions of the Group for the year are set out below:

| Name of party | Nature of transaction | Note | Income/ (expenses) |
|--|--|------------|-----------------------|
| | | | HK\$'000 |
| Hempel A/S and its fellow subsidiaries | Royalties charged to the Group | (i), (ii) | (42,356) |
| | Sales of paints by the Group | (i), (iii) | 137,325 |
| | Sourcing services to the Group | (i), (iv) | (3,000) |
| Hempel A/S | Interest charged to the Group | (i), (v) | (761) |
| Associated Maritime Company (Hong Kong) Limited ("AMC") | Management fee paid by the Group | (vi) | (9,836) |
| China Merchants Godown Wharf and Transportation Company Limited ("CMGW") | Rental of use of nine vessels charged to the Group | (vii) | (3,024) |
| China Merchants Property Development Co., Ltd. ("CMPD") | Rental of properties and plants and equipment charged to the Group | (viii) | <u>(10,009)</u> |

Connected transactions - Continued

(a) Continued

| Name of party | Nature of transaction | Note | Income/ (expenses) HK\$'000 |
|---|---|------|-----------------------------------|
| Euroasia Dockyard Enterprise and Development Limited ("Euroasia") | Rentals of properties at Tsing Yi Terminal charged to the Group | (ix) | (20,285) |
| Hoi Tung Marine Machinery Suppliers Limited ("Hoi Tung") | Rentals of warehouse charged to the Group | (x) | (4,618) |
| | Transportation service fee charged to the Group | (x) | (1,423) |
| Hong Kong Ming Wah Shipping Company Limited ("Ming Wah") | Fees for cargo handling, loading, unloading and warehousing services charged by the Group | (xi) | 666 |

Connected transactions - Continued

(a) Continued

| Name of party | Nature of transaction | Note | Income/ (expenses) |
|---|---|--------|-----------------------|
| | | | HK\$'000 |
| Yiu Lian Dockyards Limited ("Yiu Lian") | Rentals of properties at Tsing Yi Terminal charged to the Group | (xii) | (5,589) |
| | Rentals of warehouse charged to the Group | (xiii) | (530) |
| | Ship berthing services charged to the Group | (xiv) | (3,408) |

Notes:

- (i) Hempel A/S (also known as I.C.H. Industrial and Commercial Holding ApS, which is registered as a secondary name) is a substantial shareholder of a non-wholly owned subsidiary of the Group and hence a connected person of the Company.
- (ii) Royalties were based on percentages of the net sales of paints and negotiated on an arms-length basis.
- (iii) Sales of paints were determined by the non-wholly owned subsidiary of the Group on the basis of the subsidiary's total production costs for the products plus a mark-up and the selling prices in general were no less favourable to the subsidiary than the prices the subsidiary would obtain from independent third parties on similar terms.
- (iv) Sourcing services were charged at a rate of 4% of the purchase price.
- (v) 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

(a) Continued

Notes: - Continued

(vi) Ming Wah (Universal) Shipping Inc. (“Ming Wah Shipping”) and its subsidiaries entered into various vessel management agreements, commercial services agreements and corporate service agreements with AMC, a subsidiary of CMG and hence a connected person of the Company, in 1994, under which AMC agreed to provide commercial, operational, ship repair and maintenance, insurance and accounting services to Ming Wah Universal (Bermuda) Company Limited and its subsidiaries (“Ming Wah Bermuda”). Ming Wah Bermuda is the immediate holding company of Ming Wah Shipping, which used to be the holding company for the Group’s interests in oil tanker business. AMC’s provision of management services to the Group enables the Group to operate its oil tanker business without making expensive investments in management and operational infrastructure. The management fee paid by Ming Wah Bermuda has been conducted based on two components : a fixed amount for corporate services and vessel servicing and a variable amount based on a percentage of the turnover of each vessel’s freight charter.

The entire interests in the oil tanker business was disposed of by the Group on 18 October 2004. Since then the provision of management services by AMC to Ming Wah Bermuda has ceased to be a connected transaction of the Group.

(vii) China Merchants Container Services Limited (“CMCS”), a wholly-owned subsidiary of the Company, entered into various ship leasing agreements with CMGW, a subsidiary of CMG and hence a connected person of the Company, on 1 November 2004 for a term of one year commencing on 1 November 2004. Pursuant to these agreements, CMGW agreed to lease to CMCS the use of several vessels. The rental paid by CMCS was based on the depreciation charges of the vessels.

(viii) China Merchants Port Services (Shenzhen) Company Limited (“CMSPS”), a wholly owned subsidiary of the Group, entered into an agreement with CMPD on 1 November 2004 in relation to the lease by CMSPS from CMPD of certain properties and plants and equipment for the operation of the port of Shekou, Shenzhen. The agreement is for a term of fourteen months commencing on 1 November 2004 and ending on 31 December 2005. CMPD is an associate (as defined in the Listing Rules) of CMG and hence a connected person of the Company. The rental paid by CMSPS was based on the market value of the properties and depreciation charges of the plants and equipment.

Connected transactions - Continued

(a) Continued

Notes: - Continued

- (ix) CMCS entered into a rental agreement with Euroasia on 1 November 2001 for the use of certain properties owned by Euroasia in connection with the operation of the business of CMCS at Tsing Yi Terminal. Pursuant to a supplemental agreement entered into on 1 November 2004, the rental agreement has been amended to have a term of two years commencing on 1 November 2004 at annual rental of HK\$20,285,000. Euroasia is a wholly owned subsidiary of CMG and therefore is a connected person of the Company.
- (x) Hempel-Hai Hong (China) Limited (“Hempel”), a subsidiary of the Group, entered into a rental and service agreement with Hoi Tung on 1 November 2004 for the rental of warehouse space from Hoi Tung and the provision of cargo management and paint shipping services by Hoi Tung. The agreement is for a term of one year commencing on 1 November 2004. The rental and the management and transportation service fee were charged at negotiated prices based on market rates. Hoi Tung is a subsidiary of CMG and therefore is a connected person of the Company.
- (xi) The fees for cargo handling, loading, unloading and warehousing services were charged at negotiated prices by reference to market rates.
- (xii) CMCS entered into a rental agreement with Yiu Lian, a wholly-owned subsidiary of CMG and hence a connected person of the Company, on 8 November 2001 for the use by CMCS of certain properties owned by Yiu Lian in connection with the operation of the business of CMCS at Tsing Yi Terminal. Pursuant to a supplemental agreement entered into on 1 November 2004, the rental agreement has been amended to have a term of two years commencing on 1 November 2004 at a rental charge of HK\$5,589,000 per annum.
- (xiii) Rentals charged to the Group were in accordance with the tenancy agreements.
- (xiv) CMCS entered into a ship berthing services agreement with Yiu Lian on 1 November 2004 pursuant to which Yiu Lian provided barges to bring ships into a port. The agreement is for a term of one year commencing 1 November 2004. The ship berthing services charged were by reference to market rates.

Connected transactions - Continued

- (f) The independent non-executive Directors have reviewed the continuing connected transactions set out in paragraphs (a) and (e) of this section above. In their opinion, these transactions were:
- (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms; and
 - (iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent non-executive Directors further opined that:

- (i) in respect of the use of the technology, management knowhow and trademarks of Hempel A/S by Hempel which is referred to in note (ii) of paragraph (e) of this section, the aggregate royalty fees charged to the Group have not exceeded 0.4% of the consolidated net tangible assets of the Group as at 31 December 2004;
- (ii) in respect of the sale of paint products to Hempel A/S, which is referred to in note (iii) of paragraph (e) of this section, the aggregate amount of sales have not exceeded 1% of the consolidated net tangible assets of the Group as at 31 December 2004;
- (iii) in respect of the provision of management services by AMC to the Group, which details are set out in note (vi) of paragraph (e) of this section, the aggregate management fees have not exceeded 0.2% of the consolidated net tangible assets of the Group as at 31 December 2004;

Connected transactions - Continued

- (iv) in respect of the leasing of the use of nine vessels by CMGW to CMCS, which details are set out in note (vii) to paragraph (e) of this section, the aggregate rental has not exceeded HK\$4,000,000;
- (v) in respect of the lease by CMSPS from CMPD of certain properties and plants and equipment for the operation of the port of Shekou, Shenzhen, which details are set out in note (viii) to paragraph (e) of this section, the aggregate rental has not exceeded 0.5% of the Group's consolidated net tangible assets as at 31 December 2004;
- (vi) in respect of the use of certain properties owned by Euroasia in connection with the operation of the business of CMCS at Tsing Yi Terminal, which details are set out in note (ix) to paragraph (e) of this section, the aggregate rental has not exceeded 0.5% of the Group's audited consolidated net tangible assets as at 31 December 2004;
- (vii) in respect of the provision of cargo handling, loading, unloading and warehousing services to Ming Wah by CMCS, which details are set out in note (xi) to paragraph (e) of this section, the aggregate fees have not exceeded 0.5% of the Group's audited consolidated net tangible assets as at 31 December 2004;
- (viii) in respect of the leasing of properties at Tsing Yi Terminal from Yiu Lian, which details are set out in note (xii) to paragraph (e) of this section, the aggregate rental has not exceeded HK\$7,500,000; and
- (ix) in respect of the provision of warehousing and other services by Yiu Lian in relation to the operation of the business of CMCS at Tsing Yi Terminal, which details are set out in note (xiii) to paragraph (e) of this section, the aggregate fees have not exceeded HK\$5,000,000.

Connected transactions - Continued

The board of directors has received a letter from the auditors of the Company stating that the continuing connected transactions set out in paragraphs (a) and (e) of this section:

- (A) have received the approval of the Company's board of directors;
- (B) were in accordance with the pricing policy of the Group if the transactions involve the provision of goods or services by the Group;
- (C) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and
- (D) where applicable, have not exceeded the caps as specified in waivers granted by the Stock Exchange on 10 December 2001 and 29 December 2003 as disclosed in previous announcements.

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 2004 respectively.

At no time during the 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 adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

Throughout the year ended 31 December 2004 the Company had complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules which was in force prior to 1 January 2005, 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.

Public float

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Disclosure Under Rule 13.22 of Chapter 13 of the Listing Rules

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31 December 2004 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

| | HK\$million |
|-------------------------|-------------|
| Non-current assets | 11,724 |
| Current assets | 12,286 |
| Current liabilities | (8,239) |
| Non-current liabilities | (3,784) |
| | <hr/> |
| Net assets | 11,987 |
| | <hr/> |
| Share capital | 3,391 |
| Reserves | 8,596 |
| | <hr/> |
| Capital and reserves | 11,987 |
| | <hr/> |

As at 31 December 2004, the Group's consolidated attributable interest in these affiliated companies amounted to HK\$3,785 million.

Audit Committee

The revised written terms of reference which describe the authority and duties of the Audit Committee were prepared and adapted with reference to "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. On 3 January 2005, the Company has adopted further revised terms of reference for its Audit Committee to comply with the Code on Corporate Governance as set out in Appendix 14 to the Listing Rules.

Audit Committee - Continued

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming 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. Lee Yip Wah Peter and Mr. Li Kwok Heem John. Two meetings were held during the current financial year.

Subsequent event

On 7 March 2005, the Group issued US\$500,000,000 principal amount of 5.375% Guaranteed Notes due in 2015, the proceeds of which will be used to finance the operation of the Group.

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.

On behalf of the Board



Dr. Fu Yuning
Chairman

Hong Kong, 22 March 2005