



China Merchants China Direct Investments Limited
招商局中國基金有限公司



2001

Annual Report

	<i>PAGE</i>
CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3
INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS	6
FINANCIAL HIGHLIGHTS	16
DIRECTORS' REPORT	17
AUDITORS' REPORT	26
CONSOLIDATED INCOME STATEMENT	27
CONSOLIDATED BALANCE SHEET	28
BALANCE SHEET	29
CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES	30
CONSOLIDATED CASH FLOW STATEMENT	31
NOTES TO THE FINANCIAL STATEMENTS	32
FINANCIAL SUMMARY	51
NOTICE OF ANNUAL GENERAL MEETING	52

BOARD OF DIRECTORS

FU Yuning (*Chairman*)
HUANG Dazhan
CHU Lap Lik, Victor
ZHOU Linda L.
TSE Yue Kit
KAN Ka Yee, Elizabeth
(*alternate to Mr. CHU Lap Lik, Victor*)
The Hon. LI Kwok Po, David**
KUT Ying Hay**
POON Kwok Lim, Steven**
TAN Wee Peng, Kelvin*
GONG Jianzhong*
WANG Xingdong*
LI Kai Cheong, Samson**
(*alternate to The Hon. LI Kwok Po, David***)

* *non-executive directors*

** *independent non-executive directors*

COMPANY SECRETARY

Thomas Anthony, EVANS

INVESTMENT MANAGER

**China Merchants China Investment
Management Limited**
1803 China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
26th Floor, Wing On Centre,
111 Connaught Road Central,
Hong Kong

PRINCIPAL BANKERS

**Industrial and Commercial Bank of China
(Asia) Limited**
122-126 Queen's Road Central,
Hong Kong

China Merchants Bank Company, Limited
China Merchants Bank Tower,
No. 7088, Shennan Boulevard,
Shenzhen,
People's Republic of China

Bank of China (Hong Kong) Limited
Bank of China Tower,
1 Garden Road,
Hong Kong

LEGAL ADVISERS

Victor Chu & Co
19th Floor, Tower II, The Gateway,
Harbour City,
Kowloon,
Hong Kong

SHARE REGISTRAR

Central Registration Hong Kong Limited
Rooms 1901-5, 19th Floor,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1803 China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong



Dr. Fu Yuning

Chairman

“The further opening of the China market, as well as enhancements of investment environment in the PRC will bring greater investment opportunities for the Group.”

CHAIRMAN'S STATEMENT

The Board of Directors is pleased to announce that the audited consolidated profit after taxation of China Merchants China Direct Investments Limited and its subsidiaries (the "Group") for the year ended 31 December 2001 totalled US\$4.99 million, a 37% increase on that of 2000. The net asset value per share as at 31 December 2001 was US\$0.915, compared with US\$0.891 of 2000, an increase of 2.6%.

The Board of Directors has proposed a final dividend of US¢0.8, or HK¢6.23 per share. The total cash dividend for the year will be US¢1.3, or HK¢10.13 per share.

In 2001, the world economy went into a recession, triggered by the slowing economy of the U.S. and other developed countries. After ten years of rapid economic growth, the U.S. economy has gone into recession following the burst of the "new economy" bubbles. The "September-11 tragedy" may have aggravated the downturn of the U.S. and the world economies. The sectors the Group involved demonstrated that they are increasingly affected by many factors, including international economic forces. Therefore, the Board has made certain adjustments to its investment strategy in 2001 accordingly, i.e. expediting the disposal of poor performing projects, increasing investments in financial services sector which has growth potential, and seeking other investments that yields stable incomes. In accordance with the Group's investment strategy, the Investment Manager has been actively negotiating with its PRC contractual joint venture partners and has successfully disposed of two projects. Meanwhile, the Group invested in four financial services investment projects in the year.

The Group's current investments encompass projects in the sectors of financial services, manufacturing, infrastructure and real estate in the PRC. Financial services investments continue to yield a satisfactory return for the Group, resulting from rapid increase in demand for financial services. In 2001, the Group has completed capital injection for two securities companies, one insurance brokerage firm and an additional investment in one bank. The contribution from manufacturing investments mainly came from Zhaoyuan Jinbao Electronics Company Limited in Shandong. Disposal of the investment in Chengde Wanli Steel Tubes Company Limited during the year also contributed to the profit of the Group. Infrastructure investments, mainly in toll roads, remained as our focus. Although the Group has completed the disposal of its stakes in Maoming Tongfa Highway Company Limited in early February 2002, it will continue to pursue profitable infrastructure projects for investments which will generate steady long-term return in cash. The performances of the real estate projects are still not encouraging, although according to the independent appraisal companies, the market values of Beijing Longbao Mansion and Shenzhen Man Kam Square are above their carrying values. As for those projects which had been fully provided, some progress has been made as a result of ongoing efforts of the Investment Manager.

As of the end of 2001, the Group had unlisted investments valued at approximately US\$87.49 million, representing 69.75% of its net asset value. Listed investments were valued at US\$0.93 million, 0.74% of its net asset value, and working capital at US\$37.01 million, 29.51% of its net asset value.

Looking forward, the PRC economy will face challenges. The World Bank estimated that the U.S. economy could recover by the second half of 2002 at the earliest. In 2002, the investment environment in the PRC will experience some fundamental changes following the PRC's entry into the World Trade Organization, including modification of rules and regulations. Foreign investors will be allowed to participate in the fields of merger-and-acquisition, venture-capital investments and securities investments. The further opening of the China market, as well as enhancements of investment environment in the PRC will bring greater investment opportunities for the Group. Therefore, the Group will continue to strengthen the management of existing projects, consolidate the existing real estate projects and seek new investment in attractive fields in 2002. Apart from the successful listing of China Merchants Bank, several enterprises, which the Group has invested in, are currently applying for IPO in the PRC. If these listing plans are successfully carried out, significant capital gains for the Group are expected.

Finally, on behalf of the Board, I wish to express our sincere thanks to the members of the investment committee, as well as the staff of the Investment Manager, for their dedicated contribution and support.

Fu Yuning
Chairman

Hong Kong, 22 April 2002



Dr. Huang Dazhan

Chairman of the Board of the Investment Manager

“Greater understanding of the opportunities and challenges arising as a result of China’s accession into the WTO will help us gear up for the coming years and create greater value for the Fund.”

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") recorded a profit attributable to shareholders of US\$4.99 million for the year 2001, representing an increase of 37% over year 2000. This was attributable to the significant decrease in provisions for investments. As of 31 December 2001, the net assets of the Group were US\$125 million, with net asset value per share of US\$0.915, representing a 2.6% increase over year 2000.

Total turnover for the year fell by 40% to US\$3.69 million (2000: US\$6.18 million). Turnover included dividend income from unlisted investments which decreased 55%, as a result of the suspension of dividend distribution from one of the unlisted investments, China Merchants Bank, due to its preparation for initial public offering during the year. In addition, the US Federal Reserve cut interest rates during the year to a 40-year low, which caused the Fund's interest income to drop by 23%. To adapt to the changes in investment policies of China, the Fund has gradually reduced its holding in contractual investments with fixed returns. The impact was a drop of 49% in income from contractual joint ventures.

The net unrealized holding gain on unlisted investments for the year was US\$2.28 million, representing a decrease of 73% from 2000. This was because 2000 was the first year the Fund appointed an independent valuer to revalue the Fund's investment in China Merchants Bank, following the bank's announcement of a solid plan for IPO. Therefore, a significant amount of unrealized holding gain was recorded in 2000.

Despite the drop in both turnover and gain on investments, the Fund achieved a significant increase in net profit, as a result of a drop in provisions for diminution in value of investments and bad debts of 92% to US\$0.73 million (2000: US\$9.58 million).

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

Working capital fell by 11% to US\$37.01 million as of 31 December 2001, mainly due to capital injections of US\$11.31 million to new investments, which was offset by the increase of US\$7.0 million in working capital from the disposals of an investment project and listed securities.

Although the Fund has consistently been in a very liquid position, during the year, it borrowed RMB53.40 million (equivalent to US\$6.45 million) from PRC banks for capital injections into new projects, aiming to hedge against the exchange rate risk of Yuan. As of 31 December 2001, the Fund's gearing ratio, measured on the basis of total borrowings as a percentage of shareholders' equity, was 5% (2000: 0%).

As of 31 December 2001, the Fund's capital commitment amounted to US\$1.0 million (2000: nil); this sum is dedicated to an investment, which has been authorized but not yet contracted for.

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS

CHARGES ON ASSETS

The Fund's short-term bank loans of RMB22.40 million (equivalent to US\$2.71 million) and RMB31.00 million (equivalent to US\$3.75 million) were respectively secured by a pledge of its time deposits of US\$2.80 million and 12.47 million shares of China Merchants Bank.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Fund's investments are located in China where the official currency is Yuan, which remained stable in the reporting period. To hedge against some currency exchange-rate risk, the Fund has arranged loans in Yuan, for injections to Yuan-denominated investments.

EMPLOYEES

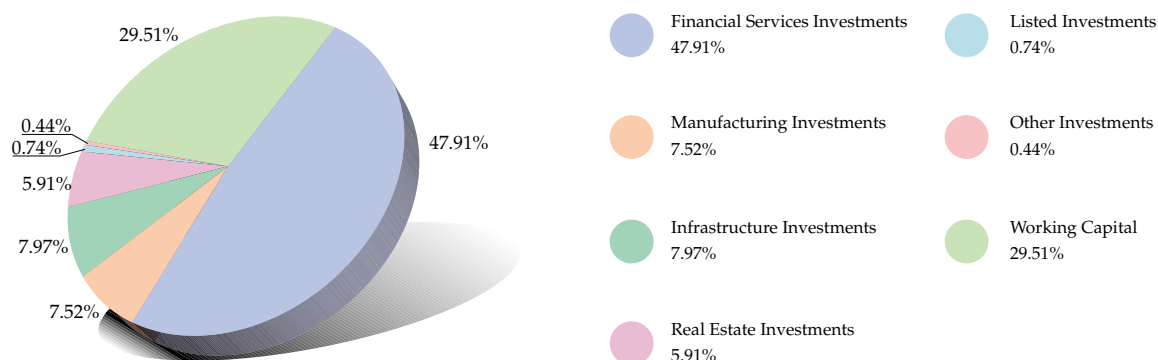
The Fund does not employ any employees, because its portfolio and day-to-day administration is handled by the Investment Manager.

THE PORTFOLIO

As of 31 December 2001, the Fund had total investments of US\$88.42 million, of which US\$87.49 million was in unlisted investments and US\$0.93 million in listed investments. The major unlisted investment projects cover sectors of financial services (accounting for 47.91% of the Fund's net assets), manufacturing (7.52%), infrastructure (7.97%), and real estate (5.91%). Additionally, the fund had working capital of US\$37.01 million, accounting for 29.51% of the Fund's net assets.

NET ASSET DISTRIBUTION

As at 31 December 2001





Linda L. Zhou

Managing Director of the Investment Manager

“The Fund recorded a profit attributable to shareholders of US\$4.99 million for the year 2001, representing an increase of 37% over year 2000.”

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS

REVIEW OF UNLISTED INVESTMENTS

The following table shows the major unlisted investment projects held by the Fund as at 31 December 2001:

Name of Projects	Location	Business Nature	Net Book Value US\$ million	Percentage of Net Assets
<i>Financial Services:</i>				
1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	32.33	25.78
2. Fujian Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	19.89	15.86
3. Industrial Securities Co., Ltd.	Fuzhou, Fujian	Securities	1.19	0.95
4. China Communication Securities Co., Ltd.	Shenzhen, Guangdong	Securities	1.65	1.31
5. Shenzhen Economic Special Zone Securities Co., Ltd.	Shenzhen, Guangdong	Securities	4.44	3.54
6. Houlder China Insurance Brokers Ltd.	Shenzhen, Guangdong	Insurance brokerage	0.60	0.47
Sub-total			60.10	47.91
<i>Manufacturing:</i>				
7. Zhaoyuan Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	9.43	7.52
Sub-total			9.43	7.52
<i>Infrastructure:</i>				
8. Maoming Tongfa Highway Co., Ltd.	Maoming, Guangdong	Toll road	10.00	7.97
Sub-total			10.00	7.97
<i>Real Estate:</i>				
9. Beijing Longbao Mansion	Beijing	Office & Apartments	4.98	3.97
10. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retails shops	2.43	1.94
Sub-total			7.41	5.91
Total			86.94	69.31

Financial Services Investments

Financial services is one of the core investment sectors of the Fund. This sector brings stable cash flow and significant capital appreciation to the Fund. With China's entrance into the World Trade Organization ("WTO"), this sector will enter into a new era, which will create more business opportunities. For the year 2001, the Fund has acquired additional shares of a commercial bank, and invested in two more securities companies and an insurance brokerage company. The Fund will continue to explore investment opportunities, aiming to tap into this growing sector.

The Fund's financial services investments are concentrated in the banking, securities and insurance brokerage industries.

China Merchants Bank Company, Limited ("CMB"), a registered commercial bank in China, is the first joint-stock commercial bank established by mainland enterprises. CMB has over 280 branches and offices across the country. The Fund invested US\$13.77 million to acquire a 1.62% stake in CMB. CMB recorded a profit after taxation of RMB913 million for 2001. In preparation for its IPO, no dividends were distributed for the year 2000. According to an independent valuation, the Fund's investment value in CMB had increased US\$2.05 million for the year 2001. CMB became the fourth mainland bank to go public when it issued 1.5 billion A shares at RMB7.30 per share on the Shanghai Stock Exchanges on 9 April 2002. The share price rose by 46% upon its debut. In the second-largest A-share IPO in China, CMB raised over RMB10 billion. The IPO was well received and over RMB350 billion funds were then frozen from the subscriptions.

Fujian Industrial Bank Company, Limited ("FIB") is a commercial bank registered in China, with over 252 offices throughout the country. The Fund, in cooperation with the China Merchants Group, first invested in FIB in 1998. In 2001, the Fund acquired an additional 20,000,000 shares, bringing its cumulative stake in FIB to US\$17.60 million, or 2.8%. FIB recorded a profit after taxation of RMB510 million, representing a 39% increase over 2000. The Fund received dividends for 2000 in the amount of US\$0.81 million. FIB's Board of Directors studied the feasibility of an IPO, and had prepared to proceed with an application for listing. With the increase of FIB's net assets, the investment value of the Fund in FIB increase to US\$19.89 million at the end of 2001. Contribution from this investment amounted to US\$0.96 million for 2001.

Industrial Securities Company, Limited ("ISCL") is a comprehensive securities company registered in China, with business in securities underwriting, brokering and investment, and investment consulting. It has over 16 offices located in major cities throughout the country, including Beijing, Shanghai, Shenzhen, Wuhan, Fuzhou and Xiamen. The Fund invested US\$1.03 million to acquire a 0.74% stake in ISCL. Due to significant drop in the volume of stock trading, as a result of depressed market condition in 2001, the overall performance of securities companies was unsatisfactory. ISCL recorded a profit after taxation of RMB17.1 million for the year 2001, representing a 91.5% decrease over 2000. At the end of 2001, the total assets and net assets of ISCL were RMB8.77 billion and RMB1.36 billion, respectively. The Fund received 2000 dividends of approximately US\$0.12 million.

China Communication Securities Company, Limited ("CCSC"), with RMB2.4 billion paid-up capital, is a comprehensive securities company registered in China. Its businesses include securities underwriting, brokering and investment, and investment consulting. The Fund invested US\$1.57 million to acquire 12.43 million shares, or a 0.52% stake in CCSC in 2001. At the end of 2001, the total assets and net assets of CCSC were RMB10.6 billion and RMB2.66 billion, respectively. For the year 2001, CCSC recorded a profit after taxation of RMB260 million. CCSC's board of directors has planned to list its shares on the domestic stock exchange. When realized, it will result in significant capital gain for the Fund.

Shenzhen Economic Special Zone Securities Company, Limited ("Shenzhen Securities"), the first professional securities firm in China, was set up in 1987 and approved by China Securities Regulatory Commission to be a lead underwriter and sponsor for IPOs. The headquarter of Shenzhen Securities is located in Shenzhen, with 16 operation outlets all over the country. At the end of 2001, the total assets and the net assets of Shenzhen Securities were RMB4,852 million and RMB664 million, respectively. The profit after taxation for the year was RMB13.42 million. The Fund invested US\$4.26 million in Shenzhen Securities in 2001, holding an interest of 4.66%.

Houlder China Insurance Brokers Limited ("Houlder"), founded in 2001, was one of the second-lot insurance brokers approved by the China Insurance Regulatory Commission. Led by the China Merchants Group, the company has registered capital of RMB50 million. The Fund invested US\$0.6 million in Houlder to acquire a stake of 10%. Since the company didn't start its operation until the second half of the year, it recorded a net loss of RMB0.73 million for 2001.

Manufacturing Investments

Due to changes of investment strategy, the proportion of manufacturing investment in the Fund's portfolio was reduced to 7.5% of the net asset value. The steel tube project was successfully disposed of, with a satisfactory return for the shareholders of the Fund.

Zhaoyuan Jinbao Electronics Company Limited ("Jinbao"), a core manufacturing investment of the Fund, was established in 1993 to manufacture and market copper foils and copper-clad laminates. The company achieved outstanding results in 2001, largely attributed to effective cost controls and writing-back of expense provisions. The net profit for 2001 reached RMB32.25 million, representing an increase of 99.6% over the previous year. The Fund received a dividend for the year of 2000 of US\$0.5 million. During 2001, Bank of China Fund, a minority shareholder, sold its entire stake of 15% to Shandong High-Tech Investment Corporation, which is a wholly owned enterprise of the provincial government of Shandong.

Infrastructure Investments

Infrastructure investments generate stable cash flow for the Fund. Although the Fund sold its toll road investment, the Fund will continue to explore the investment opportunities in this sector.

Maoming Tongfa Highway Company Limited ("Tongfa") is a contractual joint venture. The total investment and paid-up capital of Tongfa were US\$28.8 million and US\$10 million, respectively. The contracted cooperation period was 24 years. Tongfa was engaged in the building and operation of Provincial Highway No. 1987, which links Maoming City and Huazhou City. The Fund invested US\$10 million to acquire a 34.7% stake in Tongfa. The traffic flow of the Highway has been decreasing due to keen competition from the newly built toll roads within the same region, hence the toll revenue of the Highway has declined significantly. Tongfa had been experiencing difficulty in meeting payments of the agreed return. Therefore, the Fund has decided to dispose of the investment. On 5 February 2002, the Fund signed a share transfer agreement with Maoming Guomao Traffic Development Limited to dispose of its entire interest in Tongfa. The Fund received proceeds of US\$10.67 million. The project's internal rate of return was 12.2%.

Real Estate Investments

Investment returns in the real estates sector have not been satisfactory. The Fund has reviewed its investment strategies in this sector, and will adopt a more conservative attitude towards property investment in the future.

Beijing Longbao Mansion ("Longbao") is situated near the Third Ring of Chaoyang District in Beijing. It comprises two 17-storey apartment buildings and an office complex. The Fund invested US\$4.98 million in 1997 for a 35% interest under an agreement with the developer to jointly manage the property. According to a joint-management agreement, the developer should have paid a fixed investment return semi-annually to the Fund during the three-year contractual period. However, the developer failed to pay further return after making the first year's payments. The Fund has taken steps, including sale and lease arrangements, to recover its investment cost as soon as possible. According to an independent surveyor's report, the market value of the property at the end of 2001 was higher than the Fund's investment cost.

Shenzhen Mankam Square ("Mankam") is a 33-storey commercial complex on North Wen Jin Road, Shenzhen. In 1994, the Fund invested US\$4.3 million through a 35% holding in Hansen Enterprises Limited ("Hansen") to purchase 5,262 sq.m. of retail space on the third floor of Mankam. In 2001, Hansen took possession of the property and launched sale and lease programs in order to recover investment cost as quickly as possible. The project's carrying value at the end of 2001 was close to its market value given by a professional valuer.

Other Investments

Investments, which were fully provided in previous years, include Tangshan Kintil Ceramics Company Limited, Weifang Yin Yuan Aviation Industry Company Limited, Weifang Zhaoyin Real Estate Development Limited and China Merchants Plaza (Shanghai) Property Company Limited. With the efforts of the Investment Manager, certain progress has been made on these projects. The Group received US\$0.25 million from the two Weifang projects and reached repayment agreements with the relevant PRC parties. Settlement for these two projects has been included in the provincial government's annual working programs.

Disposal of an Investment

Chengde Wanli Steel Tubes Company Limited (Wanli) was set up in 1996 to produce and market seamless-like steel tubes. The Fund invested US\$5 million in Wanli in 1996. Because of delays in installation and trial production, Wanli was not able to launch its marketing program as planned. As a result, Wanli could not pay returns to the Fund as stipulated in the joint-cooperative contract. To resolve the difficulty, the Investment Manager initiated several talks with the Chinese party last year, in order to dispose of the Fund's stake in Wanli. A disposal agreement was finally signed with the Chinese party on 23 July 2001. According to the agreement, the Chinese party agreed to pay a consideration of US\$4.76 million in three installments, of which the first and second installment totaling US\$2.41 million have been received. Upon the receipt of balance payment of US\$2.35 million due on or before the end of May 2002, the Fund will achieve an internal rate of return of 12% from the investment.

REVIEW OF LISTED INVESTMENTS

Due to the economic slowdown and the 9-11 incident in the U.S., the Hong Kong stock market continued to adjust downward in 2001. Hang Seng Index, Growth Enterprise Index and Hang Seng China-Affiliated Corporations Index shrunk by 24%, 36% and 18% respectively. However, thanks to the stable economic growth of China, Hang Seng China Enterprises Index increased by 8%, outperforming the above-mentioned indexes. In 2001, the Fund recorded a realized gain of US\$0.08 million, dividend income of US\$0.14 million and unrealized losses of US\$0.14 million. At the end of 2001, the Fund had listed shares valued at US\$0.93 million.

PROSPECTS

Year 2002 will be challenging for China's economy. China has revised down its GDP growth rate forecast for 2002 from 7.8% to 7.0%. China no doubt will emerge to be one of a few countries to benefit from the development of globalisation. Given its low cost of technology, huge potential market and growth capacity, China will be well positioned during the transition of the global economy. Further opening up of China's markets, brought about by its WTO membership, will create more investment opportunities for the Fund, which we will continue to explore and capitalize. We expect to complete the investment process of an intelligent transportation-ticketing system project in Shenzhen this year. Meanwhile, we will also continue actively to seek opportunities to dispose of the real estate investments and increase efforts on assisting investee companies in preparing for IPOs, aiming to create value for the Fund.

Linda L. Zhou

Managing Director

China Merchants China

Investment Management Limited

Hong Kong, 22 April 2002



*Directors of the
Investment Manager*

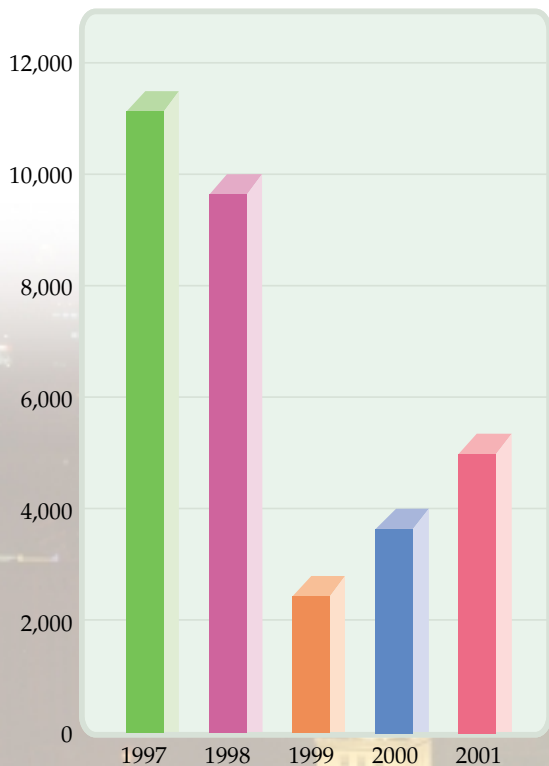
front row from left: Dr. Huang Dazhan, Ms. Kan Ka Yee, Elizabeth and Ms. Linda L. Zhou;
rear row from left: Mr. Wu Hui Feng, Mr. Lee York Wo and Mr. Tse Yue Kit

“We will continue to explore and capitalize investment opportunities, to seek opportunities to dispose of the real estate investments and increase efforts on assisting investee companies in preparing for IPOs.”

FINANCIAL HIGHLIGHTS

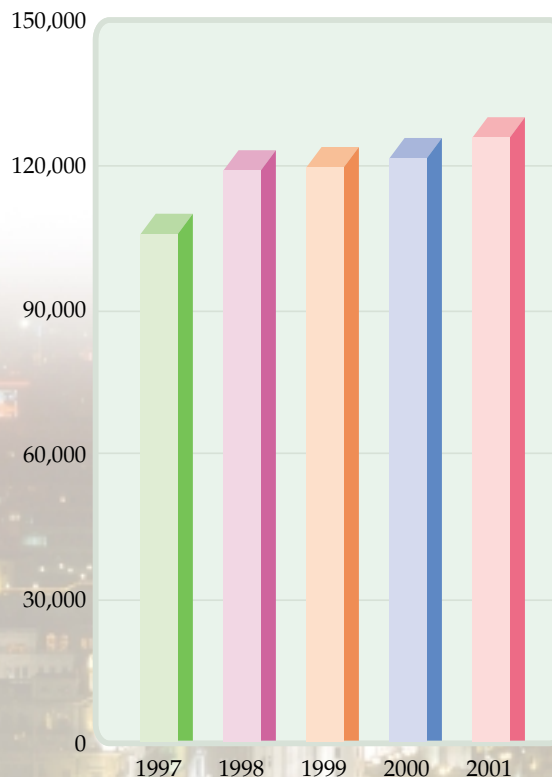
NET PROFIT

(US\$'000)



NET ASSETS

(US\$'000)



YEAR	NET PROFIT <i>US\$'000</i>	NET ASSETS <i>US\$'000</i>
1997	11,113	105,391
1998	9,631	118,581
1999	2,448	119,246
2000	3,653	122,219
2001	4,991	125,428

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.

DIRECTORS' REPORT



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.

DIRECTORS' REPORT

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

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

**TO THE MEMBERS OF
CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 27 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 22 April 2002

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2001

	NOTES	2001 US\$	2000 US\$ (restated)
Turnover	4	3,689,732	6,182,818
Net unrealised holding gain on unlisted investments in securities		2,282,584	8,304,893
Net gain on disposal of listed investments in securities		75,293	1,307,822
Unrealised holding loss of investments in listed securities		(137,780)	(2,033,759)
Gain on disposal of contractual joint venture		1,042,645	–
Write back of impairment loss (impairment loss) of contractual joint ventures		199,357	(1,911,171)
Other revenue		36,104	90,289
Administrative expenses		(2,581,865)	(2,548,785)
Allowance for bad and doubtful debts		(596,234)	(1,828,356)
Profit from operations		4,009,836	7,563,751
Finance cost		(83,634)	–
Share of results of associates		1,219,678	(3,809,544)
Profit before taxation	6	5,145,880	3,754,207
Taxation	9	(155,028)	(101,480)
Profit attributable to shareholders		4,990,852	3,652,727
Dividends	10	1,782,893	1,782,893
Earnings per share	11	0.036	0.027

CONSOLIDATED BALANCE SHEET

At 31 December 2001

	NOTES	2001 US\$	2000 US\$ (restated)
Non-current assets			
Interests in associates	13	11,863,673	11,300,735
Contractual joint ventures	14	14,980,000	18,938,325
Investments in securities	15	61,574,453	50,314,765
		88,418,126	80,553,825
Current assets			
Trade and other receivables	16	3,188,563	1,819,392
Pledged bank deposits	24	2,800,000	–
Cash and bank balances		40,631,746	40,519,160
		46,620,309	42,338,552
Current liabilities			
Trade and other payables		3,141,055	640,293
Taxation payable		17,216	32,867
Bank loans, secured		6,451,925	–
		9,610,196	673,160
Net current assets		37,010,113	41,665,392
NET ASSETS		125,428,239	122,219,217
CAPITAL AND RESERVES			
Share capital	17	13,714,560	13,714,560
Reserves	18	111,713,679	108,504,657
		125,428,239	122,219,217
NET ASSET VALUE PER SHARE	19	0.915	0.891

The financial statements on pages 27 to 50 were approved and authorised for issue by the Board of Directors on 22 April 2002 and are signed on its behalf by:

Huang Dazhan
DIRECTOR

Zhou Linda L.
DIRECTOR

BALANCE SHEET

At 31 December 2001

	NOTES	2001 US\$	2000 US\$ (restated)
Non-current assets			
Investments in subsidiaries	12	60,167,923	64,931,260
Investments in securities	15	–	17,200
		60,167,923	64,948,460
Current assets			
Trade and other receivables		103,107	371,660
Cash and bank balances		37,844,065	33,296,837
		37,947,172	33,668,497
Current liabilities			
Trade and other payables		724,604	614,691
Amount due to a subsidiary		59,648	59,936
		784,252	674,627
Net current assets		37,162,920	32,993,870
NET ASSETS		97,330,843	97,942,330
CAPITAL AND RESERVES			
Share capital	17	13,714,560	13,714,560
Reserves	18	83,616,283	84,227,770
		97,330,843	97,942,330

Huang Dazhan
DIRECTOR

Zhou Linda L.
DIRECTOR

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2001

	2001 US\$	2000 US\$
Exchange differences arising on translation of overseas operations not recognised in the income statement	1,063	5,802
Profit for the year	4,990,852	3,652,727
Total recognised gains	4,991,915	3,658,529
Prior year adjustments (<i>See note 2</i>)		
Increase in retained profits at 1 January 2000	–	1,097,165

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2001

	NOTES	2001 US\$	2000 US\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	20	4,228,685	4,803,839
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(1,782,893)	(1,782,893)
Dividend received from an associate		497,718	557,602
Interest paid		(83,634)	–
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(1,368,809)	(1,225,291)
TAXATION			
Hong Kong profits tax refunded		–	29,290
PRC income tax paid		(15,651)	(19,792)
TAX (PAID) REFUNDED		(15,651)	9,498
INVESTING ACTIVITIES			
Repayment from associates		5,057	1,995,158
Repayment of capital from contractual joint ventures		240,970	38,804
Acquisition of listed investments in securities		(2,412,436)	(16,617,132)
Acquisition of unlisted investments in securities		(26,262,892)	–
Proceeds from disposal of listed investments in securities		10,042,079	17,895,342
Proceeds from disposal of contractual joint venture		2,410,000	–
Proceeds from disposal of unlisted investments in securities		9,593,658	83,780
Increase in pledged deposits	24	(2,800,000)	–
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		(9,183,564)	3,395,952
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		(6,339,339)	6,983,998
FINANCING			
Bank loan raised	21	6,451,925	–
INCREASE IN CASH AND BANK BALANCES		112,586	6,983,998
CASH AND BANK BALANCES AS AT 1 JANUARY		40,519,160	33,535,162
CASH AND BANK BALANCES AS AT 31 DECEMBER		40,631,746	40,519,160

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

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.

The financial statements are expressed in United States dollars, the currency in which most of its transactions are carried out.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Company's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

Dividend proposed or declared after the balance sheet date

In accordance with SSAP No. 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity on the face of the balance sheet or in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment (see note 18).

The effect of this change is to increase the Group's net assets as at 1 January 2000 by US\$1,097,165.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or contractual joint venture at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis over its useful economic life.

Goodwill arising on the acquisitions of an associate or a contractual joint venture is included within the carrying amount of the associate or contractual joint venture. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contractual joint ventures

The Group's contractual joint venture arrangements are investments in joint ventures in which the Group receives predetermined annual returns over the terms of the joint ventures but is not entitled to share any distribution on termination of the joint ventures. Accordingly, contractual joint ventures are initially recorded at cost and reduced by subsequent capital repayments. Payments receivable each year under the joint venture agreements are apportioned between income and the reduction of the carrying value of the investments so as to give a constant periodic rate of return on the investments.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Revenue recognition

Income from contractual joint ventures is recognised by reference to the predetermined returns so as to give a constant periodic rate of return on the net investments annually.

Interest income from bank deposits is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

Transactions in foreign currencies other than United States dollars are translated into United States dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollars are re-translated into United States dollars at the approximate rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries and associates expressed in currencies other than United States dollars are translated at the rates ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with as movements in the exchange equalisation reserve.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

4. TURNOVER

Turnover represents the amounts received and receivable on investments during the year as follows:

	THE GROUP	
	2001 US\$	2000 US\$
Interest income	1,856,098	2,399,501
Income from contractual joint ventures	750,000	1,481,226
Dividend income from unlisted investments in securities	941,164	2,107,368
Dividend income from listed investments in securities	142,470	194,723
	3,689,732	6,182,818

5. SEGMENTAL INFORMATION

During the year, the Group was principally involved in investing in companies with significant business involvement in the People's Republic of China ("PRC"). Accordingly, no analysis of segment information by principal activity is presented. The Group's turnover, contribution to operating profit, assets and liabilities, analysed by geographical locations, were as follows:

For the year ended 31 December 2001

	Hong Kong US\$	The PRC US\$	Unallocated and other items US\$	Consolidated US\$
TURNOVER				
Group turnover	830,074	2,528,246	331,412	3,689,732
RESULT				
Segment result	774,418	5,468,192	312,987	6,555,597
Other revenue	–	–	36,104	36,104
Unallocated corporate expenses	–	–	(2,581,865)	(2,581,865)
Profit from operations	774,418	5,468,192	(2,232,774)	4,009,836
Finance cost	–	(83,634)	–	(83,634)
Share of results of associates	–	1,219,678	–	1,219,678
Profit before taxation	774,418	6,604,236	(2,232,774)	5,145,880
Taxation	–	(155,028)	–	(155,028)
Profit attributable to shareholders	774,418	6,449,208	(2,232,774)	4,990,852
OTHER INFORMATION				
Allowance for bad and doubtful debts	–	(596,234)	–	(596,234)
Write back of impairment loss of contractual joint ventures	–	199,357	–	199,357

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

5. SEGMENTAL INFORMATION (Continued)

BALANCE SHEET

At 31 December 2001

	Hong Kong US\$	The PRC US\$	Unallocated and other items US\$	Consolidated US\$
ASSETS				
Segment assets	23,012,152	23,608,157	–	46,620,309
Investments in associates	–	11,863,673	–	11,863,673
Investments in contractual joint ventures	–	14,980,000	–	14,980,000
Investments in securities	931,301	60,097,707	545,445	61,574,453
Consolidated total assets	23,943,453	110,549,537	545,445	135,038,435
LIABILITIES				
Segment liabilities	724,604	8,885,592	–	9,610,196

For the year ended 31 December 2000

TURNOVER				
Group turnover	1,034,918	5,147,900	–	6,182,818
RESULT				
Segment result	(388,886)	10,411,133	–	10,022,247
Other revenue	–	–	90,289	90,289
Unallocated corporate expenses	–	–	(2,548,785)	(2,548,785)
Profit from operations	(388,886)	10,411,133	(2,458,496)	7,563,751
Finance cost	–	–	–	–
Share of results of associates	–	(3,809,544)	–	(3,809,544)
Profit before taxation	(388,886)	6,601,589	(2,458,496)	3,754,207
Taxation	889	(102,369)	–	(101,480)
Profit attributable to shareholders	(387,997)	6,499,220	(2,458,496)	3,652,727
OTHER INFORMATION				
Allowance for bad and doubtful debts	–	(1,828,356)	–	(1,828,356)
Impairment loss of contractual joint ventures	–	(1,911,171)	–	(1,911,171)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

5. SEGMENTAL INFORMATION (Continued)

BALANCE SHEET

At 31 December 2000

	Hong Kong US\$	The PRC US\$	Unallocated and other items US\$	Consolidated US\$
ASSETS				
Segment assets	17,687,446	24,651,106	–	42,338,552
Investments in associates	–	11,300,735	–	11,300,735
Investments in contractual joint ventures	–	18,938,325	–	18,938,325
Investments in securities	3,202,776	46,494,054	617,935	50,314,765
Consolidated total assets	20,890,222	101,384,220	617,935	122,892,377
LIABILITIES				
Segment liabilities	614,691	58,469	–	673,160

6. PROFIT BEFORE TAXATION

	THE GROUP	
	2001 US\$	2000 US\$
Profit before taxation has been arrived at after charging:		
Amortisation of goodwill (included in administrative expenses)	–	1,092
Auditors' remuneration	51,053	44,653
Net foreign exchange losses	5,280	22,471
Investment Manager's fee	2,262,114	2,181,726
Interest expense on bank loans repayable within five years	83,634	–
Directors' fees	30,768	30,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

7. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2001 US\$	2000 US\$
Directors' fees		
– Executive	15,384	15,000
– Non-executive	15,384	15,000
	30,768	30,000
Other emoluments		
– Salaries and other benefits	–	–
– Contribution to retirement benefits schemes	–	–
– Performance related incentive payment	–	–
– Incentive payment on joining	–	–
	–	–

Emoluments paid to each director in 2001 and 2000 were less than US\$125,000.

The amounts disclosed above include directors' fees of US\$7,693 (2000: US\$7,693) payable to independent non-executive directors.

8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2001 and 2000 were all directors of the Company and details of their emoluments are included in note 7 above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

9. TAXATION

	THE GROUP	
	2001 US\$	2000 US\$
The charge comprises:		
Profits tax for the year		
Hong Kong	–	(889)
Other regions in the PRC	–	21,313
Taxation attributable to the Company and its subsidiaries	–	20,424
Share of taxation on results of associates		
Other regions in the PRC	155,028	81,056
	155,028	101,480

No Hong Kong profits tax has been provided in the financial statements as there were no significant assessable profits for the year. The taxation credit represents the overprovision of profits tax in previous years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for deferred taxation has been recognised in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

10. DIVIDENDS

	2001 US\$	2000 US\$
Interim dividend paid – US0.5 cents (2000: US0.5 cents) per share	685,728	685,728
Final dividend proposed – US0.8 cents (2000: US0.8 cents) per share	1,097,165	1,097,165
	1,782,893	1,782,893

Note:

The previously recorded final dividend proposed and declared after the balance sheet date and accrued in the financial statements for the years ended 31 December 1999 and 2000 were US\$1,097,165 for both years. Under the Group's revised accounting policy as described in note 2, these have been written back to the opening reserves as at 1 January 2000 and 2001 and are now charged in the period in which they were declared.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	THE GROUP	
	2001	2000
Earnings for the purpose of basic earnings per share (US\$)	4,990,852	3,652,727
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001 US\$	2000 US\$
Unlisted shares, at cost	10,066,347	10,066,348
Amounts due from subsidiaries	66,992,175	72,678,918
Less: Impairment loss	(16,890,599)	(17,814,006)
	60,167,923	64,931,260

Particulars of the Company's principal subsidiaries at 31 December 2001 are set out in note 26.

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 US\$	2000 US\$
Share of net assets	8,430,774	7,862,779
Amounts due from associates	11,008,328	11,013,385
	19,439,102	18,876,164
Less: Impairment loss	(7,575,429)	(7,575,429)
	11,863,673	11,300,735

The amounts due from associates are classified under non-current assets as the directors are of the opinion that they will not be repaid in the forthcoming year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

13. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2001, the Group had investments in the following associates:

Name of company	Place of incorporation/operation	Class of share held	Principal activities	Proportion of nominal value of issued capital/registered capital held by the Group
Daily On Property Limited	HK/PRC	Ordinary	Property development	22%
Hansen Enterprises Limited*	British Virgin Islands ("BVI")/PRC	Ordinary	Property investment	35%
Zhaoyuan Jinbao Electronics Company Limited*	PRC/PRC	Registered capital	Manufacturing electronics products	30%

* The financial statements of these associates are not audited by Deloitte Touche Tohmatsu.

14. CONTRACTUAL JOINT VENTURES

	THE GROUP	
	2001 US\$	2000 US\$
Unlisted investments		
Contributions to contractual joint ventures less capital recovered	14,980,000	18,938,325

Particulars of contractual joint ventures at 31 December 2001 are as follows:

Name	Principal activities	Expiry date of joint venture
Wei Fang Yin Yuan Aviation Industry Co., Ltd.	Airport construction and operation	4 May 2009
Weifang Zhaoyin Real Estate Development Co., Ltd.	Property development	23 June 2014
Maoming Tongfa Highway Co., Ltd.	Highway construction and operation	28 February 2021
Beijing Longbao Mansion Joint Operation Project	Property investment	24 July 2000 which has been extended automatically to the date until full payments are settled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

15. INVESTMENTS IN SECURITIES

THE GROUP

	Held to maturity securities		Other investments		Total	
	2001 US\$	2000 US\$	2001 US\$	2000 US\$	2001 US\$	2000 US\$
Equity securities:						
Listed	–	–	931,301	3,219,976	931,301	3,219,976
Unlisted	–	–	60,143,174	46,551,115	60,143,174	46,551,115
	–	–	61,074,475	49,771,091	61,074,475	49,771,091
Debt securities:						
Unlisted	499,978	543,674	–	–	499,978	543,674
Total:						
Listed						
Hong Kong	–	–	931,301	3,202,776	931,301	3,202,776
Elsewhere	–	–	–	17,200	–	17,200
Unlisted	499,978	543,674	60,143,174	46,551,115	60,643,152	47,094,789
	499,978	543,674	61,074,475	49,771,091	61,574,453	50,314,765
Market value of listed securities	–	–	931,301	3,219,976	931,301	3,219,976

THE COMPANY

	Other investments	
	2001 US\$	2000 US\$
Equity securities		
Listed, at market value	–	17,200

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

15. INVESTMENTS IN SECURITIES (Continued)

Particulars of the Group's unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2001 disclosed pursuant to Section 129(2) of the Companies Ordinance are as follows:

Name	Place of incorporation	Class of share capital	Percentage of equity held by the Group
China Merchants Bank	PRC	Equity	1.62%
Fujian Industrial Bank	PRC	Equity	2.80%

16. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2001 US\$	2000 US\$
The aging of trade receivables is analysed as follows:		
Amount accrued but not yet due	–	1,146,616
0-6 months	500,000	19,380
7-12 months	170,027	241,616
Over 12 months	20,284	–
Total trade receivables	690,311	1,407,612
Interest receivable	120,138	381,931
Other receivables	2,378,114	29,849
	3,188,563	1,819,392

17. SHARE CAPITAL

	2001 US\$	2000 US\$
Authorised:		
150,000,000 ordinary shares of US\$0.10 each	15,000,000	15,000,000
Issued and fully paid:		
137,145,600 ordinary shares of US\$0.10 each	13,714,560	13,714,560

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

18. RESERVES

	Share premium US\$	Exchange equalisation US\$	General reserve US\$	Retained profits US\$	Total US\$
THE GROUP					
Balance at 1 January 2000, as previously reported	81,525,984	124,388	–	23,881,484	105,531,856
Derecognition of liability in respect of 1999 final dividend (note 2)	–	–	–	1,097,165	1,097,165
Balance at 1 January 2000, as restated	81,525,984	124,388	–	24,978,649	106,629,021
Exchange difference on translation of financial statement of associates	–	5,802	–	–	5,802
Net profit for the year	–	–	–	3,652,727	3,652,727
Final dividend paid for 1999	–	–	–	(1,097,165)	(1,097,165)
Interim dividend paid for 2000	–	–	–	(685,728)	(685,728)
Balance at 1 January 2001, as restated	81,525,984	130,190	–	26,848,483	108,504,657
Exchange difference on translation of financial statement of associates	–	1,063	–	–	1,063
Profit for the year	–	–	–	4,990,852	4,990,852
Final dividend paid for 2000	–	–	–	(1,097,165)	(1,097,165)
Interim dividend paid for 2001	–	–	–	(685,728)	(685,728)
Transfer to general reserve	–	–	744,702	(744,702)	–
Balance at 31 December 2001	81,525,984	131,253	744,702	29,311,740	111,713,679

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

18. RESERVES (Continued)

	Share premium US\$	Retained profits US\$	Total US\$
THE COMPANY			
Balance at 1 January 2000, as previously reported	81,525,984	10,030,083	91,556,067
Derecognition of liability in respect of 1999 final dividend (note 2)	–	1,097,165	1,097,165
Balance at 1 January 2000, as restated	81,525,984	11,127,248	92,653,232
Net loss for the year	–	(6,642,569)	(6,642,569)
Final dividend paid for 1999	–	(1,097,165)	(1,097,165)
Interim dividend paid for 2000	–	(685,728)	(685,728)
Balance at 1 January 2001, as restated	81,525,984	2,701,786	84,227,770
Net profit for the year	–	1,171,406	1,171,406
Final dividend paid for 2000	–	(1,097,165)	(1,097,165)
Interim dividend paid for 2001	–	(685,728)	(685,728)
Balance at 31 December 2001	81,525,984	2,090,299	83,616,283

The general reserve represents the General Reserve Fund set aside by a subsidiary in accordance with relevant laws and regulations of the PRC, which is not available for distribution.

Included in the above are the Group's share of post-acquisition reserves of the associates as follows:

	2001 US\$	2000 US\$
As at 1 January	(143,240)	329,532
Profit (loss) for the year	566,933	(472,772)
As at 31 December	423,693	(143,240)

The amount of the Company's reserves available for distribution to shareholders, calculated in accordance with generally accepted accounting principles in Hong Kong, was US\$2,090,299 (2000: US\$2,701,786).

19. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$125,428,239 (2000: US\$122,219,217) and 137,145,600 ordinary shares (2000: 137,145,600 ordinary shares) of US\$0.10 each in issue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

20. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	THE GROUP	
	2001 US\$	2000 US\$
Profit before taxation	5,145,880	3,754,207
Non-cash dividend income	–	(8,930)
Interest expense on bank loans	83,634	–
Share of results of associates	(1,219,678)	3,809,544
Net unrealised holding gain on unlisted investments in securities	(2,282,584)	(8,304,893)
Gain on disposal of contractual joint venture	(1,042,645)	–
Net gain on disposal of listed investments in securities	(75,293)	(1,307,822)
Unrealised holding loss on listed investments in securities	137,780	2,033,759
Amortisation of goodwill	–	1,092
Impairment loss in contractual joint ventures	–	1,911,171
Decrease in trade and other receivables	980,829	3,279,334
Increase (decrease) in trade and other payables	2,500,762	(363,623)
Net cash inflow from operating activities	4,228,685	4,803,839

21. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	THE GROUP
	2001 US\$
As at 1 January 2001	–
Bank loan raised during the year	6,451,925
As at 31 December 2001	6,451,925

22. LEASE COMMITMENTS

At 31 December 2001, the Group and the Company had no commitments under non-cancellable operating leases (2000: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

23. COMMITMENTS

At 31 December 2001, the Group had the following commitments:

	2001 US\$	2000 US\$
Commitments in respect of investment in unlisted securities: – authorised but not contracted for	1,000,000	–

24. BANK LOANS WITH ASSETS PLEDGED

At 31 December 2001, the Group's bank deposit of US\$2,800,000 (2000: Nil) was pledged to a bank for securing a bank loan of RMB22,400,000 granted to the Group.

At 31 December 2001, 12,470,000 shares of China Merchants Bank (2000: Nil) was pledged to a bank for securing a bank loan of RMB31,000,000 granted to the Group.

25. RELATED PARTY TRANSACTION

The Company has appointed China Merchants China Investment Management Limited as the Investment Manager for both listed and unlisted investments. Certain directors of the Company are also directors and/or shareholders of the Investment Manager.

During the year, management fees totalling US\$2,262,114 (2000: US\$2,181,726) were paid or payable to the Investment Manager, which is calculated based on a fixed percentage on the value of the Group's assets as stipulated in the Agreement. The amounts owing to the Investment Manager at 31 December 2001 were US\$646,467 (2000: US\$533,550).

26. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2001, which are all wholly-owned and directly held by the Company, are as follows:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
CMCDI Zhaoyuan Limited	BVI	Investment holding	1 ordinary share of US\$1 each
China Merchants Industry Development (Shenzhen) Limited*	PRC	Investment holding	Paid up capital of US\$10,000,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

26. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
Convoy Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Foster Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Head Union Development Limited	HK	Investment holding	2 ordinary shares of HK\$1 each
Ryan Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Star Group Limited	HK	Investment holding	2 ordinary shares of HK\$1 each
Storey Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Supertone Investment Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Weaver International Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Wheaton International Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Woodford Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at 31 December 2001 or at any time during the year.

* Company not audited by Deloitte Touche Tohmatsu.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

27. EVENT AFTER THE BALANCE SHEET DATE

On 5 February 2002, Storey Overseas Limited (“SOL”), a wholly-owned subsidiary of the Company entered into an agreement with Maoming Guomao Traffic Development Limited to dispose of SOL’s entire interest in Maoming Tongfa Highway Company Limited for a consideration of RMB88,300,000 (equivalent to US\$10,670,000), which has been received by the Group.

RESULTS

	For the year ended 31 December				2001 US\$
	1997 US\$	1998 US\$	1999 US\$	2000 US\$	
Turnover	7,294,666	8,949,687	7,985,868	6,182,818	3,689,732
Profit from operations after finance cost	12,903,902	10,865,513	2,235,827	7,563,751	3,926,202
Share of results of associates	(1,634,694)	(1,149,028)	318,360	(3,809,544)	1,219,678
Taxation	(155,977)	(85,422)	(106,087)	(101,480)	(155,028)
Profit attributable to shareholders	11,113,231	9,631,063	2,448,100	3,652,727	4,990,852

ASSETS AND LIABILITIES

	As at 31 December				2001 US\$
	1997 US\$	1998 US\$	1999 US\$	2000 US\$	
Total assets	110,498,195	121,489,101	121,378,843	122,892,377	135,038,435
Total liabilities	(5,106,965)	(2,908,014)	(2,132,427)	(673,160)	(9,610,196)
Shareholders' funds	105,391,230	118,581,087	119,246,416	122,219,217	125,428,239

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Hennessy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on Tuesday, 28 May 2002 at 4:00 p.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2001.
2. To declare a final dividend for the year ended 31 December 2001.
3. To re-elect Retiring Directors and authorise the Board of Directors to fix directors' remuneration.
4. To re-appoint Auditors and authorise the Directors to fix their remuneration.
5. As special business to consider and, if thought fit, to pass with or without modifications the following resolutions as Ordinary Resolutions:

A. "THAT:

- (a) subject to paragraph (c) and pursuant to section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved.
- (b) the approval in paragraph (a) shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period.
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of rights of subscription under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

- (d) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in General Meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong).”

B. “THAT:

- (a) subject to paragraph (b) the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to repurchase its own shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;

NOTICE OF ANNUAL GENERAL MEETING

- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in General Meeting.”
- C. “**THAT** conditional upon Resolutions 5.A. and 5.B. being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in Resolution 5.B. shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to Resolution 5.A., provided that the amount of share capital repurchased by the Company shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this Resolution.”

By Order of the Board

Linda L. Zhou

Executive Director

Hong Kong, 22 April 2002

Notes:

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint not more than two proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the Company's registered office at Room 1803 China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting.
- (3) The Register of Members of the Company will be closed from 24 May 2002 to 28 May 2002, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend to be approved at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's registrars, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 23 May 2002.
- (4) At the Annual General Meeting of the Company held on 25 May 2001, Ordinary Resolutions were passed giving general mandates to Directors to repurchase shares of the Company on the Stock Exchange and to allot, issue and otherwise deal with additional shares in the capital of the Company. Under the terms of the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange these general mandates lapse at the conclusion of the Annual General Meeting for 2002, unless renewed at that meeting. The Ordinary Resolutions sought in terms 5.A. and 5.B. of this notice renew these mandates.
- (5) With reference to the Ordinary Resolutions sought in terms 5.A. and 5.B. of this notice, the Directors wish to state that they have no immediate plans to issue any new shares or repurchase any existing shares of the Company. Approval is being sought from members as a general mandate pursuant to the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. The Circular required by the Rules Governing the Listing of Securities on the Stock Exchange in connection with the proposed new issue and repurchase mandates will be despatched to shareholders together with the Annual Report of the Company.