



Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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 2003 are set out in the consolidated income statement on page 30.

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 2004, amounting to US\$1,097,165, and the retention of the remaining profit for the year of US\$10,305,931.

RESERVES

Movements in the reserves of the Company during the year are set out in note 19 to the financial statements.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 18 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 (continued)

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

Ms. ZHOU Linda L.

Mr. TSE Yue Kit

Ms. KAN Ka Yee, Elizabeth

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

Dr. MA Hung

(*alternate to Dr. FU Yuning*)

(appointed and resigned on 10 December 2003)

Non-executive Directors

The Hon. LI Kwok Po, David*

Mr. KUT Ying Hay*

Mr. POON Kwok Lim, Steven*

Mr. WANG Xingdong

Mr. GONG Jianzhong

Mr. HIEW Yoon Khong

(appointed on 24 September 2003)

Mr. LI Kai Cheong, Samson*

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

Mr. TAN Cheong Hin

(appointed on 22 April 2004)

(*alternate to Mr. HIEW Yoon Khong*)

Mr. TAN Wee Peng, Kelvin

(resigned on 24 September 2003)

Dr. HUANG Dazhan

(appointed and resigned on 10 December 2003)

(*alternate to Mr. KUT Ying Hay*)

In accordance with the provisions of the Company's Articles of Association, Mr. Chu Lap Lik, Victor and Mr. Hiew Yoon Khong, retire and, being eligible, offer themselves for re-election.

* *Independent non-executive directors*

Directors' Report (continued)

Biographical details of Directors are as follows:



Dr. FU Yuning, aged 47, 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 Finance Holdings Company Limited and the chairman of China Merchants Holdings (International) Company Limited, which is a publicly listed company on the Hong Kong Stock Exchange. 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.. 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 a director of Hong Kong Port Development Council. 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 46, 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 and Hua Tai Insurance Company of China, 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, China Merchants Insurance Company Limited, Houlder Insurance Brokers Far East Limited and China Merchants Finance Investment Holdings 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, and worked as a post-doctorate research fellow.

Directors' Report (continued)



Mr. CHU Lap Lik, Victor, aged 46, 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 35, was appointed as an executive director of the Company in March 2002. She is also the managing director of the Investment Manager, a director of Houlder Insurance Services Limited and Houlder China Insurance Brokers 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 42, 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 16 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.

Directors' Report (continued)



Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 46, 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 65, 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 AviChina Industry & Technology Company Limited, PCCW Limited, 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 49, 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.

Directors' Report (continued)



Mr. POON Kwok Lim, Steven, aged 60, has been an independent non-executive director of the Company since June 1993. He is the chairman of Vortex Communications & Technology Group Limited. 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. WANG Xingdong, aged 43, 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 a director of China Minmetals H.K. (Holdings) 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. GONG Jianzhong, aged 41, 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.

Directors' Report (continued)



Mr. HIEW Yoon Khong, aged 43, was appointed as a non-executive director of the Company in September 2003. He is currently Chief Executive Officer of Mapletree Investments Pte Ltd. and Managing Director, Private Equity Funds Investments of Temasek Holdings (Pte) Ltd.. Prior to that, Mr Hiew held various senior positions in the Capitaland Group. He joined Pidemco as CFO in 1996 and was CFO of Capitaland following the merger of Pidemco and DBS Land in 2000. In February 2002, he was made the CEO of Capitaland Commercial Limited and Capitaland Financial Limited. Before joining Capitaland, Mr Hiew held various positions in the areas of corporate finance, management consultancy and project financing over a ten-year period. He holds a Master of Arts degree in Economics from the University of Warwick as well as a Bachelor of Arts degree in Economics from the University of Portsmouth.



Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. LI Kwok Po, David), aged 43, has been appointed alternate director of the Company since 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.



Mr. TAN Cheong Hin (alternate to Mr. HIEW Yoon Khong), aged 40, was appointed alternate director of the Company in April 2004. He is a Director in the Private Equity Funds Investments of Temasek Holdings (Pte) Ltd.. Mr. Tan obtained his Bachelor in Business Administration (1st Class Honours) degree from the National University of Singapore in 1988 and a Master of Science (Management) from the same university in 1991. He has also completed the Advanced Management Program at INSEAD in 2001. Mr. Tan is a Chartered Financial Analyst (CFA) charterholder.

Directors' Report (continued)

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2003, the interests of the directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Number of shares	Capacity	Nature of interest	Percentage of total issued share capital
Mr. CHU Lap Lik, Victor	14,400,000	Interest of controlled corporation	Corporate	10.50%

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 executive, or their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 31 December 2003, and none of the directors or chief executive, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such rights during the year ended 31 December 2003.

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 directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Report (continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following persons, other than a director or chief executive of the Company, have interests in the shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name	Number of ordinary shares interested	Percentage of total issued shares
China Merchants Group Limited (<i>Note 4</i>)	34,309,760	25.02%
China Merchants Steam Navigation Company Limited (<i>Note 4</i>)	34,309,760	25.02%
China Merchants Holdings (Hong Kong) Company Limited (<i>Note 1</i>)	34,309,760	25.02%
China Merchants Finance Holdings Company Limited (<i>Note 2</i>)	34,309,760	25.02%
China Merchants Financial Services Limited (<i>Note 4</i>)	33,989,760	24.78%
Good Image Limited (<i>Note 3</i>)	33,989,760	24.78%
China Bright Holdings Limited (<i>Note 3</i>)	14,400,000	10.50%
Temasek Holdings (Private) Limited (<i>Note 4</i>)	7,200,000	5.25%
Hong Lim Fund Investments Pte Ltd. (<i>Note 3</i>)	7,200,000	5.25%
Bank of China (<i>Note 4</i>)	7,200,000	5.25%
Bank of China Group Investment Limited (<i>Note 3</i>)	7,200,000	5.25%
China National Metals and Minerals Import and Export Corporation (<i>Note 4</i>)	7,200,000	5.25%
China Minmetals H.K. (Holdings) Limited (<i>Note 4</i>)	7,200,000	5.25%
June Glory International Limited (<i>Note 5</i>)	7,200,000	5.25%
ONFEM Holdings Limited (<i>Note 4</i>)	7,200,000	5.25%
ONFEM Investments Limited (<i>Note 3</i>)	7,200,000	5.25%
Swiss Reinsurance Company (<i>Note 3</i>)	7,200,000	5.25%

Note 1: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its controlling shareholding (i.e. 99.32%) in the company whose name is set out immediately under it.

Note 2: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its entire shareholding in Everlink Limited and the company whose name is set out immediately under it.

Note 3: The company has a beneficial interest in the shares opposite to its name.

Note 4: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its entire shareholding in the company whose name is set out immediately under it.

Note 5: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its controlling shareholding (i.e. 53.95%) in the company whose corporate name is set out immediately under it.

Save as disclosed above, there was no person, other than a director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.



Directors' Report (continued)

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2003 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. Mr. Chu Lap Lik, Victor and Ms. Kan Ka Yee, Elizabeth have indirect beneficial interests in the Investment Manager.

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 2004