

REPORT OF THE DIRECTORS

The Directors are pleased to present their annual report together with the audited financial statements of the Group for the year ended 31 December 2001.

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 year by business and geographical segments is set out in note 3 to the financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 45 of this Annual Report.

The Directors have declared an interim dividend of HK7.0 cents per share totalling HK\$144,075,000, which was paid on 23 October 2001.

The Directors recommend the payment of a final dividend of HK9.0 cents per share, totalling HK\$184,813,000.

Reserves

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

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 13 to the financial statements.

Investment property

Details of the investment property of the Group are set out on page 86.

Share capital

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

Distributable reserves

Distributable reserves of the Company as at 31 December 2001, calculated under section 79B of the Companies Ordinance, amounted to HK\$281,812,000 (2000: HK\$423,229,000, as restated).

Five-Year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 31.

Purchase, sale or redemption of shares

During the year, the Company repurchased a total of 700,000 of its own fully paid-up ordinary shares of HK\$0.10 each on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), all of which have been duly cancelled, as follows:

Month of repurchase	No. of shares repurchased	Price per share		Total consideration
		Highest HK\$	Lowest HK\$	
August	500,000	4.775	4.725	2,388,000
September	200,000	4.025	—	805,000
	700,000			3,193,000

Saved as disclosed above, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

REPORT OF THE DIRECTORS

Directors

The Directors during the year were:

Executive Directors:

Dr. Fu Yuning (<i>Chairman</i>)	
Mr. Zhou Qifang	
Mr. Zhao Huxiang (<i>Vice Chairman</i>)	
Mr. Li Yi (<i>Managing Director</i>)	(appointed on 1 November 2001)
Mr. To Wing Sing	
Mr. Yu Liming	
Mr. Li Yinquan	(appointed on 20 June 2001)
Mr. Meng Xi	(appointed on 20 June 2001)
Mr. Wu Shi Rong	(resigned on 16 November 2001)
Mr. Xue Yonggan	(resigned on 20 June 2001)
Mr. Wang Zhengde	(resigned on 20 June 2001)

Independent non-executive Directors:

Mr. Tsang Kam Lan	
Mr. Kut Ying Hay	
Mr. Koo Kou Hwa	
Mr. Lee Yip Wah Peter	(appointed on 20 June 2001)
Mr. Sun Wen Jie	(resigned on 20 June 2001)

In accordance with Articles 91 and 97 of the Articles, Mr. Zhao Huxiang, Mr. Li Yi, Mr. Yu Liming, Mr. Li Yinquan, Mr. Meng Xi, Mr. Koo Kou Hwa and Mr. Lee Yip Wah Peter will retire from the Board by rotation at the forthcoming AGM but, being eligible, will offer themselves for re-election.

The term of office of each independent non-executive Director is the period up to his retirement by rotation in accordance with the Articles.

Directors' service contracts

None of the Directors proposed for re-election at the forthcoming AGM have 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 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 2001, the interests of the Directors in the shares of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Name of director	Nature of interest	Class of Securities	Number of shares of the Company	Number of shares of the Company subject to share options granted
Dr. Fu Yuning	Personal interest	Ordinary Shares	–	2,000,000
Mr. Zhou Qifang	Personal interest	Ordinary Shares	–	350,000
Mr. Zhao Huxiang	Personal interest	Ordinary Shares	30,000	1,470,000
Mr. To Wing Sing	Personal interest	Ordinary Shares	–	320,000
Mr. Yu Liming	Personal interest	Ordinary Shares	–	350,000
Mr. Lee Yip Wah Peter	Personal interest	Ordinary Shares	60,000	–

REPORT OF THE DIRECTORS

Directors' interests in securities – Continued

Saved as disclosed above, as at 31 December 2001, none of the Directors (including their spouses and children under 18 years age) had any interests in, or any rights to subscribe for, any securities of the Company or any of its associated corporations, within the meaning of the SDI Ordinance, as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company.

Apart from the share option schemes disclosed below, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors 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 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 option. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company at the time of granting of the options. Under the terms of the Terminated Scheme, a director or employee may only exercise share options granted after he or she has completed two years service with the Group.

The Terminated Scheme was terminated on 20 December 2001 ("Termination Date") without prejudice to the rights and benefits of and attached to those options granted thereunder which 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 2001, the total number of shares which may be issued pursuant to exercise of options granted under the Terminated Scheme was 11,199,000 shares, which represented approximately 0.5% of the total issued share capital of the Company as at 31 December 2001.

Details of the share options outstanding at 31 December 2001 which have been granted under the Terminated Scheme are as follows:

Name of director	Date of grant	Exercise price	Options held at 1 January 2001	Options granted during the year ⁵	Options exercised during the year ³	Options lapsed during the year	Options held at 31 December 2001
Dr. Fu Yuning	1 March 2000	5.054	2,500,000	–	500,000	–	2,000,000
Mr. Zhou Qifang	19 September 2000	5.615	350,000	–	–	–	350,000
Mr. Zhao Huxiang	1 March 2000	5.054	2,000,000	–	530,000	–	1,470,000
Mr. To Wing Sing	1 March 2000	5.054	1,150,000	–	830,000	–	320,000
Mr. Yu Liming	1 March 2000	5.054	350,000	–	–	–	350,000
Mr. Wang Zhengde ⁴	1 March 2000	5.054	975,000	–	800,000	–	175,000
Mr. Wu Shi Rong ⁴	1 March 2000	5.054	1,950,000	–	350,000	–	1,600,000
Mr. Xue Yonggan ⁴	1 March 2000	5.054	1,150,000	–	574,000	576,000	–
Continuous contract employees							
(I)	1 March 2000	5.054	3,500,000	–	506,000	500,000	2,494,000
(II)	19 September 2000	5.615	1,050,000	–	48,000	–	1,002,000
(III)	24 May 2001	5.630 ¹	–	750,000	12,000	–	738,000
(IV)	6 July 2001	5.610 ²	–	700,000	–	–	700,000

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

Notes:

- 1 The closing market price per share at the date preceding the date on which the share options were granted was HK\$6.00.
- 2 The closing market price per share at the date preceding the date on which the share options were granted was HK\$5.75.
- 3 The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK\$5.93.
- 4 Mr. Wu Shi Rong, Mr. Xue Yonggan and Mr. Wang Zhengde resigned as directors during the year.

REPORT OF THE DIRECTORS

Share option schemes – Continued

(a) *Terminated Scheme*

5 Value of Options

The values of the options that were granted under the Terminated Scheme as of 24 May 2001 and 6 July 2001 are reasonably stated by the amount of HK\$2,569 and HK\$2,153, respectively. The valuation of each option is based on the closing price of the shares of the Company as at the date of grant of the option or the following trading day if the date of grant falls on either a Saturday or a Sunday.

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

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

1. the Eligible Person has the right to exercise the option at any time within the 6-year period from the date of grant to the expiration date of the option (“Option Period”);
2. 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;
3. 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;
4. dividends will be distributed to the Shareholders twice a year. The ex-dividend dates will be on 31 May and 15 October, or the following trading day if 31 May or 15 October falls on either a Saturday or a Sunday;
5. 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
6. number of trading days per year is 250.

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

(b) *Existing Scheme*

Under the share option scheme (the “Existing Scheme”) approved by the shareholders at an Extraordinary General Meeting of the Company held on 20 December 2001 (“Adoption Date”), the Directors may, at their discretion, invite any directors or employees of the Company or any of its subsidiaries or associated companies (“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.

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 Persons.

(iii) Maximum number of shares

(1) 10% limit

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

(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 any options to be granted under the Terminated Scheme under the limit as “refreshed” shall not exceed 10% of the Shares 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 in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the limit as “refreshed”.

(3) Exceeding the 10% limit

The Board may grant options 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 in general meeting, and subject always to (iii) (5) below.

REPORT OF THE DIRECTORS

Share option schemes – Continued

(b) Existing Scheme

(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 in general meeting (with such Eligible Person and his associates abstaining from voting), and subject always to (iii) (5) below.

(5) 30% maximum limit

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

As at 31 December 2001, no share options were granted under the Existing Scheme.

(iv) Option period

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

(v) Payment on acceptance of option offer

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

(vi) Exercise price

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

(vii) The remaining life of the Existing Scheme

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

(viii) Shares available for issue under the Existing Scheme

As at 31 December 2001, the total number of shares available for issue under the Existing Scheme was 188,747,238 shares which represented approximately 9.2% of the total issued share capital of the Company.

REPORT OF THE DIRECTORS

Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31 December 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of ordinary shares of the Company beneficially held	Percentage of total issued share capital
Cheer Far Development Limited	510,513,584	24.86%
China Merchants Holdings (Hong Kong) Company Limited (note 1)	1,045,177,584	50.90%
China Merchants Steam Navigation Company, Limited (note 2)	1,045,177,584	50.90%
China Merchants Holdings Company Limited (note 3)	1,091,337,351	53.15%

Notes:

1. The 1,045,177,584 shares beneficially held by China Merchants Holdings (Hong Kong) Company Limited ("CMHK") represent the aggregate of 510,513,584 shares held by Cheer Far Development Limited ("Cheer Far"), 161,130,410 shares held by China Merchants Union (BVI) Limited ("CMU"), 153,533,590 shares held by Blue Sky International Investments Limited ("Blue Sky"), 120,000,000 shares held by Shinning Hope Limited ("Shinning Hope"), and 100,000,000 shares held by Bluewater International Investments Limited ("Bluewater"). Cheer Far, CMU, Blue Sky, Shinning Hope and Bluewater are wholly-owned subsidiaries of CMHK. By virtue of the SDI Ordinance, CMHK was deemed to be interested in 1,045,177,584 shares of the Company.
2. CMHK is a wholly-owned subsidiary of China Merchants Steam Navigation Company, Limited ("CMSN"). By virtue of the SDI Ordinance, CMSN was deemed to be interested in 1,045,177,584 shares of the Company.
3. The 1,091,337,351 shares beneficially held by China Merchants Holdings Company Limited ("CMH") represent the aggregate of 1,045,177,584 shares beneficially held by CMSN and 46,159,767 shares held by Orienture Holdings Company Limited ("Orienture"). CMSN and Orienture are both wholly-owned subsidiaries of CMH. By virtue of the SDI Ordinance, CMH was deemed to be interested in 1,091,337,351 shares of the Company.

Connected transactions

During the year ended 31 December 2001, the Group entered into the following transactions, which constitute connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14 of the Listing Rules:

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

Name of party	Nature of transaction	Note	HK\$'000
ICH and its fellow subsidiaries	Royalties charged to the Group	(i)	21,590
	Sales of paints by the Group	(i)	69,367
ICH	Interest charged to the Group	(ii)	826

The transactions were entered into on the following basis:

- (i) Royalties and sales were charged at negotiated prices by reference to market rates.
 - (ii) Interest was charged at an average of 5% per annum on the principal amounts of the respective loans.
- (b) Throughout the year, the Group had several bank loan facilities which were secured by corporate guarantees and an undertaking by CMH, the ultimate holding company of the Company. Pursuant to the undertaking from CMH, it has agreed to maintain directly or indirectly more than 50% of the issued voting share capital of the Company. At 31 December 2001, bank loans in the amount of HK\$280,847,000 were covered by the undertaking of CMH.
 - (c) On 15 February 2001, the Group entered into a joint venture agreement with Shenzhen Chiwan Wharf Holdings Ltd. ("Shenzhen Chiwan") to establish a joint venture company, Shenzhen CWH International Ltd. 深圳港航國際有限公司 ("JV Co"), to develop and operate the Mawan Port No. 8 in Nanshan, PRC for a term of 50 years. The JV Co is owned as to 51% and 49% by Shenzhen Chiwan and the Group respectively. Total investment by the Group in the joint venture is approximately RMB160 million.

REPORT OF THE DIRECTORS

Connected transactions – Continued

By virtue of the fact that Shenzhen Chiwan is a substantial shareholder of a subsidiary of the Company, the transaction with Shenzhen Chiwan constitutes a connected transaction for the Company. Details of the transaction are contained in a press announcement of the Company dated 15 February 2001.

- (d) On 22 February 2001, the Group and its PRC joint venture partners of certain sino-foreign joint ventures (the “Guihuang JVs”) entered into conditional agreements to vary the terms of the joint venture agreements that were entered into in April 1997. Pursuant to the revised joint venture agreements, (i) the joint venture periods of the Guihuang JVs were extended by five years to 15 April 2027; (ii) the Group is entitled to 100% of the profits of the Guihuang JVs, as adjusted, for a period of fifteen years commencing 1 January 2000; and (iii) the Group is entitled to share the profits of the Guihuang JVs in proportion to its registered capital holding in the Guihuang JVs for the remaining term of the joint ventures. The management agreements between the PRC joint venture partners and the Guihuang JVs were also terminated.

In return for the above revision in the terms of the joint venture agreements, the arrangements under which annual minimum profits were guaranteed by the PRC joint venture partners were terminated.

By virtue of the fact that the PRC joint venture partners are substantial shareholders of the Guihuang JVs which were subsidiaries of the Company prior to the variation in the terms of the joint venture agreements as set out above, the variation in terms of the joint venture agreements with the PRC joint venture partners constitutes connected transactions for the Company. Details of the above transactions are contained in a circular of the Company dated 16 March 2001.

- (e) On 27 February 2001, the Group entered into a joint venture agreement with, inter alia, High Rated Holdings Limited (“High Rated”) for the establishment of CMF Technology Fund I Ltd. (“CMF Technology”) which will be used for making private equity investments in high technology companies in the Greater China Region and the United States of America for a term of 10 years commencing 30 January 2001. The Group’s investment in CMF Technology is US\$18,600,000 (equivalent to HK\$145,080,000) by way of subscription of shares in CMF Technology.

By virtue of the fact that High Rated is a subsidiary of the ultimate holding company of the Company, the transaction constitutes a connected transaction for the Company. Details of the transaction are contained in a press announcement of the Company dated 27 February 2001.

- (f) On 16 October 2001, the Group entered into a joint venture agreement with Shenzhen Chiwan to establish a joint venture, Shenzhen Cyber-Harbour Network Co. Ltd. 深圳港航網絡系統有限公司 (“Shenzhen Cyber-Harbour”), which will be engaged in port and port-related activities.

Shenzhen Cyber-Harbour is owned as to 62.5% and 37.5% by the Group and Shenzhen Chiwan respectively. Total investment by the Group in Shenzhen Cyber-Harbour is approximately RMB7,060,000.

By virtue of the fact that Shenzhen Chiwan is a substantial shareholder of a subsidiary of the Company, the transaction with Shenzhen Chiwan constitutes a connected transaction for the Company. Details of the transaction, are contained in a press announcement of the Company dated 17 January 2002.

- (g) On 13 November 2001, the Company entered into an acquisition agreement (“Lovedays Acquisition Agreement”) with Top Chief Company Limited (“Top Chief”) for the purchase of all the issued shares in Lovedays Investment Limited (“Lovedays”) and all outstanding shareholders’ loans advanced by Top Chief to Lovedays, for a consideration of HK\$165,949,132 (“Lovedays Acquisition”).

Lovedays held a 5% interest in CM Port as at 13 November 2001. Prior to the completion of the Lovedays Acquisition, Lovedays entered into an equity transfer agreement with China Merchants Shekou Industrial Zone Company Limited (“CMSKIZ”) to acquire an additional 44% equity interest in CM Port.

On 13 November 2001, the Group entered into an acquisition agreement with CMSKIZ and Shenzhen China Merchants Investment Consultant Company Limited (“SCMIC”) for the transfer of the equity interest held by CMSKIZ and SCMIC in CM Port to the Group (“SCMPS Acquisition”). CMSKIZ also assigned to the Group all of the CMSKIZ accounts receivable from CM Port (“CMSKIZ Accounts Receivable”). The consideration amounted to RMB412,590,000, which includes RMB183,090,000 for the transfer of the entire 51% equity interest in CM Port and RMB229,500,000 for the transfer of the CMSKIZ Accounts Receivable.

REPORT OF THE DIRECTORS

Connected transactions – Continued

The completion of the SCMPS Acquisition is subject to, inter alia, the completion of the Lovedays Acquisition.

As Top Chief, CMSKIZ and SCMIC are subsidiaries of the ultimate holding company of the Company, the transactions with them constitute connected transactions for the Company.

Upon completion of the Lovedays Acquisitions and the SCMPS Acquisition (assuming that the entire 51% equity interest in CM Port was transferred under the SCMPS Acquisition Agreement), the Group would hold 100% of CM Port. CM Port complements the Group's existing port business at Shekou, Shenzhen as the facilities of CM Port are located just adjacent to the Shekou Container Terminal which is operated by Shekou Container Terminals Limited, an associated company of the Group.

Details of the above transactions are contained in a circular of the Company dated 1 December 2001. The above transactions were approved by the Shareholders on 20 December 2001.

- (h) On 13 November 2001, the Company and China Merchants Transportation Holdings Company Limited ("CMTHC") entered into a sale and purchase agreement for the purchase of the entire issued share capital of CM Container and all shareholder's loan owing by CM Container at a cash consideration of HK\$102,600,000. CM Container, located in Tsing Yi Island, Hong Kong, provides midstream operation and related services.

As CMTHC is a subsidiary of the ultimate holding company of the Company, the transaction with CMTHC constitutes a connected transaction for the Company. Details of the transaction are contained in a circular of the Company dated 1 December 2001. The above transaction, which was completed in January 2002, was approved by the Shareholders on 20 December 2001.

- (i) Details of other discloseable connected transactions, which also constitute related party transactions, for the year are set out in notes 35 (a), (b) and (c) to the financial statements.

The independent non-executive Directors have reviewed the connected transaction set out in paragraph (a) of this section and the related party transactions set out in notes 35 (a), (b) and (c) to the financial statements and, in their opinion, these transactions were:

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

Practice Note 19 to the Listing Rules

The Group has certain bank loan facilities throughout the continuance of which CMH, the controlling shareholder of the Company, which held 53.15% of the issued share capital of the Company as at 31 December 2001, is required to maintain directly or indirectly a particular percentage of the issued voting share capital of the Company. Details of the bank loan facilities utilised at 31 December 2001 and the performance obligation of CMH disclosed in accordance with Part 3.9 of Practice Note 19 to the Listing Rules are as follows:

Bank loan facility	Percentage of the issued voting share capital of the Company required to be held by CMH
US\$110,000,000 undrawn amount	At least 35%
US\$20,000,000 wholly repayable on 7 March 2002	More than 50%
US\$16,012,500 repayable by 7 equal semi-annual instalments commencing 7 June 2002	Largest single shareholder

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

Management contracts

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

REPORT OF THE DIRECTORS

Major customers and suppliers

The largest customer of the Group accounted for 9.7% of the Group's total sales in 2001. The five largest customers in aggregate accounted for 31.0% of the Group's total sales in 2001.

The aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases in 2001.

At no time during the Current Year have 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, throughout the Current Year, complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules except that non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the Articles.

Audit Committee

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

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

Auditors

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

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

On behalf of the Board

Dr. Fu Yuning

Chairman

Hong Kong, 22 April 2002

