



Mr. Li Yi
Managing Director



“ To be the leading operator in ports, transportation and infrastructure businesses in China, and to maximise our shareholders’ value. ”



OPERATIONS REVIEW

China Merchants Holdings (International) Company Limited is presently positioned as a transportation and infrastructure enterprise engaging in ports business, container manufacturing and related businesses, toll road business, and oil tanker business, with ports business as its core business.

China Merchants Holdings (International) Company Limited's major result indices for the Current Year recorded substantial increases and reached record high.

The Company and its subsidiaries recorded double-digit growth in their major performance indices for 2002. The Company's consolidated profit after tax and minority interests amounted to HK\$882,490,000, net of a provision for impairment on land and buildings of HK\$200,000,000, representing an increase of 10.3% over HK\$800,210,000 in 2001. Excluding the non-cash provisions in both years, profit attributable to shareholders was HK\$1,082,490,000, representing an increase of 15.2% over HK\$939,770,000 in 2001. The turnover of the Company for the Current Year was HK\$1,689,000,000, representing an increase of 40.0% from HK\$1,206,100,000 in 2001.

Ports business, the core business of the Company, benefited from the rapid growth in the PRC's foreign trade and profit, was up by 31.6% over the previous year. The container manufacturing and related businesses also achieved good results with a 16.3% increase in profit over the previous year. Performance of the five toll roads was better in the Current Year. Furthermore, the disposal of three highway projects in the Current Year realised a gain of approximately HK\$88,000,000. As a result, profit arising from the toll road business increased significantly in the Current Year. Due to market conditions, profit from the oil tanker business was lower than that of 2001.



PORTS BUSINESS

Operating condition and performance of the Company for the Current Year are as follows:

PORTS BUSINESS

Investment Project	Percentage of Shareholding		Note
	2001	2002	
Modern Terminals Limited	22.1%	22.1%	Second largest shareholder
China Merchants Container Services Limited	–	100.0%	Wholly-owned, acquired on 4 January 2002
Asia Airfreight Terminal Company Limited	20.0%	20.0%	Third largest shareholder
Shekou Container Terminals Limited	32.5%	32.5%	Largest shareholder
Shekou Container Terminals (Phase II) Company Limited	–	51.0%	Largest shareholder
Shenzhen Mawan Port Project	–	60.0%	Control through a joint venture company
China Nanshan Development (Group) Inc (with shareholdings in Chiwan Wharf and Chiwan Container Terminal)	36.5%	37.0%	Largest shareholder
China Merchants Port Services (Shenzhen) Co. Limited	–	100.0%	Wholly-owned, acquired on 1 April 2002
China Merchants Holdings (Pacific) Limited (holding Shenzhen Haixing Harbour Development Co. Ltd.)	23.9%	24.0%	Largest shareholder
Shenzhen Cyber-Habour Network Co. Ltd	62.5%	62.5%	Joint investment with an associated company
Zhangzhou China Merchants Port Co. Ltd.	49.0%	49.0%	Under the Company's management

Ports business is a major investment focus of the Company. Profit contribution from this segment soared substantially in the Current Year to a higher ratio in the overall profit of the Company. The result was indeed encouraging.

In the Current Year, consolidated profit after tax and minority interests of the Company's ports business was HK\$521,700,000, representing an increase of 31.6% over HK\$396,400,000 in 2001. Profit from ports business amounted to over 50% of the Company's recurrent profit. Turnover for the Current Year was HK\$384,000,000, representing an integrated amount of turnover of China Merchants Port Services (Shenzhen) Co. Limited and China Merchants Container Services Limited.

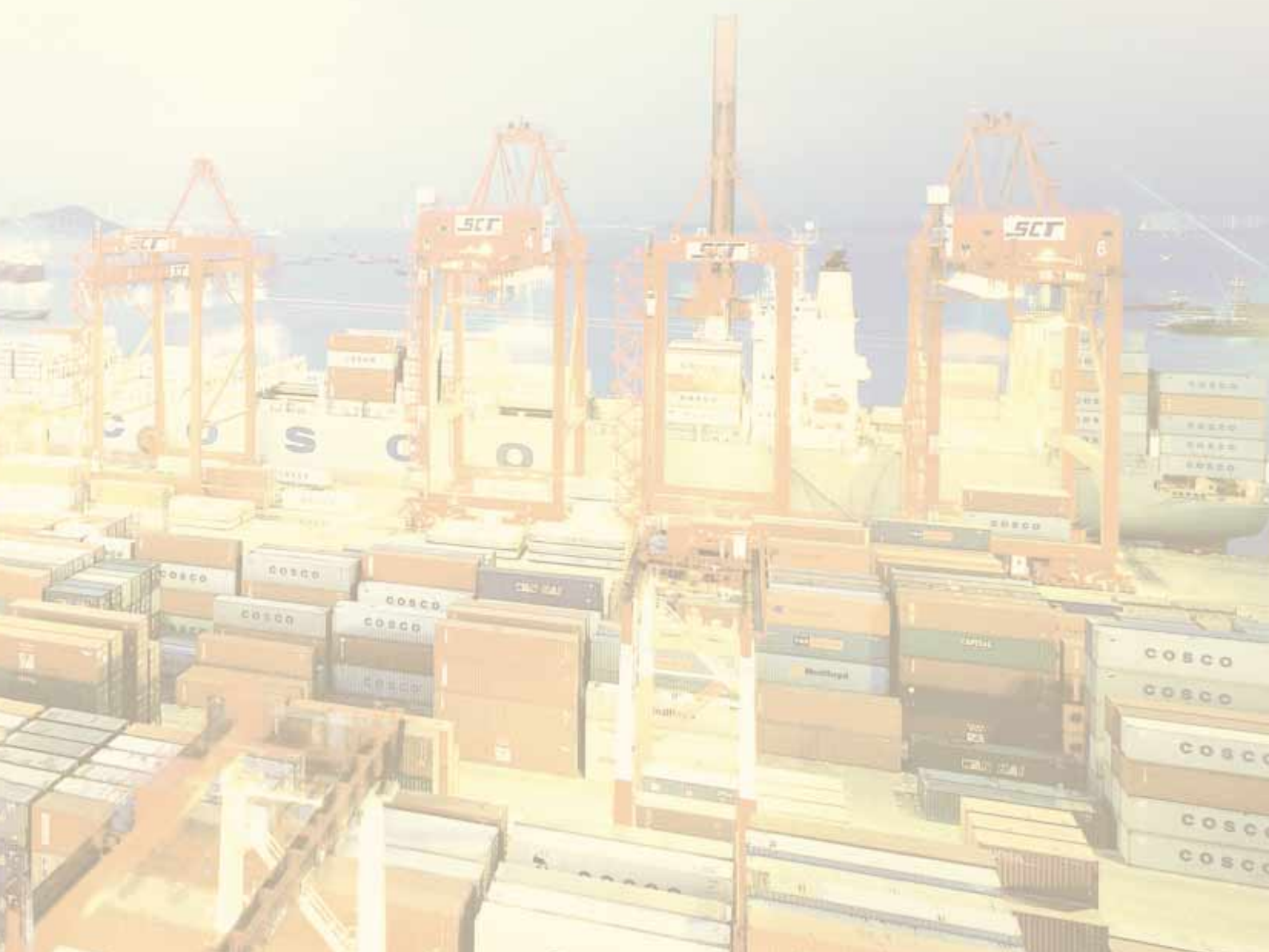
Operations Review

In 2002, the overall import and export value in PRC foreign trade recorded an increase of 21.8% over last year. Consequently, the volume of containers handled at various PRC ports also increased. Under such advantageous environment, the Company enhanced the quality of its assets by means of improving the components of its assets and strengthening its operation management. Externally, the Company actively sought to expand its asset base, such as investing in Phase II of the Shekou Container Terminals and Mawan Port Project, acquiring the entire interest in China Merchants Port Services and China Merchants Container Services, increasing its shareholding in China Nanshan Development, increasing the capital contribution to Zhangzhou CM Port. There are also plans to invest in the development of container terminal projects in Ningbo, Tianjin, Qingdao and other places. The throughput, profit level and returns on the assets of the ports in which the Company had invested were significantly higher in the Current Year. These have laid a solid foundation for the Company's development in the coming years.



During the Current Year, the total container throughput of the ports in which the Company had invested amounted to over 7,500,000 TEU, representing an increase of 24% over that of 2001. The ports in western Shenzhen, located in the Pearl River Delta Estuary, recorded a throughput of 3,250,000 TEU in 2002, representing 42.7% of the total container throughput handled by the ports in Shenzhen. Comparing with the 2,230,000 TEU handled in 2001, this represented an increase of 45.7%. It is also approximately 11% higher than the 34.6% year-to-year growth of the average throughput of all the ports in the PRC. The Company's container ports in Hong Kong handled 4,300,000 TEU for the Current Year, representing an increase of 6.4% over that in 2001.

Modern Terminals Limited: MTL is located in Kwai Chung, Hong Kong and operates berths Nos. 1, 2 and 5 and pier No. 8 (the west side). Its main business is container handling services. In 2002, MTL handled 3,610,000 TEU of container throughput, which was 2.6% higher than the 3,520,000 TEU in 2001. The throughput handled by MTL in the Current Year amounted to about 30% of the total throughput of the Kwai Chung container terminals.



Operations Review

China Merchants Container Services Limited: CMCS is located on Tsing Yi Island, Hong Kong. It provides mid-stream container handling operation and related services. In 2002, CMCS handled 690,000 TEU of containers, an increase of 32.7% over 520,000 TEU in 2001. The growth of mid-stream operation in Hong Kong during the period was only 10.5%. CMCS's market share rose from 17% in 2001 to 21% in the Current Year, representing a 4% increase.

Asia Airfreight Terminal Company Limited: AAT is the second largest exclusive air freight licensee in cargo terminal services at the Hong Kong International Airport. AAT provides carriers with services including custom management and clearance, physical goods handling, preparation of documentation, and special handling of cargos. In 2002, AAT handled 430,000 tons of cargos, 17.2% more than the 367,000 tons in 2001, and represented 20% of the total market share in Hong Kong.

Shekou Container Terminals Limited: SCT is situated in the Shekou port area in western Shenzhen, operating berths No. 1 and No. 2. SCT's business includes loading and unloading of containers, freight forwarding, container land haulage, barges and feeder services. SCT handled a record high of container throughput of 880,000 TEU in the Current Year. Comparing with the 750,000 TEU in 2001, it represented an increase of 17.3%. The two existing berths have reached their full handling capacity. Berths No. 3 and No. 4 in Phase II of Shekou Container Terminals, in which the Company has invested, will be completed and gradually operational in the second half of 2003. The container's handling capacity is expected to double by then.

Mawan Port Project: The Mawan Port Project is situated in the Mawan port area in western Shenzhen. The project is a joint investment by the Company, Chiwan Wharf, an associate of the Company, and Shenzhen Nanyou (Group) Company Limited, and is under the management of the Company. Mawan berth No. 0, new berths No. 5, No. 6 and No. 7 are multi-purpose berths will be engaged in services such as container loading and unloading and related port services. Mawan Berth No. 0 has been completed and will become operational in mid-2003. Construction works for new Berths No. 5, No. 6 and No. 7 will commence in 2003 and will be completed before 2007.

China Nanshan Development (Group) Inc: CND is a controlling shareholder of Chiwan Wharf and Chiwan Container Terminal. Chiwan Wharf and Chiwan Container Terminal operated terminals in the Chiwan port area in western Shenzhen. Chiwan Wharf's business includes port loading and unloading of container, warehousing, transportation for bulk and general cargos and containers. Chiwan Container Terminal's business includes loading and unloading containers in relation to ports, warehousing, and transportation. The two companies together handled a

container throughput of 1,540,000 TEU for the Current Year, representing an increase of 71% over that of 900,000 TEU in 2001. The volume the bulk and general cargo handled was 7,270,000 tons, representing a 30% increase over the 5,590,000 tons in 2001. Chiwan Container Terminal also achieved a milestone in breaking the one million TEU mark, reaching 1,140,000 TEU or a growth of 77%.

China Merchants Port Services (Shenzhen) Co. Limited: CMPS is situated in the Shekou port area in western Shenzhen, and is engaged in loading and unloading of containers, freight forwarding, containers land haulage, barge and feeder services. In 2002, CMPS handled a throughput of 600,000 TEU, representing a 39.5% increase over the 430,000 TEU in 2001. It also handled a throughput of 10,330,000 tons of bulk and general cargo, representing a 2.48% increase from 10,080,000 tons in 2001.

China Merchants Holdings (Pacific) Limited: The Company is the single largest shareholder of China Merchants Pacific, a public company listed on the Singapore Exchange Limited. China Merchants Pacific held 33% interest in Shenzhen Haixing Harbour Development Co. Ltd. Haixing port is situated in Mawan area in western Shenzhen and is engaged in the operation of berths Nos. 1, 2, 3 and 4 and port loading and unloading, freight forwarding, containers land haulage, barge and feeder services. Haixing port handled a throughput of 230,000 TEU in the Current Year, representing a 53% growth over 150,000 TEU in 2001. The throughput of the bulk and general cargo handle was 6,880,000 tons, representing an increase of 36% over 5,060,000 tons in 2001.

Shenzhen Cyber-Habour Network Co. Ltd.: Shenzhen Cyber-Habour is mainly engaged in the development and establishment of operation platforms for electronic data exchange systems to meet the requirements of ports, shipping enterprises and the government in electronic data exchange. At present, they mainly serve the Company's ports in western Shenzhen, thereby improving considerably the efficiency of custom clearances at these ports.

Zhangzhou China Merchants Port Co. Ltd.: Zhangzhou CM Port is situated in the Zhangzhou Economic Development Zone, Fujian. The terminal in Zhangzhou Port is under construction and the Company is responsible for the development, construction, operation and management of the port. Since Zhangzhou is a port for direct sail in the context of the "three exchanges" with Taiwan approved by the PRC Government, it has an important strategic significance with tremendous economic potential for trading with Taiwan. For the Current Year, berth No. 3 operated by the Company handled a cargo throughput of 1,620,000 tons, representing a remarkable growth of 52% from 2001. The construction of berths No. 4 and No. 5 will be completed for operation in mid 2003 whilst the construction of berths No. 1 and No. 2 are expected to commence in 2003.



CONTAINER MANUFACTURING AND RELATED BUSINESSES

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Investment Project	Percentage of Shareholding	Note
China International Marine Containers (Group) Ltd.	27.3%	Largest shareholder
Hempel-Hai Hong Coatings Co. Ltd.	64.0%	Controlling shareholder
PPG Coatings (Hong Kong) Co. Ltd.	30.0%	Second largest shareholder
Valspar Hai Hong Co. Ltd.	40.0%	Second largest shareholder

The Company's container manufacturing and related businesses, including container manufacturing and paint manufacturing businesses, also achieved impressive results in the Current Year, and their market share was further enlarged.

Consolidated profit after tax and minority interests of the Company's container manufacturing and related businesses for the Current Year was HK\$223,100,000, representing an increase of 16.3% over HK\$191,900,000 in 2001. In 2002, turnover of container manufacturing and related businesses was HK\$872,800,000, which was the turnover of Hempel-Hai Hong, representing a 29.4% increase from HK\$674,500,000 in 2001.

In 2002, the Company took an active role in the operation and marketing of the container manufacturing and related businesses and made strategic decisions in respect of Hempel-Hai Hong. It has also joined force with the foreign shareholder of Valspar Hai Hong to strengthen its management, and as a result, it managed to turn around the successive losses sustained for years and began to generate profit during the Current Year.

The Company is the largest shareholder of CIMC. CIMC is the largest container manufacturer in the world and has, for seven consecutive years, obtained the largest global market share in the dry cargo container sector. For the Current Year, CIMC has ranked number one in the world in the reefer sector. During the Current Year, CIMC sold a total of 670,000 TEU dry cargo containers, representing a 71.8% increase over the 390,000 TEU sold in 2001. The number of reefers sold in the Current Year reached 57,000 TEU, representing an increase of 58% over the 36,000 TEU sold in the previous year. In mid-2002, CIMC's global market share of dry cargo containers was 46%, and its global market share of reefers was 50%.

Hempel-Hai Hong, a subsidiary of the Company, mainly manufactures port-related paints for containers and ships, and is presently the largest manufacturer of container paints and marine paints in the PRC. In the Current Year, Hempel-Hai Hong sold a total of 55,000,000 litres of different kinds of paints, representing an increase of 45% from 38,000,000 litres in 2001. The growth in the turnover was mainly attributed to the increase in the sales of container paints. Hempel-Hai Hong had a 35% and 30% market share in the respective PRC container paints and marine paints markets as at the end of 2002.



TOLL ROAD BUSINESS

TOLL ROAD BUSINESS

Investment Project	Percentage of Shareholding		Distribution Ratio
	2001	2002	
Ningzhenluo Expressway (寧鎮駱公路)	60.0%	60.0%	60.0%
Guihuang Expressway (貴黃公路)	60.0%	60.0%	100.0%
Yuyao Expressway (余姚公路)	60.0%	60.0%	77.5%
Guiliu Expressway (桂柳公路)	40.0%	40.0%	90.0%
Luomei Expressway (羅梅公路)	33.3%	33.3%	100.0%
Western Harbour Tunnel in Hong Kong	13.0%	13.0%	13.0%
Zhangxia Expressway (漳廈高速公路)	40.0%	–	Disposed on 26 April 2002
Zhangzhou 324 National Highway (漳州324國道)	16.8%	–	Disposed on 26 April 2002
Shanghai Yixian Road (上海逸仙路)	30.0%	–	Disposed on 30 June 2002

Consolidated profit after tax and minority interests for the Company's toll road business was HK\$239,200,000 for the Current Year, representing an increase of 56.0% over the HK\$153,300,000 before provision in 2001. Turnover of road operation business included the turnover of Ningzhenluo Expressway which amounted to HK\$23,300,000, representing a 20.2% decrease from HK\$29,200,000 in 2001 as a result of the abolition of the centralised payment system by Ningzhenluo Expressway. Consolidated profit after tax and minority interests for the Current Year was substantially higher than that of last year for two reasons: 1) Guihuang Expressway, Yuyao Expressway, and Guiliu Expressway, in which the Company had invested, recorded higher profit growth in the Current Year; and 2) the Company disposed of two toll roads in Zhangzhou and the Shanghai Yixian Road during the Current Year and realised a disposal gain of HK\$88,000,000.

The Company has been active in implementing the international management standard of ISO9000 in its toll road business and achieved satisfactory results. The Company restructured its highway assets, sold Zhangxia Expressway and Zhangzhou 324 National Highway, and thereby resolved the long-time issue with respect to the provision of guaranteed returns. The Company recovered its investment capital and received a fairly satisfactory compensation in selling Shanghai Yixian Road.

At present, the Company has five toll roads and one toll tunnel. The toll roads totalled 332 kilometers. The traffic volumes of the five highways totalled 25,350,000 vehicles in 2002, representing an increase of 16% as compared with the same period last year. The traffic volume of the Western Harbour Tunnel in Hong Kong was 14,600,000 vehicles in the Current Year, representing a minor increase of 0.76% over the same period last year.



OIL TANKER BUSINESS

OIL TANKER BUSINESS

Consolidated profit after tax and minority interests for the oil tanker business was HK\$125,200,000 for the Current Year, representing a decline of 26.6% as compared with the figure of last year which was HK\$170,500,000 (not including the adjusted profit of HK\$27,160,000 from change in accounting policies). Turnover was HK\$384,300,000 in 2002, as compared to the HK\$474,800,000 in 2001, representing a decrease of 19.1%.

The Company's international oil tanker business is operated by Ming Wah Bermuda in which the Company holds 100% interest. Ming Wah Bermuda operates seven Aframax oil tankers with a total tonnage of 660,000 tons.

Under the impact of the weak global oil tanker market, the price index of Aframax oil tankers declined by nearly 38% in 2002 as compared to its peak in 2000 and 2001. The Company's oil tanker business also suffered, but the rate of decline was lower than the global average. This was due to the fact that the Company's time charter equivalent of the oil tankers in 2002 was higher than the market charter rate. In addition, the time charter equivalent of the time charter and spot rate of the seven Aframax oil tankers was close to 100%. On the whole, the operation performance was satisfactory.



OUTLOOK AND PROSPECTS



Looking ahead, the economy in the PRC will continue to maintain its growth momentum. The economic links between Hong Kong and mainland China will become closer. Despite uncertainties in the global economy, the shipping and ports business in Hong Kong will benefit from the rapid development of the mainland economy. It is anticipated that the PRC's foreign trade will maintain a remarkable growth, and thus will bring favourable development opportunities to the Company's ports business and container manufacturing and related businesses in the PRC as well as in Hong Kong. The Company will capitalise on these opportunities to further increase its penetration into the ports business in the PRC, strengthen its operation and management, optimise its assets structure and consolidate its leading role in the ports business in the PRC.

Ports business, in particular the western Shenzhen ports, will remain the Company's investment focus. The Company will increase investments in these ports, optimise its asset structure, consolidate market resources and enhance its comprehensive profitability. The two designated container berths at Phase Two of the Shekou Container Terminals and one berth at Chiwan Container Terminal, together with Berth No. 0 in Mawan, will be completed and their operation will commence in 2003 as scheduled. New berths Nos. 5-7 of Mawan Port, one berth at Chiwan Container Terminal and the three container berths at Phase Three of the Shekou Container Terminals are expected to be completed between 2004 and 2007. In the coming five years, 12 berths will be added to the Company's investment portfolio in western Shenzhen ports, resulting in an additional 5,000,000 TEU container handling capacity. All these will enhance the Company's strength in the ports business. In recent years, the annual growth rate of the PRC's foreign trade has remained stable at about 20%. With its cargo containerisation rate much lower than that of the developed countries, there is much scope for development. The cargo throughput handled by the Shenzhen ports in the next five years is expected to remain at a relatively high level. The Company's newly constructed ports will bring in considerable income for its shareholders.

Operations Review



In addition to increasing investments in western Shenzhen ports, the Company plans to increase its shareholding in Zhangzhou Ports to 60% in 2003. Moreover, the Company plans to invest in ports located in Tianjin, Shanghai, Ningbo and Tsingdao as part of the Company's strategic approach to be the main hub in the PRC and to consolidate the Company's position as a leader in the PRC's ports facilities.

The Company is fully aware of the importance of providing value-added services such as terminal ancillary services. In developing its ports business, the Company will launch value-added services such as marine logistics and CFS services so as to enhance its core competitiveness by providing multi-dimensional and comprehensive port services to its customers. Being the core business of the Company, ports business will gradually establish a nation-wide port network business in the next few years.

In respect of the container manufacturing business, while CIMC continues to consolidate its present favorable position, it is also actively developing the container handling service with the vision that it will become the world leader in the sector within the next five years. Given the development of the container manufacturing business and the Company's technological advantage, the Company's paint manufacturing business, particularly in relation to paints for containers and ships, will continue to consolidate its leading position in the market.



As for the toll road business, after the successful disposal of Zhangxia Expressway, Zhangzhou 324 National Highway and Shanghai Yixian Road project, the Company retains toll roads that are free from the risk of guaranteed returns. This is favourable to the Company's development of the toll road business. It is expected that with the continuous growth of the economy in the PRC and the PRC Government's increase in highway infrastructure investment, both cargo logistics and passenger traffic will further expand. Since only 20% of the traffic flow capacity of the five toll roads of the Company is currently being used and the tolls are below the industry's average, there is much potential for growth. The Company will further improve the toll road business structure, strengthen the management of the highways, and continue to increase the returns of the business.

Management and all staff members of the Company will continue to put in their best effort to leverage on the Company's solid foundation and its strong associations in Hong Kong, the PRC, and overseas. With a well-defined focus, the Company will enhance its overall management by establishing a strategic management system and employing effective management tools. The Company will actively optimise its assets, explore new business opportunities and strive to achieve better returns for its shareholders.