

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2001.

## **PRINCIPAL ACTIVITIES**

The Company is an investment company designed principally to enable investment in companies and other entities established or having significant operations in or business with the People's Republic of China ("PRC") by non-PRC persons. The investment emphasis of the Company has been placed on the Greater Shanghai Region, primarily in existing or newly established Sino-foreign equity joint ventures or co-operative joint venture enterprises, joint stock companies, wholly foreign-owned enterprises or other vehicles authorised under the applicable laws for foreign investments in the PRC. The Company can also invest in projects within the Greater China confine.

## **RESULTS AND DIVIDENDS**

The results of the Company for the year ended 31st December, 2001 are set out in the income statement on page 37.

The Directors propose the payment of a final dividend of US\$0.40 per share and a special dividend of US\$0.60 per share, for the year.

## **SHARE CAPITAL**

Details of the share capital of the Company are set out in note 13 to the financial statements.

## **RESERVES**

Movements in the reserves of the Company during the year are set out in note 14 to the financial statements.

# DIRECTORS' REPORT (Cont'd)

## DIRECTORS

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

### *Executive Directors:*

Mr. Lin, Bin

Mr. Wu, Choi Sun William (appointed on 11th June, 2001)

Dr. Fung, Kin Ming (resigned on 1st January, 2002)

### *Independent Non-Executive Directors:*

Mr. Ong, Ka Thai

Mr. Yick, Wing Fat, Simon

Dr. Treichler, Thomas Peter (retired on 22nd May, 2001)

### *Other Non-Executive Directors:*

Mr. Cai, Nongrui

Mr. Chao, Hsihsiang

Mr. Chiang, Chingyee

Mr. Sun, Taotsun

Mr. Zhou, Youdao

Madam Yin, Wong Yeefan

Dr. Hsu, Chihchang

Mr. Hu, Jinggang

Dr. Wang, Changhong

Mr. Chiu, Tak Chiang (appointed on 1st January, 2002)

(also known as Yau, Tak Chiang)

Mr. Nakagawa, Norikazu (resigned on 29th June, 2001)

All Directors are subject to retirement by rotation in accordance with the Company's Articles of Association. Subject to the above, the Independent Non-Executive Directors were each appointed for a term of two years.

In accordance with Article 93 and 98(b) of the Company's Articles of Association, Mr. Wu, Choi Sun William, Mr. Chiu, Tak Chiang, Mr. Chao, Hsihsiang, Dr. Hsu, Chihchang, Dr. Wang, Chang Hong and Mr. Zhou, Youdao retire and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

No Director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

# DIRECTORS' REPORT (Cont'd)

## BIOGRAPHICAL DETAILS OF DIRECTORS

### **Mr. Lin, Bin**

*Executive Director*

Mr. Lin, 47, was appointed Executive Director of the Company in September 2000 and was appointed Vice President of the Investment Manager in the same year. Mr. Lin holds an MBA degree from China-Europe International Business School (CEIBS), and a degree from University of Illinois at Champaign Urbana, USA. Since 1984, he joined SITICO and served in various positions including General Manager of SITICO Trading Pudong Inc.; Deputy General Manager of Financial Division II and Trust Division of SITICO. Mr. Lin has more than 15 years of experience in corporate finance and trust investment in the PRC.

### **Mr. Wu, Choi Sun William**

*Executive Director*

Mr. Wu, 53, was appointed Executive Director of the Company in June 2001 and the Managing Director of the Investment Manager in the same year. Prior to that, Mr. Wu was Executive Director of two listed companies under Tomson Group which has over US\$500 million direct investments in China. Before returning to Hong Kong, Mr. Wu was the Senior Vice President and a member of the board of Webster Johnson & Stowell, a U.S. consulting company specialising in difficult markets. Mr. Wu was responsible for profit centres of offices in the Pacific Rim. Mr. Wu received his tertiary education at the University of San Francisco where he graduated and did his graduate studies. Apart from a full spectrum of corporate management responsibility in listed companies, Mr. Wu has over 25 years' experience in business development, advisory, corporate finance and equity investment. He is currently an investment advisor registered with the Hong Kong Securities and Futures Commission.

### **Mr. Ong, Ka Thai**

*Independent Non-Executive Director*

Mr. Ong, 47, was appointed Independent Non-Executive Director of the Company in June 1997. Mr. Ong is currently the Chairman of a number of companies including Ong First Chicago Holdings Co. Ltd., Ong First Chicago Pte. Ltd., Ong Commodities Pte. Ltd. and Ong Pacific Capital Ltd. A Bachelor of Arts (Economics) graduate from the University of California at Los Angeles, Mr. Ong had served as the CEO for a number of multinational joint ventures. Mr. Ong is also a director of Singamas Container Holdings Ltd., a company listed on The Stock Exchange of Hong Kong Limited. Mr. Ong has over 23 years of experience in manufacturing, corporate and trade finance, regional equity, futures and commodities trading, investment banking and corporate advisory services, as well as direct and private equity investments.

# DIRECTORS' REPORT (Cont'd)

## BIOGRAPHICAL DETAILS OF DIRECTORS (Cont'd)

### **Mr. Yick, Wing Fat, Simon**

*Independent Non-Executive Director*

Mr. Yick, 43, was appointed Independent Non-Executive Director of the Company in July 1999. Mr. Yick graduated from the Chinese University of Hong Kong with a Bachelor's degree in Business Administration, majoring in Accounting. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Chartered Association of Certified Accountants in England. He is currently an executive director of a corporate finance house in Hong Kong. Mr. Yick has over 20 years of experience in audit, direct investment, investment banking and corporate advisory services.

### **Mr. Cai, Nongrui**

*Non-Executive Director*

Mr. Cai, 53 was appointed Director of the Company in December 1997. He is also a director of the Investment Manager. Mr. Cai joined SITICO and worked in various capacities including Deputy General Manager of General Office; Deputy General Manager of Accounting and Planning Division; General Manager of Accounting Division; General Manager of Finance Division I; Senior Vice President cum Vice Chief Economist; Chief Economist.

### **Mr. Chao, Hsihsiang**

*Non-Executive Director*

Mr. Chao, 73, was appointed Director of the Company in January 1994. Mr. Chao is presently the Chairman of Ruentex Construction & Development Co., Ltd. ("Ruentex Construction"), a company listed on the Taiwan Stock Exchange. Mr. Chao has more than twenty years of valuable experience in construction and business development.

### **Mr. Chiang, Chingyee**

*Non-Executive Director*

Mr. Chiang, 69, was appointed Director of the Company in January 1994. Mr. Chiang graduated with a degree in Scientific Technology and has been in the can manufacturing business for over thirty years. He is currently President of China Can Printing & Metal MFG., Co., Ltd. and is the Chairman of Great China Metal Ind., Co., Ltd. since 1967.

# DIRECTORS' REPORT (Cont'd)

## BIOGRAPHICAL DETAILS OF DIRECTORS (Cont'd)

### **Dr. Hsu, Chihchang**

*Non-Executive Director*

Dr. Hsu, 43 was appointed Director of the Company in December 1998. He is also a director of the Investment Manager. Dr. Hsu graduated from the Northwestern University with a Ph.D. in Managerial Economics and Decision Sciences. He has been a part-time associated professor of the Department of Financial Management of National Chengchi University. He is currently the President of Ruentex Industries Limited.

### **Mr. Hu, Jinggang**

*Non-Executive Director*

Mr. Hu, 50, was appointed Director of the Company in March 1999. He is also a director of the Investment Manager. Mr. Hu is a graduate of the Faculty of International Finance of the Shanghai East China Normal University. Mr. Hu had served in various departments of Shanghai Municipality since 1977. From 1987, he served as the assistant director and later the deputy director and the director of the International Communications Office of China Council for the Promotion of International Trade, Shanghai Subcouncil. Since December 1998, he has been senior vice president of SITICO.

### **Mr. Sun, Taotsun**

*Non-Executive Director*

Mr. Sun, 52, was appointed Director of the Company in January 1994. Mr. Sun graduated from Tamkang University of Taiwan. He is currently Chairman of Pacific Electric Cable & Wire Co. Ltd. ("PECW"), the largest and leading manufacturer of wire and cable in Taiwan. Since 1986, he has held office in a range of diversified and multinational companies. At present, he is a director of over 10 companies affiliated with the PECW group.

### **Dr. Wang, Changhong**

*Non-Executive Director*

Dr. Wang, 43, was appointed Director of the Company in March 1999. He joined Nomura International (Hong Kong) Limited in 1994 and is currently executive director of the Corporate Finance Department. Dr. Wang graduated from Nanjing University and holds a Ph.D. and Jurisprudence Doctor degree from the University of Pennsylvania. He is currently an investment advisor registered with the Hong Kong Securities and Futures Commission.

# DIRECTORS' REPORT *(Cont'd)*

## **BIOGRAPHICAL DETAILS OF DIRECTORS** *(Cont'd)*

### **Madam Yin, Wong Yeefan**

*Non-Executive Director*

Mrs. Yin, 54, was appointed Director of the Company in January 1994. Mrs. Yin graduated from the Fu Jen Catholic University with a Bachelor of Economics degree. Mrs. Yin is presently the Chairman of Ruentex Industries Limited ("Ruentex Industries") and a director of Ruentex Construction.

### **Mr. Zhou, Youdao**

*Non-Executive Director*

Mr. Zhou, 63, was appointed Director of the Company in December 1998. He is the chairman of the Investment Manager. Mr. Zhou had served with Shanghai Finance Bureau since May 1969 as deputy section chief. In August 1984 he began to serve as deputy director of the Financial and Monetary Division of The Finance and Trade Office of the Shanghai Municipal Government. In December 1985, he became the deputy chairman of Shanghai Finance Bureau and later served as the chairman. Since April 1998, he has been chairman and President of SITICO. At present, he serves as chairman of SITICO and Shanghai International Group Corporation Limited.

### **Mr. Chiu, Tak Chiang (also known as Yau, Tak Chiang)**

*Non-Executive Director*

Mr. Chiu, 48, was appointed Director of the Company in January 2002 and director of the Investment Manager in the same year. Mr. Chiu is currently President of SinoPac Capital Limited, a wholly-owned subsidiary of Bank SinoPac, a listed banking group in Taiwan. He worked in Citibank, Mastalink Securities Co., Ltd. and Investlink Co. Ltd. of Taiwan and has over 22 years of experience in investment banking, corporate finance advisory and market instruments operation. Mr. Chiu received his Master of International Management from the American Graduate School of International Management.

# DIRECTORS' REPORT *(Cont'd)*

## **INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONNECTED TRANSACTIONS**

The investment portfolio of the Company is managed by Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager") pursuant to the terms of an investment management and administration agreement (the "Investment Management Agreement") dated 12th November, 1993, as supplemented by the supplemental agreement dated 22nd January, 2001 and the second supplemental agreement dated 12th September, 2001, between the Company and the Investment Manager.

The Investment Management Agreement is terminable by either the Company or the Investment Manager giving not less than two months' notice in writing ("Notice of Termination") to the other party after a period of five years from 1st January, 2001 and is terminable at any time in accordance with certain terms in the agreement. Subject to certain terms in the agreement, if no Notice of Termination is given by either the Company or the Investment Manager on or prior to the expiry of the five year period, the term of the Investment Management Agreement shall automatically renew for another minimum term of five years immediately thereafter.

In accordance with the terms of the agreements, the Investment Manager is entitled to receive an aggregate management and administration fee and an incentive fee. The management and administration fee is calculated and payable in U.S. dollars quarterly in advance, at the rate of 0.5% per quarter of the net asset value (calculated before deduction of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter. The incentive fee, which is subject to a minimum net asset value per share of the Company of US\$7, is related to the investment portfolio, including both listed and unlisted investments, and is calculated and payable on an annual basis for each year ending 31st December at 15% of the amount by which that portion of the net asset value of each of the assets which represent listed securities (the "Listed Investment Portfolio") and assets which represent unlisted securities or interest (the "Unlisted Investment Portfolio") as at 31st December of each year exceeds 115% of that portion of the net asset value of the respective Listed Investment Portfolio and Unlisted Investment Portfolio as at 31st December of the immediately preceding year.

The Company has been granted a waiver from the Listing Division of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from strict compliance with the connected transaction requirements in respect of the provision of investment management and administration services (the "Transactions") by the Investment Manager to the Company pursuant to the Investment Management Agreement dated 12th November, 1993 as supplemented by the supplemental agreements dated 22nd January, 2001 and 12th September, 2001.

**DIRECTORS' REPORT** (Cont'd)**INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONNECTED TRANSACTIONS** (Cont'd)

Investment management and administration fees paid to the Investment Manager for the year ended 31st December, 2001 amounted to US\$1,275,049. No incentive fee has been paid to the Investment Manager for the year.

The independent non-executive directors have reviewed the Transactions and confirmed that (i) the Transactions have been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned, and in accordance with the terms and conditions of the Investment Management Agreement and the supplemental agreements thereto, and (ii) the total consideration of the Transactions does not exceed the cap as stipulated by the Stock Exchange in the waiver, namely the higher of either HK\$10,000,000 or 3% of the audited consolidated net tangible asset of the Company as disclosed in the Company's latest published accounts.

**DIRECTORS' INTEREST IN SHARES**

As at 31st December, 2001, the interests of the Company's directors in the shares of the Company were stated as follows:

<u>Name of director</u>	<u>Personal interest</u>	<u>Corporate interest</u>	<u>Other interest</u>
Mr. Chao Hsihsiang	—	100,000 (Note (a))	62,290 (Note (b), (d))
Madam Yin Wong Yeefan	—	485,000 (Note (c))	149,000 (Note (b))
Mr. Chiang Chingyee	51,000	99,000 (Note (e))	—

*Notes:*

- (a) Mr. Chao Hsihsiang is a beneficial owner of Tong Yuan International Ltd. which in turn holds a 1.12% interest in the Company.
- (b) Mr. Chao Hsihsiang has a 1.18% interest in Ruentex Construction which in turn holds a 2.56% interest in the Company.
- (c) Madam Yin Wong Yeefan has controlling power in Ruentex Industries and Ruentex Construction respectively, each in turn holds a 2.89% and 2.56% interest in the Company respectively.
- (d) Ruentex Construction and Ruentex Industries each has an equity interest in Kwang Hua Development & Investment Ltd. ("Kwang Hua") of 20% and 30% respectively, Kwang Hua in turn holds a 3.3% interest in the Company.
- (e) Mr. Chiang Chingyee has controlling power in Great China Metal Ind. Co., Ltd. which in turn holds a 1.11% interest in the Company.



# DIRECTORS' REPORT *(Cont'd)*

## DIRECTORS' INTEREST IN CONTRACTS

Other than the Investment Management and Administrative Agreements described above, no contracts of significance to which the Company 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the year.

At no time during the year was the Company a party to any arrangements 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.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, those persons or corporations having an interest of 10% or more in the issued share capital of the Company required to be disclosed pursuant to the Securities (Disclosure of Interests) Ordinance were as follows:

<u>Name</u>	<u>Number of shares</u>	<u>%</u>
Ariel Fund Limited ("Ariel")	1,194,682 <i>(Note a)</i>	13.42
Mr. J. Ezra Merkin	2,004,500 <i>(Note b)</i>	22.51

*Notes:*

- (a) The shares are registered in the names of Horsford Nominees Limited ("Horsford") and Ariel.
- (b) Mr. J. Ezra Merkin was deemed, for the purpose of the Securities (Disclosure of Interests) Ordinance, to be interested in 1,194,682 shares and 809,818 shares owned by Ariel and Gabriel Capital, L.P. ("Gabriel") respectively by virtue of his ownership in the issued share capital of Ariel and Gabriel.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2001.

## INVESTMENTS

Details of the top ten holdings of listed investments and the unlisted investments as at 31st December, 2001 are set out on pages 11 and 15 respectively.

## DIRECTORS' REPORT (Cont'd)

### PENSION SCHEME AND COSTS

As the Company is managed by the Investment Manager, the Company has no employees and does not have any liability or cost in connection with employees' pension schemes or retirement benefits.

### MAJOR CUSTOMERS AND SUPPLIERS

A substantial portion of the Company's income is derived from the Company's investments and bank deposits and the disclosure of information regarding customers would not be meaningful. The Company has no major suppliers requiring disclosure.

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not purchase, sell or redeem any of the Company's shares during the year.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### AUDITORS

A resolution will be proposed to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**WU, CHOI SUN WILLIAM**

*Director*

Hong Kong, 2nd April, 2002