

## Chairman's Statement



Dr. Fu Yuning *Chairman*

**“ The Group will take advantage of new opportunities for investment that are being created by the Chinese government policy of privatisation of state-owned enterprises. ”**

The Board of Directors is pleased to present this annual report of China Merchants China Direct Investments Limited for the year ended 31 December 2002. The audited consolidated profit after tax of China Merchants China Direct Investments Limited and its subsidiaries (the "Group") for 2002 totalled US\$4.59 million, an 8.1% decrease over that of 2001. The Group's net asset value ("NAV") as at 31 December 2002 amounted to US\$128 million. The NAV per share was US\$0.935, compared to US\$0.915 in 2001, an increase of 2.2%.

The Board of Directors has proposed a final dividend of US¢0.8 or HK¢6.23 per share. Taking this proposed final dividend into account, the total cash dividend paid during the year would be US¢1.3 or HK¢10.13 per share.

In 2002, China's entry into the World Trade Organisation ("WTO") continuously accelerated the opening of the market and the implementation of government reform policies. While this created more investment opportunities, many foreign enterprises took the opportunity to enter the China market, thus resulting in a keenly competitive business environment. In response to the fresh challenges, some enterprises in which the Group has invested are either successfully listed or are striving to arrange Initial Public Offerings ("IPOs") in order to raise the capital needed to expand their operations, enhance their profitability, and thereby strengthen their competitive positions. During the year under review, China Merchants Bank was successfully listed on the Shanghai Stock Exchange in April 2002; whereas Industrial Bank will soon complete its pre-IPO coaching period, and aims to launch its IPO by the end of this year.

The Group's investment portfolio currently encompasses financial services, manufacturing and real estate projects in China. In the financial services field, the listing of China Merchants Bank in China during the year under review brought a substantial capital gain for the Group. On the other hand, there were no signs of a global economic recovery in 2002. The substantial increase in the price of crude oil caused by the tense situation in the Middle East worsened the stagnant world economy. As a result, the performances of the world's major stock markets remained disappointing. This, coupled with uncertainty in the reforms of China's capital market, led to a decline of both the indexes and trading volumes of China's stock markets. In consequence, the securities industry in China experienced losses across the sector for the first time. Inevitably, the performances of the securities companies in which the Group has invested were unsatisfactory, leading to a reduction in the value of investments. At the end of 2002, the Group invested in Jutian Fund Management Company Limited, which became operational in early 2003. The Group believes this new investment will help to diversify its investment risk within the financial services sector.

The Zhaoyuan Jinbao Electronics Company Limited in Shandong Province is now the Group's only investment in the manufacturing industry. Ongoing adjustments in the global economic environment, fierce competition in the electronics industry and the continued decline in the prices of electronic products, have resulted in the lowering of the company's net profit, despite the growth in its sales volume. However, demand for electronic products has showed some signs of increasing since the end of 2002; and prices have begun to rise as well. The Group intends to proactively assist the company to prepare for an IPO, in order to raise more funds to develop new products and expand its existing production capacity, with the ultimate goal of enhancing its revenue contribution.



In real estate, the Group entered into an agreement with Oriental University City Development Company to set up a joint venture company to develop Phase I dormitory facilities for students studying in the University City located in Langfang Economic Development Zone in Hebei Province. This project is expected to provide a stable source of cash income for the Group. On the other hand, the Group exited from a non-performing real estate investment – Beijing Longbao Mansion.

As of 31 December 2002, the Group had unlisted investments valued at US\$87.25 million, representing 68.0% of its net asset value. Its listed investments were valued at US\$3.97 million, or 3.1% of net asset value. Certificates of deposit and notes totalled US\$3.74 million, representing 2.9% of the Group's net assets. Net cash amounted to US\$34.06 million or 26.6% of net asset value.

Looking ahead, China's economy is expected to experience continued growth as a result of its entry into the WTO. The newly elected Chinese leaders will maintain the drive for economic reform and open market policies, and further improve the investment environment. The Group will strengthen the management of its existing projects and actively assist their preparation for listing, in order to strive for greater returns on investment. At the same time, the Group will take advantage of new opportunities for investment that are being created by the government policy of privatisation of state-owned enterprises, aiming to increase cash income. Meanwhile, as over 50% of the Group's assets are in the financial services area, the Group will be more selective in investing in new projects in this sector. In addition, the Group will explore investment opportunities in infrastructure projects.

Finally, on behalf of the Board, I wish to express my sincere thanks to the members of the Audit Committee and Investment Committee, as well as to the staff of the Investment Manager for their many contributions and dedicated support.

**Fu Yuning**

*Chairman*

Hong Kong, 23 April 2003