

2002

Annual Report 2002

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Corporate Information

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

Peter Y. W. Lee

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

Dah Sing Bank, Limited
36th Floor Dah Sing Financial Centre,
108 Gloucester Road,
Hong Kong

LEGAL ADVISERS

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

SHARE REGISTRAR

Computershare Hong Kong Investor
Services 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



Chairman's Statement



Dr. Fu Yuning *Chairman*

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

Chairman's Statement (continued)

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

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

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

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

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



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

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

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

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

Fu Yuning

Chairman

Hong Kong, 23 April 2003

Investment Manager's Discussion and Analysis



Dr. Huang Dazhan *Chairman of the Board of the Investment Manager*



OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") recorded a profit attributable to shareholders of US\$4.59 million for the year 2002, representing an 8.1% decrease over that of 2001. Despite the increase in the unrealised holding gain of an investment following its successful listing, the Fund recorded a drop in its net profit as a result of the decrease in turnover and the increase in provision for investments. As of 31 December 2002, the net assets of the Fund were US\$128 million, with net asset value ("NAV") per share of US\$0.935, representing a 2.2% increase over 2001.

Total turnover for the year fell by 33.8% to US\$2.44 million (2001: US\$3.69 million). Turnover included dividend income from unlisted investments, which increased 60.9% to US\$1.51 million. Another component of turnover was interest income, which decreased 53.0% to US\$0.87 million (2001: US\$1.86 million) due to interest rates continued to decline throughout the year. The average 90-day US Treasury Bill rate declined from 3.5% in 2001 to 1.6% in 2002. In addition, following the disposal of a contractual fixed income investment in February 2002, there was no income from this investment for the year (2001: US\$0.75 million).

The net unrealised holding gain on unlisted investments for the year was US\$8.21 million, representing an increase of 259.5% over 2001. The gain resulted from the successful listing of China Merchants Bank on the Shanghai Stock Exchange in 2002.

As a result of the unsatisfactory performance of the Hong Kong stock market in 2002, the Fund took a provision of US\$1.31 million against listed securities. The Fund also took a provision of US\$2.40 million related to the sale of a real estate project in Beijing.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

On 5 February 2002, the Fund disposed of its entire interest in Maoming Tongfa Highway Company Limited for a consideration of RMB88.30 million (equivalent to approximately US\$10.67 million), which was received in full in the year.

On 29 May 2002, the Fund entered into an agreement with Oriental University City Development Company to form a joint venture in Langfang Economic Development Zone, Hebei Province, the PRC, to provide Phase I dormitory facilities for students studying at the University City. The Fund invested US\$5 million in the joint venture for an interest of 25%.

On 8 August 2002, the Fund, together with Jutian Securities Company Limited, Citic Guoan Information Industry Company Limited, Hantang Securities Company Limited, and Zhejiang Zhongda Holdings Company Limited, signed a promoter agreement to establish Jutian Fund Management Company Limited in Shenzhen, the PRC. The company will be engaged in the listed equity fund management business in the PRC. According to the agreement, the Fund will invest RMB10 million for an interest of 10% in the company. The company obtained approval to form at the end of 2002, and the investment was completed in February 2003.

Investment Manager's Discussion and Analysis (continued)

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

Net cash fell by 7.9%, from US\$36.98 million as of 31 December 2001 to US\$34.06 million as of 31 December 2002, due to outlays for capital investments and dividend payments in excess of cash received from the disposal of investments.

As of 31 December 2002, the Fund had no outstanding bank loans (2001: US\$6.45 million).

As of 31 December 2002, the Fund had capital commitments of US\$1.20 million (2001: US\$1.00 million), earmarked for an investment that has been committed to, but not yet provided for in the financial statements.

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. The Yuan remained stable during the reporting period, and is expected to remain so.

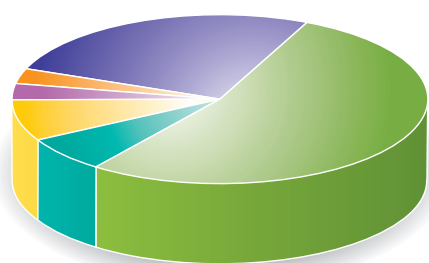
EMPLOYEES

The Fund has no employees, because its portfolio and operations are administered by the Investment Manager.

THE PORTFOLIO

As of 31 December 2002, the Fund had total investments of US\$94.96 million – US\$87.25 million in unlisted investment projects, US\$3.97 million in listed investments, and US\$3.74 million in certificates of deposit and notes. The major unlisted investment projects were in financial services (53.3% of net assets), manufacturing (6.8%), and real estate (7.9%). In addition, the Fund had net cash of US\$34.06 million, accounting for 26.6% of the Fund's net assets.

NET ASSET DISTRIBUTION (As at 31 December 2002)



- Financial Services Investments **(53.3%)**
- Manufacturing Investments **(6.8%)**
- Real Estate Investments **(7.9%)**
- Listed Investments **(3.1%)**
- CD/Notes **(2.9%)**
- Net Cash **(26.6%, after netting off other liabilities = 26.0%)**





Ms. Linda L. Zhou *Managing Director of the Investment Manager*

Investment Manager's Discussion and Analysis (continued)

REVIEW OF UNLISTED INVESTMENTS

The following table shows the major unlisted investment projects held by the Fund as of 31 December 2002:

Name of Projects	Location	Business Nature	Net Book Value US\$ million	Percentage of Net Assets
Financial Services:				
1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	41.52	32.37
2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	20.88	16.28
3. Industrial Securities Co., Ltd.	Fuzhou, Fujian	Securities	0.66	0.52
4. China Merchants Securities Co., Ltd.	Shenzhen, Guangdong	Securities	1.54	1.20
5. Jutian Securities Co., Ltd.	Shenzhen, Guangdong	Securities	3.13	2.44
6. Houlder China Insurance Brokers Ltd.	Shenzhen, Guangdong	Insurance Brokerage	0.57	0.45
Sub-total			68.30	53.26
Manufacturing:				
7. Zhaoyuan Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	8.81	6.87
Sub-total			8.81	6.87
Real Estate:				
8. Langfang Oriental Education Facilities Development Co., Ltd.	Langfang, Beijing	Student dormitory	5.07	3.95
9. Beijing Longbao Mansion	Beijing	Office & apartments	2.58	2.01
10. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retails shops	2.45	1.91
Sub-total			10.10	7.87
Total			87.21	68.00



Financial Services Investments

Financial Services is one of the core investment sectors for the Fund. Recently, Initial Public Offerings ("IPOs") have become more prevalent for financial services companies as a way to raise capital and expand business capacity. A successful IPO can generate significant capital appreciation for the Fund. However, in light of the Fund's heavy exposure to this sector (over 50% of assets), the Fund will be more selective in investing in new projects in this 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 300 branches and offices across the country. The Fund invested US\$13.77 million and currently holds a 1.19% stake in CMB (Note: The shareholding has decreased from the original 1.62% due to the dilution effect arising from the bank's IPO). CMB became the fourth mainland commercial bank to go public when it issued 1.5 billion "A" shares at RMB7.30 per share on the Shanghai Stock Exchange on 9 April 2002. In the second-largest A-share IPO in China, CMB's subscription was well received and raised over RMB10 billion. The average stock price of CMB since its listing has remained over RMB9.50 per share. As the Fund's stake in CMB is in non-trading shares, the Fund, with reference to an independent valuation report and for prudence purpose, valued the shares at RMB5.64 per share as of 31 December 2002. At this valuation, the Fund recorded an unrealised holding gain of US\$9.19 million for 2002. CMB's net profit for 2002 was RMB1.73 billion, an increase of 26.10% over 2001. The Fund received dividends of US\$1.37 million in the year.

On 28 August 2002, CMB upgraded its Hong Kong representative office to a branch, in a strategic move toward globalisation. As the sixth mainland commercial bank with approval to establish business in Hong Kong, CMB focuses on the local wholesale banking business.

Industrial Bank Company, Limited ("IBCL"), formerly Fujian Industrial Bank Company, Limited, changed its name in 2003 with the approval of the People's Bank of China. IBCL 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 IBCL in 1998, and since then has increased its stake to US\$17.6 million, or 2.80%. For the year 2002, IBCL recorded a net profit of RMB477 million, representing a 1.20% decrease over 2001. With the increase in IBCL's net assets, the value of the Fund's investment in the bank increased to US\$20.88 million at the end of 2002, resulting in an unrealised holding gain of US\$0.99 million for 2002. The bank has been actively preparing for its IPO. It is expected that the pre-IPO coaching period will end in the middle of 2003 and that an IPO will be launched in the PRC at the end of this year.

Investment Manager's Discussion and Analysis (continued)

Industrial Securities Company, Limited ("ISCL") is a comprehensive securities company registered in China, with businesses in securities underwriting, brokering and investment, and investment consulting. The firm 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 depressed market conditions and a significant drop in the volume of stock trading in 2002, China's securities industry suffered losses across the sector for the first time. These market conditions also affected ISCL, which recorded a net loss of RMB402 million for 2002. At the end of 2002, the fair value of this investment decreased by US\$0.53 million, with the net value amounting to US\$0.66 million. Due to the drop in capital as a result of the significant losses, ISCL is preparing for the issuance of new shares in 2003 to strengthen its financial position.

China Merchants Securities Company Limited ("CMS"), formerly China Communication Securities Company Limited, changed its name in July 2002. This firm is a comprehensive securities company registered in China with over RMB2.4 billion in registered capital. Its businesses include securities underwriting, brokering and investment, and investment consulting. The Fund invested US\$1.57 million to acquire a 0.52% stake in CMS in 2001. Affected by sluggish stock market conditions in China, CMS's profit decreased significantly to RMB5.29 million in 2002 from RMB260 million in 2001. At the end of 2002, the value of this investment amounted to US\$1.54 million, a decrease of US\$0.11 million.

Jutian Securities Company Limited ("Jutian"), formerly Shenzhen Economic Special Zone Securities Company, Limited, was set up in 1987 as the first comprehensive securities company in the PRC. It is engaged in securities brokering, investment and underwriting. The Fund invested US\$4.26 million in Jutian, for an interest of 4.66%. As a result of slumping trading volumes in China's stock markets, the turnover of Jutian decreased to RMB172 million, or 55% of the 2001 level. The net loss for the year was RMB179 million. The Fund received dividend income of US\$0.13 million from Jutian during the year. However, following the loss of Jutian, the value of this investment decreased by US\$1.31 million. In view of the slowdown in China's securities industry, Jutian invested RMB30 million and teamed up with a few other companies to set up Jutian Fund Management Company Limited with registered capital of RMB100 million targeting at the fund management business. The management company obtained approval from the China Securities Regulatory Commission for formation and commencement of operations at the end of 2002 and early 2003, respectively.

Houlder China Insurance Brokers Limited ("Houlder") was founded in 2001. Its major shareholders are large prominent mainland enterprises and include China Merchants Group Limited, China Communication Import and Export Holding Company, China Ocean Shipping Company, China Shipping Group, Shenzhen Expressway Company, Hong Ta Group and Hope Group. The Fund invested US\$0.6 million in Houlder to acquire a stake of 10%. China's insurance brokerage industry faced a challenging 2002. With insurance brokers' status being in place, insurance broking companies have been aggressively expanding their business. Although Houlder obtained many major contracts, it faced challenges to further expansion. For the year ended 31 December 2002, Houlder's turnover increased 190% to RMB4.25 million, but it also recorded a net loss of RMB1.85 million. In response, the company has introduced a series of measures – including tighter cost controls, internal resource consolidation and an effort to strengthen policy implementation efficiency – designed to improve operating performance.



Manufacturing Investments

Manufacturing as a portion of the Fund's portfolio was small relative to other industry sectors. Still, the Fund continues to pursue high-return projects in this sector. With abundant, skilled, and relatively inexpensive labor, China has become a global manufacturing centre with a distinct competitive advantage in labor-intensive, low-cost products.

Zhaoyuan Jinbao Electronics Company Limited ("Jinbao"), located in Zhaoyuan, Shandong Province, is engaged in the manufacture and sale of electronics products, including copper foil and copper-clad laminates. The Fund invested US\$7 million for a 30% interest in Jinbao. In the year, a Chinese partner of the joint venture, Zhaoyuan Electronics Material Company, sold part of its interest in Jinbao to two Chinese enterprises, giving them a 6% and 2% interest, respectively. The number of company shareholders increased to five, fulfilling the statutory requirements of a joint-stock company and enabling Jinbao to list at an appropriate time in the future. The production line for high-grade copper foil commenced operations in the year. However, the line also encountered a few challenges – in particular, a longer than expected period for production trial runs and for the integration of new management talent. At the same time, the market for the company's products weakened due to consolidation in foreign markets, falling sales prices and fierce competition within the industry. Together, these forces resulted in a 71% slide in Jinbao's net profit for 2002, to RMB9.44 million. Since the end of 2002, market conditions have improved, demand and prices for Jinbao's products have increased, and profits are expected to rise in the coming year. The Fund is assisting the company for an IPO, with a goal to raise capital for expanding production capacity and broadening the company's product offerings. Dividend income from Jinbao amounted to US\$0.91 million in the year.

Real Estate Investments

In response to the increase in per capita national income and the level of living standards in the PRC, the demand for housing continues to increase. As such, the Fund is pursuing promising real estate projects with low risk and high potential returns. In the year, the Fund invested in a real estate project relating to education facility services.

Langfang Oriental Education Facilities Development Company Limited ("Oriental") is a Sino-foreign cooperative joint venture. The total project cost is US\$20 million, with a 20-year contractual period. In June 2002, the Fund invested US\$5 million, for an equity stake of 25%. Oriental is engaged in the operation and management of the Phase I dormitories of Oriental University City. This phase can accommodate about 15,000 students – or up to approximate 19,000 with further modification. Oriental University City is a modern education, science and technology centre with a mission to "bring prosperity to the country through science and education." Including the facilities provided by Phase II, Oriental University City is able to accommodate about 50,000 students. For the four months since the new school year started, i.e. from September 2002 to the end of the year, Oriental recorded a net profit of RMB2.11 million, which contributed about US\$60,000 to the Fund's profit.

Investment Manager's Discussion and Analysis (continued)

Beijing Longbao Mansion ("Longbao") is situated near the Third Ring of the Chaoyang District in Beijing. It comprises two 17-storey apartment buildings and an office complex. The Fund invested US\$4.98 million (total investment is US\$5 million) in 1997 for a 35% interest under an agreement with the developer to jointly manage the property. According to the joint-management agreement, the developer should have paid a fixed investment return semi-annually to the Fund during the 3-year contractual period. However, the developer failed to make scheduled payments in the second year of the contract. As the developer's financial position has been severely worsen and it has been involved in a series of legal proceedings, the Fund took immediate steps to dispose of the investment entirely to an independent third party. In February 2003, the Fund transferred its entire stake for a consideration of US\$3 million – a 15% discount to the then independent appraised value of US\$3.55 million. The Fund recorded a provision of US\$2.40 million (including all transaction costs and legal fees) in the year.

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 square metres of retail space on the third floor of Mankam. Subsequently, the developer was forced into bankruptcy, and its first two floors of Mankam were never brought into use. As a result, Hansen has had difficulty in selling or leasing the third floor. Recently, Mankam's property management company conveyed a decision by the Shenzhen Municipal Government to clear up all uncompleted construction sites in the city. There are now plans to modify and upgrade Mankam and to set up a new, high-tech property zone for that location. The Fund expects that these actions will improve the prospects of this project.

REVIEW OF LISTED INVESTMENTS

In 2002, a global economic slowdown and the looming of threat of war in Iraq depressed stock markets worldwide. Despite the benefit of rapid economic growth in the PRC, the Hong Kong stock market was also affected negatively by these global market forces, as well as by Hong Kong's high unemployment rate and deflation. The Hang Seng Index, Growth Enterprise Index and Hang Seng China-Affiliated Corporations Index fell by 18%, 45% and 25%, respectively. The Hang Seng China Enterprises Index increased by 13%, outperforming the market. In 2002, the Fund recorded gains from disposals and dividend income amounting to US\$94,000 and unrealised losses of US\$1.31 million. At the end of 2002, the Fund held listed shares valued at US\$3.97 million, of which the two largest investments were (i) Hong Kong Exchanges and Clearing Limited (business: securities and futures exchanges; % of share capital: 0.106%; investment cost: US\$1.7961 million; market value: US\$1.3929 million; % of NAV: 1.086%; dividend received: US\$11,193) and (ii) Cheung Kong Holdings Limited (business: equity investments and project management; % of share capital: 0.007%; investment cost: US\$1.2829 million; market value: US\$1.1035 million; % of NAV: 0.860%; dividend received: US\$8,252).



PROSPECTS

It is believed that China's newly elected leaders will continue the existing economic development policy. The policy of privatisation of state-owned enterprises will bring many investment opportunities. The Investment Manager is actively pursuing and studying these projects. In particular, the Investment Manager will focus on those projects with the potential to offer stable income. Meantime, the Investment Manager is also assisting some of its investee companies to prepare for IPOs that should generate capital appreciation for the Fund.

Linda L. Zhou

Managing Director

China Merchants China

Investment Management Limited

Hong Kong, 23 April 2003

Directors of the Investment Manager



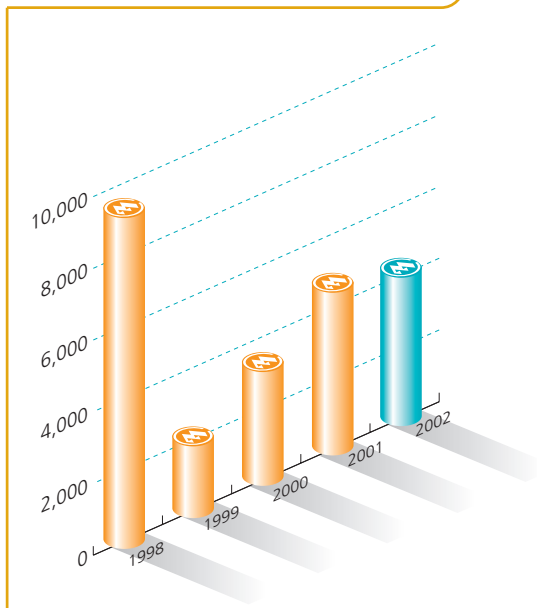
front row from right: Dr. Huang Dazhan, Ms. Kan Ka Yee, Elizabeth and Ms. Linda L. Zhou;
rear row from right: Mr. Wu Hui Feng, Mr. Lee York Wo and Mr. Tse Yue Kit



Financial Highlights

YEAR	NET PROFIT <i>US\$'000</i>	NET ASSETS <i>US\$'000</i>
1998	9,631	118,581
1999	2,448	119,246
2000	3,653	122,219
2001	4,991	125,428
2002	4,588	128,240

NET PROFIT *(US\$'000)*



NET ASSETS *(US\$'000)*



Directors' Report

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

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

An interim dividend of US¢0.5 per share amounting to US\$685,728 was paid to shareholders during the year. The Directors now recommend the payment of a final dividend of US¢0.8 or HK¢6.23 per share to the shareholders on the register of members on 30 May 2003, amounting to US\$1,097,165, and the retention of the remaining profit for the year of US\$2,804,742.

RESERVES

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

SHARE CAPITAL

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

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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



DIRECTORS

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

Executive Directors

Dr. FU Yuning (*Chairman*)

Dr. HUANG Dazhan

Mr. CHU Lap Lik, Victor

Mr. TSE Yue Kit

Ms. KAN Ka Yee, Elizabeth

(alternate to Mr. CHU Lap Lik, Victor)

Ms. ZHOU Linda L.

(appointed on 6 March 2002)

Mr. ZHANG Yun Kun

(resigned on 6 March 2002)

Non-executive Directors

The Hon. LI Kwok Po, David*

Mr. KUT Ying Hay*

Mr. POON Kwok Lim, Steven*

Mr. LI Kai Cheong, Samson*

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

Mr. WANG Xingdong

Mr. GONG Jianzhong

Mr. TAN Wee Peng, Kelvin

(appointed on 5 February 2002)

Mr. HOW Peck Huat

(resigned on 5 February 2002)

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

* *Independent non-executive directors*

Biographical details of Directors are as follows:



Dr. FU Yuning, aged 46, is the chairman of the Company and has been an executive director of the Company since January 1999. He concurrently acts as a director and the president of China Merchants Group Limited, the chairman of China Merchants Holdings (International) Company Limited, which is a publicly listed company on the Hong Kong Stock Exchange, a director of China Merchants Steam Navigation Company Limited and the chairman of China Merchants Finance Holdings Company Limited. He is also the chairman of the executive committee for board of directors of China Merchants Bank Company Limited, the chairman of China Merchants Shekou Industrial Zone Company Limited, China Merchants Zhangzhou Development Zone Company Limited and China Nanshan Development (Group) Inc. and an independent director of Jurong Port Pte. Limited in Singapore. Besides, Dr. Fu serves as the vice chairman of the Hong Kong Chinese Enterprises Association, an executive director of the Chinese General Chamber of Commerce and the Hong Kong General Chamber of Commerce and a director of Hong Kong Port and Maritime Board. He had previously held the posts of the managing director of Shenzhen Chiwan Petroleum Supply Base Company Limited, the president and managing director of Shenzhen Chiwan Wharf Holdings Limited and China Nanshan Development (Group) Inc. and the chairman of Union Bank of Hong Kong Limited. Dr. Fu graduated from Dalian Institute of Technology of China with a degree in Port and Waterway Engineering. He obtained a doctorate degree in Offshore Engineering at the Brunel University of the United Kingdom where he also worked as a post-doctorate research fellow.

Dr. HUANG Dazhan, aged 45, has been an executive director of the Company since March 1999. He is also the chairman of China Merchants China Investment Management Limited (the "Investment Manager"). Dr. Huang is the financial adviser of China Merchants Group Limited, the managing director of China Merchants Finance Holdings Company Limited, a director of China Merchants Holdings (Hong Kong) Company Limited, China Merchants Bank Company Limited, Industrial Bank Company Limited, China Merchants Securities Company Limited, Hua Tai Insurance Company of China, Limited and BOC China Fund Limited. Concurrently, he also holds a number of chairmanships in various other companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest including China Merchants Holdings (UK) Limited, Houlder Insurance Services Limited, China Merchants Insurance Company Limited,



Houlder Insurance Brokers Far East Limited, Houlder China Insurance Brokers Limited, China Merchants Financial Services Limited and China Merchants Finance Investment Holdings Company Limited. Besides, he previously was the financial adviser of certain PRC listed corporations including Shenzhen Chiwan Wharf Holdings Limited and Shenzhen Chiwan Petroleum Supply Base Company Limited. Dr. Huang graduated from Dalian Institute of Technology of China in 1982. In 1988, he was selected by the State Education Commission of China to go to the UK for further studies and was conferred by the University of Manchester a master degree in Economics and followed by a doctorate degree in the same field. In 1993, he joined the Manchester Financial Centre of the UK for post-doctorate studies.



Mr. CHU Lap Lik, Victor, aged 45, has been an executive director of the Company since June 1993. He is also a director of the Investment Manager. Mr. Chu is a practising solicitor in Hong Kong and is senior partner of Victor Chu & Co. He is also the chairman of First Eastern Investment Group which is actively involved in direct investments in the PRC. Mr. Chu has served on the Central Policy Unit of the Hong Kong Government, the Council of the Hong Kong Stock Exchange, the Takeover and Mergers Panel and the Advisory Committee of the Securities and Futures Commission. Outside of Hong Kong, Mr. Chu is a Council Member of the World Economic Forum and chairman of the ICC Commission on Financial Services and Insurance. Mr. Chu took his law degree at University College, London.

Ms. ZHOU Linda L., aged 34, was appointed as an executive director of the Company in March 2002. She is also the managing director of the Investment Manager. Before joining the Investment Manager in April 2001, Ms. Zhou worked with ASI as a director of Business Development – Asia Pacific Region for three years and thereafter acted as a Senior Financial Analyst & an Advisor of Board of Advisory in iLink Global. Ms. Zhou obtained her Bachelor degree in Financial Accountancy in People's (Renmin) University of China in 1989 and Master of Business Administration degree from California State University in Sonoma in 1993. Ms. Zhou has extensive experience in positioning foreign companies in China market and has actively involved with direct investments in China.



Directors' Report (continued)



Mr. TSE Yue Kit, aged 41, has been an executive director of the Company since November 2000. He is also a director of the Investment Manager. Mr. Tse is the general manager in Investment & Development Division of China Merchants Finance Holdings Company Limited. Mr Tse has more than 15 years of extensive experience in accounting, auditing, corporate finance as well as investment. Mr. Tse obtained his bachelor degree with honours in Accountancy from the University of Exeter, UK.

Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 45, has been an alternate director of the Company since May 1999. She is also a director of the Investment Manager. Ms. Kan is the managing director of First Eastern Investment Group and was formerly Director-Administration of the Hong Kong office of an international public accounting firm in the area of audit and business advisory services. She is a U.S. Certified Public Accountant and a fellow member of the Hong Kong Society of Accountants. Ms. Kan received her Bachelor of Science degree in Business and Bachelor of Arts degree from the University of Minnesota, USA.



Dr. The Hon. LI Kwok Po, David, aged 64, has been an independent non-executive director of the Company since June 1993. Dr. Li is the chairman and chief executive of The Bank of East Asia, Limited. He is also a member of the Legislative Council of Hong Kong. Dr. Li is the chairman of the Chinese Bank's Association and also a member of the Exchange Fund Advisory Committee, Banking Advisory Committee, the Land Fund Advisory Committee and a non-executive director of the Mandatory Provident Fund Schemes Authority. Dr. Li serves on the international advisory boards of the Carlos P. Romulo Foundation for Peace and Development, Daimler Chrysler, the Federal Reserve Bank of New York International Advisory Committee and Lafarge. His directorships include PCCW Limited, Campbell Soup Company, Chelsfield plc, COSCO Pacific Limited, Dow Jones & Company, Inc., The Hong Kong and China Gas Company Limited, The Hong Kong and Shanghai Hotels, Limited, The Hong Kong Mortgage Corporation Limited, San Miguel Brewery Hong Kong Limited, Sime Darby Berhad, SCMP Group Ltd. and Vitasoy International Holdings Limited.



Mr. KUT Ying Hay, aged 48, has been an independent non-executive director of the Company since June 1993. He is a non-executive director of China Merchants Holdings (International) Company Limited. Mr. Kut is a practising solicitor and notary public and the proprietor of Messrs. Kut & Co., a firm of solicitors. He is an attesting officer appointed by the Ministry of Justice of the PRC. He is also a solicitor of the Supreme Courts of England, Victoria of Australia, Singapore and is an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators & Mediators, Australia. For the period from 1995 to 1998, he was a member of the Board of Review established by the Hong Kong government pursuant to the Inland Revenue Ordinance.



Mr. POON Kwok Lim, Steven, aged 59, has been an independent non-executive director of the Company since June 1993. He is the chairman of Vextex Communications & Technology Group Limited and a director of International Bank of Asia. Formerly, Mr. Poon was the general manager and the chief operating officer of a Hong Kong public utility company, China Light & Power Company Limited, and served as a member of the Hong Kong Stock Exchange Council. He was previously a Legislative Councillor and is a member of the Election Committee of the Hong Kong Special Administrative Region. He holds a master degree in electrical engineering and is a chartered engineer.

Mr. GONG Jianzhong, aged 40, has been a non-executive director of the Company since September 2001. Mr. Gong has extensive experience in banking and investment. He has worked in Bank of China, Hunan Branch and currently he is the Managing Director of BOC Investment Management Limited, the Deputy CEO of Bank of China Group Investment Limited ("BOCGI") and director of a number of companies controlled by BOCGI or in which BOCGI has an interest.



Directors' Report (continued)

Mr. TAN Wee Peng, Kelvin, aged 39, was appointed as a non-executive director of the Company in February 2002. He is a Managing Director in Temasek Holdings (Pte) Ltd., responsible for Temasek's investments in private equity funds. Mr. Tan has also managed Temasek's foreign direct investments in various sectors over the years. Mr. Tan obtained his Bachelor of Accountancy (1st Class Honours) qualification from the National University of Singapore in 1987 and the Master of Business Administration Degree from the same university in 1997. He has also completed the Programme for Management Development at the Harvard Business School in 1999. Mr. Tan is a Certified Public Accountant.



Mr. WANG Xingdong, aged 42, has been a non-executive director of the Company since April 2001. He is an Executive Director and the Managing Director of ONFEM Holdings Limited ("ONFEM") and an Executive Director of Oriental Metals (Holdings) Company Limited. Mr. Wang graduated from the Xiamen University, P.R.C. in 1982 with a Bachelor of Arts degree. He then further his studies in business management between 1987 and 1989 in the Faculty of Management of Business Administration of Long Island University in New York, USA. Prior to joining ONFEM, he was the President of Chimei Metals in the USA. Mr. Wang has extensive experience in international metals trading, investment strategies and corporate management.

Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. LI Kwok Po, David), aged 42, was appointed alternate director of the Company in May 1999. He is the general manager and head of Investment Banking Division of The Bank of East Asia, Limited. Mr. Li has about ten years of experience specialising in fund management and securities dealing. He is also the managing director of East Asia Securities Company Limited, a member of the Stock Exchange of Hong Kong, as well as a director in a number of asset management companies.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

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

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

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

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than the Investment Management Agreement mentioned below, no contracts of significance, to which the Company or any related company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

The director proposed for re-election at the forthcoming annual general meeting does not have a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Report (continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company.

Name	Number of ordinary shares
China Merchants Group Limited <i>(Note)</i>	33,989,760
China Merchants Steam Navigation Company Limited <i>(Note)</i>	33,989,760
China Merchants Holdings (Hong Kong) Company Limited <i>(Note)</i>	33,989,760
China Merchants Finance Holdings Company Limited <i>(Note)</i>	33,989,760
China Merchants Financial Services Limited <i>(Note)</i>	33,989,760
Good Image Limited	33,989,760
China Bright Holdings Limited	14,400,000

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2002 with those paragraphs of the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that non-executive directors are not appointed for specific term(s).



INVESTMENT MANAGEMENT AGREEMENT

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

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

AUDITORS

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

On behalf of the Board

Fu Yuning
Chairman

Hong Kong, 23 April 2003

Auditors' Report

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 29 to 49 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 2002 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, 23 April 2003



Consolidated Income Statement

For the year ended 31 December 2002

	NOTES	2002 US\$	2001 US\$
Turnover	4	2,443,946	3,689,732
Net unrealised holding gain on unlisted investments in securities		8,206,505	2,282,584
Net gain on disposal of listed investments in securities		36,109	75,293
Unrealised holding loss on listed investments in securities		(1,310,965)	(137,780)
Gain on disposal of contractual joint venture		–	1,042,645
Write-back of impairment loss recognised in respect of contractual joint ventures		100,153	199,357
Impairment loss recognised in respect of contractual joint venture	14	(2,401,975)	–
Other operating income		34,303	36,104
Administrative expenses		(2,738,703)	(2,581,865)
Allowance for bad and doubtful debts		–	(596,234)
Profit from operations		4,369,373	4,009,836
Finance costs		(115,706)	(83,634)
Share of results of associates		407,410	1,219,678
Profit before taxation	6	4,661,077	5,145,880
Taxation	9	(73,442)	(155,028)
Profit attributable to shareholders		4,587,635	4,990,852
Dividends	10	1,782,893	1,782,893
Earnings per share	11	0.033	0.036

Consolidated Balance Sheet

At 31 December 2002

	NOTES	2002 US\$	2001 US\$
Non-current assets			
Interests in associates	13	16,322,474	11,863,673
Contractual joint ventures	14	2,578,025	14,980,000
Investments in securities	15	74,042,911	61,574,453
		92,943,410	88,418,126
Current assets			
Trade and other receivables	16	443,089	3,188,563
Investments in securities	15	2,010,589	–
Pledged bank deposits	23	–	2,800,000
Cash and bank balances		34,061,675	40,631,746
		36,515,353	46,620,309
Current liabilities			
Trade and other payables		1,201,416	3,141,055
Taxation payable		17,215	17,216
Bank loans, secured		–	6,451,925
		1,218,631	9,610,196
Net current assets		35,296,722	37,010,113
NET ASSETS		128,240,132	125,428,239
CAPITAL AND RESERVES			
Share capital	17	13,714,560	13,714,560
Reserves		114,525,572	111,713,679
		128,240,132	125,428,239
NET ASSET VALUE PER SHARE	19	0.935	0.915

The financial statements on pages 29 to 49 were approved and authorised for issue by the Board of Directors on 23 April 2003 and are signed on its behalf by:

Huang Dazhan
DIRECTOR

Zhou Linda L.
DIRECTOR



Balance Sheet

At 31 December 2002

	NOTES	2002 US\$	2001 US\$
Non-current assets			
Investments in subsidiaries	12	66,420,291	60,167,923
Current assets			
Trade and other receivables		95,346	103,107
Cash and bank balances		31,258,210	37,844,065
		31,353,556	37,947,172
Current liabilities			
Trade and other payables		715,315	724,604
Amount due to a subsidiary		–	59,648
		715,315	784,252
Net current assets		30,638,241	37,162,920
NET ASSETS		97,058,532	97,330,843
CAPITAL AND RESERVES			
Share capital	17	13,714,560	13,714,560
Reserves	18	83,343,972	83,616,283
		97,058,532	97,330,843

Huang Dazhan
DIRECTOR

Zhou Linda L.
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital US\$	Share premium US\$	Exchange equalisation US\$	General reserve US\$	Retained profits US\$	Total US\$
The Group						
Balance at 1 January 2001	13,714,560	81,525,984	130,190	–	26,848,483	122,219,217
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	–	–	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 1 January 2002	13,714,560	81,525,984	131,253	744,702	29,311,740	125,428,239
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	–	–	7,206	(55)	–	7,151
Profit for the year	–	–	–	–	4,587,635	4,587,635
Final dividend paid for 2001	–	–	–	–	(1,097,165)	(1,097,165)
Interim dividend paid for 2002	–	–	–	–	(685,728)	(685,728)
Transfer to general reserve	–	–	–	135,318	(135,318)	–
At 31 December 2002	13,714,560	81,525,984	138,459	879,965	31,981,164	128,240,132

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:

	2002 US\$	2001 US\$
As at 1 January	423,693	(143,240)
(Loss) profit for the year	(567,360)	566,933
As at 31 December	(143,667)	423,693



Consolidated Cash Flow Statement

For the year ended 31 December 2002

	2002 US\$	2001 US\$
OPERATING ACTIVITIES		
Profit from operations	4,369,373	4,009,836
Adjustments for:		
Net unrealised holding gain on unlisted investments in securities	(8,206,505)	(2,282,584)
Gain on disposal of a contractual joint venture	–	(1,042,645)
Net gain on disposal of listed investments in securities	(36,109)	(75,293)
Write-back of impairment loss recognised in respect of contractual joint ventures	(100,153)	(199,357)
Unrealised holding loss on listed investments in securities	1,310,965	137,780
Impairment loss recognised in respect of contractual joint venture	2,401,975	–
Operating cash flows before movements in working capital	(260,454)	547,737
Decrease in trade and other receivables	2,345,095	980,829
(Decrease) increase in trade and other payables	(2,184,102)	2,500,762
Cash (used in) generated by operations	(99,461)	4,029,328
Income taxes paid	(4,257)	(15,651)
Interest paid	(115,706)	(83,634)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(219,424)	3,930,043
INVESTING ACTIVITIES		
Dividend received from an associate	654,184	497,718
(Advance to) repayment from an associate	(25,090)	5,057
Repayment of capital from contractual joint venture	100,153	440,327
Acquisition of investment in an associate	(5,000,000)	–
Acquisition of listed investments in securities	(1,284,144)	(2,412,436)
Acquisition of unlisted investments in securities	(13,752,455)	(26,262,892)
Proceeds from disposal of listed investments in securities	294,447	10,042,079
Proceeds from disposal of contractual joint venture	10,653,765	2,410,000
Proceeds from disposal of unlisted investments in securities	7,437,232	9,593,658
Decrease (increase) in pledged deposits	2,800,000	(2,800,000)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	1,878,092	(8,486,489)
FINANCING ACTIVITIES		
Bank loan repaid	(6,935,180)	–
Bank loan raised	483,255	6,451,925
Dividends paid	(1,782,893)	(1,782,893)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(8,234,818)	4,669,032
NET (DECREASE) INCREASE IN CASH AND BANK BALANCES	(6,576,150)	112,586
CASH AND BANK BALANCES AS AT 1 JANUARY	40,631,746	40,519,160
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	6,079	–
CASH AND BANK BALANCES AS AT 31 DECEMBER	34,061,675	40,631,746

Notes to the Financial Statements

For the year ended 31 December 2002

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 25 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 a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which became effective during the year. The adoption of these new and revised SSAPs has resulted in a change in the presentation of the cash flow statement and inclusion of a statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries, associates, jointly controlled entities at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.



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.

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.

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 and any identified impairment loss. 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets and liabilities of the Group's overseas subsidiaries and associates are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's exchange equalisation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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.

4. TURNOVER

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

	THE GROUP	
	2002	2001
	US\$	US\$
Interest income	872,129	1,856,098
Income from contractual joint ventures	–	750,000
Dividend income from listed investments in securities	57,703	142,470
Dividend income from unlisted investments in securities	1,514,114	941,164
	2,443,946	3,689,732

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

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 for the year ended 31 December 2002, analysed by geographical locations of the investee companies, were as follows:

For the year ended 31 December 2002

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
TURNOVER				
Group turnover	459,544	1,794,894	189,508	2,443,946
RESULT				
Segment result	(815,312)	7,699,577	189,508	7,073,773
Other operating income	–	–	34,303	34,303
Unallocated corporate expenses	–	–	(2,738,703)	(2,738,703)
Profit from operations	(815,312)	7,699,577	(2,514,892)	4,369,373
Finance costs	–	(115,706)	–	(115,706)
Share of results of associates	–	407,410	–	407,410
Profit before taxation	(815,312)	7,991,281	(2,514,892)	4,661,077
Taxation	(4,257)	(69,185)	–	(73,442)
Profit attributable to shareholders	(819,569)	7,922,096	(2,514,892)	4,587,635
OTHER INFORMATION				
Write-back of impairment loss in respect of contractual joint ventures	–	100,153	–	100,153
Impairment loss recognised in respect of contractual joint venture	–	(2,401,975)	–	(2,401,975)



5. SEGMENTAL INFORMATION (Continued)

BALANCE SHEET

At 31 December 2002

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
ASSETS				
Segment assets	31,372,162	3,107,707	24,895	34,504,764
Investments in associates	–	16,322,474	–	16,322,474
Investments in contractual joint ventures	–	2,578,025	–	2,578,025
Investments in securities	4,608,265	68,304,212	3,141,023	76,053,500
Consolidated total assets	35,980,427	90,312,418	3,165,918	129,458,763
LIABILITIES				
Segment liabilities	959,777	241,639	–	1,201,416
Unallocated liabilities	–	–	17,215	17,215
	959,777	241,639	17,215	1,218,631

For the year ended 31 December 2001

	Hong Kong US\$	The PRC US\$	Others 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 operating income	–	–	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 costs	–	(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 in respect of contractual joint ventures	–	199,357	–	199,357

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

5. SEGMENTAL INFORMATION (Continued)

BALANCE SHEET

At 31 December 2001

	Hong Kong US\$	The PRC US\$	Others 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	2,416,451	–	3,141,055
Unallocated liabilities	–	–	6,469,141	6,469,141
	724,604	2,416,451	6,469,141	9,610,196

6. PROFIT BEFORE TAXATION

	THE GROUP	
	2002 US\$	2001 US\$
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	51,208	51,053
Net foreign exchange losses	7,746	5,280
Investment Manager's fee	2,358,469	2,262,114
Interest expense on bank loans repayable within five years	115,706	83,634
Directors' fees	39,230	30,768



Notes to the Financial Statements (continued)

For the year ended 31 December 2002

7. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2002 US\$	2001 US\$
Directors' fees		
– Executive	15,384	15,384
– Non-executive	23,846	15,384
	39,230	30,768
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 2002 were less than US\$125,000.

The amounts disclosed above include directors' fees of US\$12,820 (2001: US\$7,693) paid or payable to independent non-executive directors.

8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2002 and 2001 were all directors of the Company and details of their emoluments are included in note 7 above.

9. TAXATION

	THE GROUP	
	2002 US\$	2001 US\$
The charge comprises:		
Profits tax for the year		
– Hong Kong	4,257	–
– Other regions in the PRC	–	–
Taxation attributable to the Company and its subsidiaries	4,257	–
Share of taxation on results of associates		
– Other regions in the PRC	69,185	155,028
	73,442	155,028

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

9. TAXATION (Continued)

Hong Kong profits tax is calculated at 16% on the estimated assessable profits for the year. 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

	2002 US\$	2001 US\$
Interim dividend paid – US0.5 cents (2001: US0.5 cents) per share	685,728	685,728
Final dividend proposed – US0.8 cents (2001: US0.8 cents) per share	1,097,165	1,097,165
	1,782,893	1,782,893

11. EARNINGS PER SHARE

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

	THE GROUP	
	2002	2001
Earnings for the purpose of basic earnings per share (US\$)	4,587,635	4,990,852
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600



Notes to the Financial Statements (continued)

For the year ended 31 December 2002

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 US\$	2001 US\$
Unlisted shares, at cost	10,001,647	10,066,347
Amounts due from subsidiaries	77,651,330	66,992,175
Less: Impairment loss recognised	(21,232,686)	(16,890,599)
	66,420,291	60,167,923

Particulars of the Company's subsidiaries at 31 December 2002 are set out in note 25.

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002 US\$	2001 US\$
Share of net assets	12,864,487	8,430,774
Amounts due from associates	11,033,416	11,008,328
	23,897,903	19,439,102
Less: Impairment loss recognised	(7,575,429)	(7,575,429)
	16,322,474	11,863,673

The amount 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 (continued)

For the year ended 31 December 2002

13. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2002, 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 of electronics products	30%
Langfang Oriental Education Facilities Development Company Limited	PRC/PRC	Registered capital	Dormitories investment	25%

14. CONTRACTUAL JOINT VENTURES

	THE GROUP	
	2002 US\$	2001 US\$
Unlisted shares	14,980,000	14,980,000
Less: Disposal during the year	(10,000,000)	–
Impairment loss recognised (Note)	(2,401,975)	–
	2,578,025	14,980,000



14. CONTRACTUAL JOINT VENTURES (Continued)

Particulars of contractual joint ventures at 31 December 2002 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
Wei Fang Zhaoyin Real Estate Development Co., Ltd.	Property development	23 June 2014
Beijing Longbao Mansion Joint Operation Project	Property investment	Note

Note: The investment in Beijing Longbao Mansion was disposed of in February 2003 and the financial implication was fully accrued in the 2002 financial statements.

15. INVESTMENTS IN SECURITIES**THE GROUP**

	Held to maturity securities		Other investments		Total	
	2002	2001	2002	2001	2002	2001
	US\$	US\$	US\$	US\$	US\$	US\$
Equity securities:						
Listed	–	–	3,967,015	931,301	3,967,015	931,301
Unlisted	–	–	68,346,519	60,143,174	68,346,519	60,143,174
	–	–	72,313,534	61,074,475	72,313,534	61,074,475
Debt securities:						
Unlisted	3,739,966	499,978	–	–	3,739,966	499,978
Total:						
Listed						
Hong Kong	–	–	3,967,015	931,301	3,967,015	931,301
Unlisted	3,739,966	499,978	68,346,519	60,143,174	72,086,485	60,643,152
	3,739,966	499,978	72,313,534	61,074,475	76,053,500	61,574,453
Market value of listed securities	–	–	3,967,015	931,301	3,967,015	931,301

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

15. INVESTMENTS IN SECURITIES (Continued)

Carrying amount analysed for reporting purposes as:

	Held to maturity securities		Other investments		Total	
	2002 US\$	2001 US\$	2002 US\$	2001 US\$	2002 US\$	2001 US\$
Current	2,010,589	–	–	–	2,010,589	–
Non-current	1,729,377	499,978	72,313,534	61,074,475	74,042,911	61,574,453
	3,739,966	499,978	72,313,534	61,074,475	76,053,500	61,574,453

Particulars of the Group's unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2002 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 Company, Limited	PRC	Equity	1.19%
Industrial Bank Company, Limited	PRC	Equity	2.80%

16. TRADE AND OTHER RECEIVABLES

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	THE GROUP	
	2002 US\$	2001 US\$
The aging of trade receivables is analysed as follows:		
0-6 months	251,401	500,000
7-12 months	–	170,027
Over 12 months	–	20,284
Total trade receivables	251,401	690,311
Interest receivable	101,550	120,138
Other receivables	90,138	2,378,114
	443,089	3,188,563



Notes to the Financial Statements (continued)

For the year ended 31 December 2002

17. SHARE CAPITAL

	2002 & 2001
	US\$
Authorised:	
150,000,000 ordinary shares of US\$0.10 each	15,000,000
Issued and fully paid:	
137,145,600 ordinary shares of US\$0.10 each	13,714,560

18. RESERVES

THE COMPANY

	Share premium	Retained profits	Total
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Balance at 1 January 2001	81,525,984	2,701,786	84,227,770
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 1 January 2002	81,525,984	2,090,299	83,616,283
Profit for the year	-	1,510,582	1,510,582
Final dividend paid for 2001	-	(1,097,165)	(1,097,165)
Interim dividend paid for 2002	-	(685,728)	(685,728)
At 31 December 2002	81,525,984	1,817,988	83,343,972

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\$1,817,988 (2001: US\$2,090,299).

19. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$128,240,132 (2001: US\$125,428,239) and 137,145,600 ordinary shares (2001: 137,145,600 ordinary shares) of US\$0.10 each in issue.

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

20. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	THE GROUP 2002 US\$
As at 1 January 2002	6,451,925
Bank loan raised during the year	483,255
Repayments during the year	(6,935,180)
As at 31 December 2002	–

21. LEASE COMMITMENTS

At 31 December 2002, the Group and the Company had no commitments under non-cancellable operating leases (2001: Nil).

22. COMMITMENTS

At 31 December 2002, the Group had the following commitments:

	2002 US\$	2001 US\$
Commitments in respect of investment in unlisted securities:		
– contracted but not provided for	1,200,000	–
– authorised but not contracted for	–	1,000,000

23. BANK LOANS WITH ASSETS PLEDGED

At 31 December 2002, the Group had no assets (2001: bank deposit of US\$2,800,000 and 12,470,000 shares of China Merchants Bank) pledged to banks for securing bank loans granted to the Group.

24. 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\$2,358,469 (2001: US\$2,262,114) 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 2002 were US\$631,595 (2001: US\$646,467).



25. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of all subsidiaries at 31 December 2002, 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 (Limited liability company)
China Merchants Industry Development (Shenzhen) Limited	PRC	Investment holding	Paid up capital of US\$10,000,000 (Wholly owned foreign enterprise)
Convoy Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Everich Dynamic Investments Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Foster Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Head Union Development Limited	HK	Investment holding	2 ordinary shares of HK\$1 each (Limited liability company)
Ryan Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Star Group Limited	HK	Investment holding	2 ordinary shares of HK\$1 each (Limited liability company)
Storey Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Supertone Investment Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Wheaton International Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Woodford Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)

None of the subsidiaries had any debt securities subsisting at 31 December 2002 or at any time during the year.

Financial Summary

RESULTS

	For the year ended 31 December				
	1998 US\$	1999 US\$	2000 US\$	2001 US\$	2002 US\$
Turnover	8,949,687	7,985,868	6,182,818	3,689,732	2,443,946
Profit from operations after finance cost	10,865,513	2,235,827	7,563,751	3,926,202	4,253,667
Share of results of associates	(1,149,028)	318,360	(3,809,544)	1,219,678	407,410
Taxation	(85,422)	(106,087)	(101,480)	(155,028)	(73,442)
Profit attributable to shareholders	9,631,063	2,448,100	3,652,727	4,990,852	4,587,635

ASSETS AND LIABILITIES

	As at 31 December				
	1998 US\$	1999 US\$	2000 US\$	2001 US\$	2002 US\$
Total assets	121,489,101	121,378,843	122,892,377	135,038,435	129,458,763
Total liabilities	(2,908,014)	(2,132,427)	(673,160)	(9,610,196)	(1,218,631)
Shareholders' funds	118,581,087	119,246,416	122,219,217	125,428,239	128,240,132



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Salon III & IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong, on Friday, 30 May 2003 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 2002.
2. To declare a final dividend for the year ended 31 December 2002.
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) of this Resolution 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) of this Resolution 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.

Notice of Annual General Meeting (continued)

(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) of this Resolution, 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 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 Article 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 recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”



B. **"THAT:**

- (a) subject to paragraph (b) of this Resolution 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 recognised 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) of this Resolution 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;
- (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, 23 April 2003

Notice of Annual General Meeting (continued)

Notes:

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy 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 notorially 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 28 May 2003 to 30 May 2003, 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, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 27 May 2003.
- (4) At the Annual General Meeting of the Company held on 28 May 2002, 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 2003, unless renewed at that meeting. The Ordinary Resolutions sought in items 5.A. and 5.B. of this notice renew these mandates.
- (5) With reference to the Ordinary Resolutions sought in items 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 dispatched to shareholders together with the Annual Report of the Company.

