

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 26 and 13 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 27.

An interim dividend of US¢0.5 per share amounting to US\$685,728 was paid to shareholders during the year. The directors now recommend the payment of a final dividend of US¢0.8 or HK¢6.23 per share to the shareholders on the register of members on 28 May 2002, amounting to US\$1,097,165, and the retention of the remaining profit for the year of US\$3,207,959.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 18 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 51.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 17 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

Dr. FU Yuning (*Chairman*)

Dr. HUANG Dazhan

Mr. CHU Lap Lik, Victor

Mr. TSE Yue Kit

Ms. KAN Ka Yee, Elizabeth

(*alternate to Mr. CHU Lap Lik, Victor*)

Ms. ZHOU Linda L.

(appointed on 6 March 2002)

Mr. ZHANG Yun Kun

(resigned on 6 March 2002)

Non-executive Directors

The Hon. LI Kwok Po, David*

Mr. KUT Ying Hay*

Mr. POON Kwok Lim, Steven*

Mr. LI Kai Cheong, Samson*

(*alternate to The Hon. LI Kwok Po, David*)*

Mr. WANG Xingdong

(appointed on 20 April 2001)

Mr. GONG Jianzhong

(appointed on 20 September 2001)

Mr. TAN Wee Peng, Kelvin

(appointed on 5 February 2002)

Mr. CUI Guisheng

(resigned on 20 April 2001)

Mr. LUO Jiansheng

(resigned on 20 September 2001)

Mr. HOW Peck Huat

(resigned on 5 February 2002)

In accordance with the provisions of the Company's Articles of Association, Dr. Huang Dazhan, Ms. Zhou Linda L., Mr. Gong Jianzhong and Mr. Tan Wee Peng, Kelvin retire and, being eligible, offer themselves for re-election.

* *Independent non-executive directors*

Biographical details of Directors are as follows:



Dr. FU Yuning, aged 45, is the chairman of the Company and has been an executive director of the Company since January 1999. He concurrently acts as a director and the president of China Merchants Holdings Company Limited, the chairman of China Merchants Holdings (International) Company Limited, which is a publicly listed company on the Hong Kong Stock Exchange, a director of China Merchants Steam Navigation Company Limited, the chairman of China Merchants Finance Holdings Company Limited. He is also the chairman of Shenzhen Chiwan Petroleum Supply Base Company Limited, which is a publicly listed company on the Shenzhen Stock Exchange, and an independent director of Jurong Port Pte. Limited in Singapore. Besides, Dr. Fu serves as the vice chairman of The Hong Kong Chinese Enterprises Association, an executive director of the Chinese General Chamber of Commerce and the Hong Kong General Chamber of Commerce and a director of Hong Kong Port and Maritime Board. He had previously held the posts of the managing director of Shenzhen Chiwan Petroleum Supply Base Company Limited, the president and managing director of Shenzhen Chiwan Wharf Holdings Limited and China Nanshan Development (Group) Inc. and the chairman of Union Bank of Hong Kong Limited. Dr. Fu graduated from Dalian Institute of Technology of China with a degree in Port and Waterway Engineering. He obtained a doctorate degree in Offshore Engineering at the Brunel University of the United Kingdom where he also worked as a post-doctorate research fellow.



Dr. HUANG Dazhan, aged 44, has been an executive director of the Company since March 1999. He is also the chairman of China Merchants China Investment Management Limited (the "Investment Manager"). Dr. Huang is the managing director of China Merchants Finance Holdings Company Limited, a director of China Merchants Holdings (Hong Kong) Company Limited, China Communication Securities Company Limited, Hua Tai Insurance Company of China Limited and BOC China Fund Limited. Concurrently, he also holds a number of chairmanships in the China Merchants Group including China Merchants Holdings (UK) Limited, Houlder Insurance Broker Holding Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers (Far East) Limited, Houlder China Insurance Brokers Limited, China Merchants Financial Services Limited and China Merchants Finance Investment Holdings Company Limited. Besides, he serves on the Supervisory Committee of China Merchants Bank and Ping An Insurance Company of China Limited, and as the financial adviser of certain PRC listed corporations, including Shenzhen Chiwan Wharf Holdings Limited and Shenzhen Chiwan Petroleum Supply Base Company Limited. Dr. Huang graduated from Dalian Institute of Technology of China in 1982. In 1988, he was selected by the State Education Commission of China to go to the UK for further studies and was conferred by the University of Manchester a master degree in Economics and followed by a doctorate degree in the same field. In 1993, he joined the Manchester Financial Centre of the UK for post-doctorate studies.



Mr. CHU Lap Lik, Victor, aged 44, has been an executive director of the Company since June 1993. He is also a director of the Investment Manager. Mr. Chu is a practising solicitor in Hong Kong and is senior partner of Victor Chu & Co. He is also the chairman of First Eastern Investment Group which is actively involved in direct investments in the PRC. Mr. Chu has served on the Central Policy Unit of the Hong Kong Government, the Council of the Hong Kong Stock Exchange, the Takeover and Mergers Panel and the Advisory Committee of the Securities and Futures Commission. Outside of Hong Kong, Mr. Chu is a Council Member of the World Economic Forum and chairman of the ICC Commission on Financial Services and Insurance. Mr. Chu took his law degree at University College, London.



Ms. ZHOU Linda L., aged 33, was appointed as an executive director of the Company in March 2002. She is also the managing director of the Investment Manager. Ms. Zhou serves as the Chairman of Supervisory Committee of China Communication Securities Limited. Before joining the Investment Manager in April 2001, Ms. Zhou worked with ASI as a director of Business Development – Asia Pacific Region for three years and thereafter acted as a Senior Financial Analyst & an Advisor of Board of Advisory in iLink Global. Ms. Zhou obtained her Bachelor degree in Financial Accountancy in People's (Renmin) University of China in 1989 and Master of Business Administration degree from California State University in Sonoma in 1993. Ms. Zhou has extensive experience in positioning foreign companies in China market and has actively involved with direct investments in China.



Mr. TSE Yue Kit, aged 40, has been an executive director of the Company since November 2000. He is also a director of the Investment Manager. Mr. Tse is the general manager in Investment & Development Division of China Merchants Finance Holdings Company Limited. Mr. Tse has more than 14 years of extensive experience in accounting, auditing, corporate finance as well as investment. He is also a registered investment adviser. Mr. Tse obtained his bachelor degree with honours in Accountancy from the University of Exeter, UK.



Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 44, has been an alternate director of the Company since May 1999. She is also a director of the Investment Manager. Ms. Kan is the managing director of First Eastern Investment Group and was formerly Director-Administration of the Hong Kong office of an international public accounting firm in the area of audit and business advisory services. She is a U.S. Certified Public Accountant and a fellow member of the Hong Kong Society of Accountants. Ms. Kan received her Bachelor of Science degree in Business and Bachelor of Arts degree from the University of Minnesota, USA.



Dr. The Hon. LI Kwok Po, David, aged 63, has been an independent non-executive director of the Company since June 1993. Dr. Li is the chairman and chief executive of The Bank of East Asia, Limited. He is also a member of the Legislative Council of Hong Kong. Dr. Li is the chairman of the Chinese Bank's Association and also a member of the Exchange Fund Advisory Committee, Banking Advisory Committee, the Land Fund Advisory Committee and a non-executive director of the Mandatory Provident Fund Schemes Authority. Dr. Li serves on the international advisory boards of the Carlos P. Romulo Foundation for Peace and Development, Daimler Chrysler, the Federal Reserve Bank of New York International Capital Markets Advisory Committee, Lafarge, and Rolls-Royce Plc. His directorships include Pacific Century Cyberworks Limited, Campbell Soup Company, Chelsfield plc, COSCO Pacific Limited, Dow Jones & Company, Inc., The Hong Kong and China Gas Company Limited, The Hong Kong and Shanghai Hotels, Limited, The Hong Kong Mortgage Corporation Limited, PowerGen Plc., San Miguel Brewery Hong Kong Limited, Sime Darby Berhad, SCMP Group Ltd. and Vitasoy International Holdings Limited.



Mr. KUT Ying Hay, aged 47, has been an independent non-executive director of the Company since June 1993. He is a non-executive director of China Merchants Holdings (International) Company Limited. Mr. Kut is a practising solicitor and notary public and the proprietor of Messrs. Kut & Co., a firm of solicitors. He is an attesting officer appointed by the Ministry of Justice of the PRC. He is also a solicitor of the Supreme Courts of England, Victoria of Australia, Singapore and is an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators & Mediators, Australia. For the period from 1995 to 1998, he was a member of the Board of Review established by the Hong Kong government pursuant to the Inland Revenue Ordinance.



Mr. POON Kwok Lim, Steven, aged 58, has been an independent non-executive director of the Company since June 1993. He is the managing director of Bright World Enterprise Limited and a director of International Bank of Asia. Formerly, Mr. Poon was the general manager and the chief operating officer of a Hong Kong public utility company, China Light & Power Company Limited, and served as a member of the Hong Kong Stock Exchange Council. He was previously a Legislative Councillor and is a member of the Election Committee of the Hong Kong Special Administrative Region. He holds a master degree in electrical engineering and is a chartered engineer.



Mr. GONG Jianzhong, aged 39, has been a non-executive director of the Company since September 2001. Mr. Gong has extensive experience in banking and investment. He has worked in Bank of China, Hunan Branch and currently he is the Managing Director of BOC Investment Management Limited, the Deputy General Manager of Bank of China Group Investment Limited ("BOCGI") and director of a number of companies controlled by BOCGI or in which BOCGI has an interest.



Mr. TAN Wee Peng, Kelvin, aged 38, was appointed as a non-executive director of the Company in February 2002. He is a Managing Director in Temasek Holdings (Pte) Ltd., responsible for Temasek's investments in private equity funds. Mr. Tan has also managed Temasek's foreign direct investments in various sectors over the years. Mr. Tan obtained his Bachelor of Accountancy (1st Class Honours) qualification from the National University of Singapore in 1987 and the Master of Business Administration degree from the same university in 1997. He has also completed the Programme for Management Development at the Harvard Business School in 1999. Mr. Tan is a Certified Public Accountant.



Mr. WANG Xingdong, aged 41, has been a non-executive director of the Company since April 2001. He is an Executive Director and the Managing Director of Onfem Holdings Limited ("Onfem") and an Executive Director of Oriental Metals (Holdings) Company Limited. Mr. Wang graduated from the Xiamen University, P.R.C. in 1982 with a Bachelor of Arts degree. He then further his studies in business management between 1987 and 1989 in the Faculty of Management of Business Administration of Long Island University in New York, USA. Prior to joining Onfem, he was the President of Chimei Metals in the USA. Mr. Wang has extensive experience in international metals trading, investment strategies and corporate management.



Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. LI Kwok Po, David), aged 41, was appointed alternate director of the Company in May 1999. He is the general manager and head of Investment Banking Division of The Bank of East Asia, Limited. Mr. Li has about ten years of experience specialising in fund management and securities dealing. He is also the managing director of East Asia Securities Company Limited, a member of the Stock Exchange of Hong Kong, as well as a director in a number of asset management companies.

The following directors have resigned since the date of the last annual report:

Mr. ZHANG Yun Kun, aged 44, was an executive director of the Company from January 1996 to March 2002. He was also the managing director of the Investment Manager from December 1996 to March 2002. Mr. Zhang joined the China Merchants Group in 1981 and was directly involved in the development of China Merchants Shekou Industrial Zone. In 1984, he was transferred to China Merchants Shekou Travel Enterprise Company and was subsequently appointed as the general manager. Mr. Zhang was the deputy general manager of Travel Management Division of China Merchants Group from 1992 to 1993 and the deputy general manager of the Banking & Financial Sector of the China Merchants Group from 1996 to 1999. Mr. Zhang holds a master degree in economics from South China Normal University and is a qualified senior economist in China.

Mr. HOW Peck Huat, aged 53, was a non-executive director of the Company from September 1998 to February 2002. He is the managing director of Temasek Holdings (HK) Limited. Mr. How was awarded a bachelor and a master degree of business administration from University of Hawaii, USA. He has more than 20 years of extensive international business development experience, working with leading multi-national corporations and Asian companies on their investment plans for the Asia Pacific Region. During the past 5 years, Mr. How has been actively involved with private equity investments in Greater China.

Mr. LUO Jiansheng, aged 48, was a non-executive director of the Company from June 2000 to September 2001. Mr. Luo has extensive experience in banking and investment. He was an assistant general manager of Bank of China Group Investment Limited ("BOCGI") and director of a number of companies controlled by BOCGI or in which BOCGI has an interest.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

None of the directors or chief executives, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Subsequent to the year end date, China Bright Holdings Limited, of which Mr. Victor Lap-Lik Chu is a director, has acquired 14,400,000 shares in the Company.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company and their associates to acquire benefits by means of the acquisition of shares in or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than the Investment Management Agreement mentioned below, no contracts of significance, to which the Company or any related company or 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' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company.

Shareholder's name	Number of ordinary shares
HKSCC Nominees Limited	47,734,400
HSBC Nominees (Hong Kong) Limited	31,301,040
China Merchants Holdings Company Limited (<i>Note</i>)	33,989,760
China Merchants Steam Navigation Company Limited (<i>Note</i>)	33,989,760
China Merchants Holdings (Hong Kong) Company Limited (<i>Note</i>)	33,989,760
China Merchants Finance Holdings Company Limited (<i>Note</i>)	33,989,760
China Merchants Financial Services Limited (<i>Note</i>)	33,989,760
Good Image Limited	33,989,760

Note: The company is deemed to have interests in the shares opposite to its name by virtue of its controlling shareholding in the company whose name is set out immediately under it.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2001 with those paragraphs of 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 except that non-executive directors are not appointed for specific term(s).

INVESTMENT MANAGEMENT AGREEMENT

China Merchants China Investment Management Limited, a company incorporated in Hong Kong, continues to be the Investment Manager to the Company for both listed and unlisted investments. Dr. Huang Dazhan, Mr. Chu Lap Lik, Victor, Ms. Zhou Linda L., Mr. Tse Yue Kit and Ms. Kan Ka Yee, Elizabeth are directors of both the Company and the Investment Manager. Dr. Fu Yuning and Mr. Zhang Yun Kun were directors of both the Company and the Investment Manager. Mr. Chu Lap Lik, Victor and Ms. Kan Ka Yee, Elizabeth have indirect beneficial interests in the Investment Manager during the year.

The investment management agreement (the "Agreement") became effective on 15 July 1993 and was for an initial term of five years and is thereafter automatically renewed for further periods of three years after the expiry of each fixed term unless the appointment is terminated by the Board either on six months' notice prior to the expiry of each term or with the sanction of shareholders in general meeting at any time if the Company suffers major losses due to the gross negligence of the Investment Manager.

AUDITORS

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

On behalf of the Board

Fu Yuning
Chairman

Hong Kong, 22 April 2002