

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 25 and 13 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 29.

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 30 May 2003, amounting to US\$1,097,165, and the retention of the remaining profit for the year of US\$2,804,742.

RESERVES

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

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

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

Mr. GONG Jianzhong

Mr. TAN Wee Peng, Kelvin

(appointed on 5 February 2002)

Mr. HOW Peck Huat

(resigned on 5 February 2002)

In accordance with the provisions of the Company's Articles of Association, Dr. Fu Yuning, retires and, being eligible, offers himself for re-election.

* *Independent non-executive directors*

Biographical details of Directors are as follows:



Dr. FU Yuning, aged 46, 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 Group 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 and the chairman of China Merchants Finance Holdings Company Limited. He is also the chairman of the executive committee for board of directors of China Merchants Bank Company Limited, the chairman of China Merchants Shekou Industrial Zone Company Limited, China Merchants Zhangzhou Development Zone Company Limited and China Nanshan Development (Group) Inc. 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 45, 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 financial adviser of China Merchants Group Limited, the managing director of China Merchants Finance Holdings Company Limited, a director of China Merchants Holdings (Hong Kong) Company Limited, China Merchants Bank Company Limited, Industrial Bank Company Limited, China Merchants Securities Company Limited, Hua Tai Insurance Company of China, Limited and BOC China Fund Limited. Concurrently, he also holds a number of chairmanships in various other companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest including China Merchants Holdings (UK) Limited, Houlder Insurance Services 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 previously was 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 45, 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 34, was appointed as an executive director of the Company in March 2002. She is also the managing director of the Investment Manager. 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 41, 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 15 years of extensive experience in accounting, auditing, corporate finance as well as investment. 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 45, 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 64, 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 Advisory Committee and Lafarge. His directorships include PCCW 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, San Miguel Brewery Hong Kong Limited, Sime Darby Berhad, SCMP Group Ltd. and Vitasoy International Holdings Limited.



Mr. KUT Ying Hay, aged 48, 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 59, has been an independent non-executive director of the Company since June 1993. He is the chairman of Vextex Communications & Technology Group 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 40, 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 CEO 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 39, 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 42, 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 42, 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.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2002, the interests of the Directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of Director	Number of shares	Category of interest
Mr. Chu Lap Lik, Victor	14,400,000	Corporate

Note: Mr. Chu Lap Lik, Victor is deemed to have an interest in the 14,400,000 shares of the Company in which China Bright Holdings Limited is interested.

Save as disclosed above, 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 SDI Ordinance as at 31 December 2002, and none of the directors or chief executives, or their spouses or children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year ended 31 December 2002.

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

The director proposed for re-election at the forthcoming annual general meeting does not have 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 2002, 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.

Name	Number of ordinary shares
China Merchants Group 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
China Bright Holdings Limited	14,400,000

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 2002 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 Investment Manager. Dr. Fu Yuning and Mr. Zhang Yun Kun were directors of both the Company and 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, 23 April 2003