

ANNUAL  
REPORT  
2000



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

	<i>PAGE</i>
CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3
INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS	6
FINANCIAL HIGHLIGHTS	20
DIRECTORS' REPORT	21
AUDITORS' REPORT	31
CONSOLIDATED INCOME STATEMENT	32
CONSOLIDATED BALANCE SHEET	33
BALANCE SHEET	34
CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES	35
CONSOLIDATED CASH FLOW STATEMENT	36
NOTES TO THE FINANCIAL STATEMENTS	37
FINANCIAL SUMMARY	59
NOTICE OF ANNUAL GENERAL MEETING	60



## BOARD OF DIRECTORS

FU Yuning (*Chairman*)  
HUANG Dazhan  
CHU Lap Lik, Victor  
ZHANG Yun Kun  
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\*\*  
HOW Peck Huat\*  
LUO Jiansheng\*  
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  
26<sup>th</sup> 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  
No. 2, Shennan Road Central,  
Shenzhen,  
People's Republic of China

Bank of China, Hong Kong Branch  
Bank of China Tower,  
1 Garden Road,  
Hong Kong

## LEGAL ADVISERS

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## SHARE REGISTRAR

Central Registration Hong Kong Ltd.  
Rooms 1901-5, 19<sup>th</sup> Floor,  
Hopewell Centre,  
183 Queen's Road East,  
Hong Kong



**Dr. Fu Yuning**  
Chairman

*“The liberalization of China’s domestic markets will translate into greater investment opportunities for the Group.”*

## CHAIRMAN'S STATEMENT

The Directors are 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 2000 totalled US\$3,652,727, a 49% increase on that of 1999. The net asset value per share as at 31 December 2000 was US\$0.883, compared with US\$0.869 of 1999, an increase of 1.6%.

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 2000, while the economies of Hong Kong and other Asian countries continued to recover, the PRC's economy sustained steady growth. Since the end of last year, the U.S. economy, however, has showed signs of recession, which in turn slowed down the pace of recovery in Hong Kong and other Asian countries. Based on investment experience in the past, the Board of Directors revised the Group's investment strategy into three key areas. Firstly, to continue pursuing investment opportunities in the infrastructure sector, in order to ensure a stable source of income for the Group. Secondly, to place increased weight on financial services investments – a promising sector in the PRC; and thirdly, to make a proactive move into hi-tech investments to create profit growth potential for the Group. In order to mitigate the risk in hi-tech investments, the Group focused on projects with listing potential. In this regard, the Board of Directors increased the investment limit in listed investment of 10% of the Group's net assets by US\$10 million. In addition, the scope of listed investments of the Group has been enlarged to include listed companies with Hong Kong operations.

The Group's investment manager actively pursued investment projects which would meet the revised strategy. Although negotiations and evaluation of certain hi-tech projects were approaching the final stages in the reporting period, the investment manager decided to slow down the investment process so as to re-assess these projects' potential and valuation and to re-negotiate the investment terms, in light of the significant adjustment of the hi-tech stock in 2000.

The Group's current investments encompass projects in the sector of financial services, infrastructure, manufacturing and real estate in the PRC. Financial services investments continued to contribute a satisfactory return for the Group, resulting from a rapid increase in demand for financial services. Infrastructure investments, mostly involving a toll road, remained one of the major income contributors. The contribution from manufacturing investments mainly came from Zhaoyuan Jinbao Electronics Company Limited in Shandong. The Group's investments in real estate continued underperforming. As a matter of prudence, the Board

decided to make provisions totalling US\$6.66 million for the real estate projects, which include Shandong Weifang real estate project, where the responsible Chinese parties and the local government had not complied with their payment commitment, despite repeated efforts by the investment manager in pursuing the overdue payments. Also, the sale and rental of Shanghai China Merchants Plaza continued to be unsatisfactory, and in turn caused considerable losses in the operating entity. In respect of project company Shenzhen Mankam Square, a judgment for the re-trial was received in November 2000. The court ordered the two contracted parties to honor the obligations of the pre-sale agreement. The valuation of the property has declined 20% since the valuation of 1999.

As at the end of 2000, the Group had unlisted investments valued at approximately US\$77.33 million, representing 63.85% of its total net asset value. Listed shares were valued at US\$3.22 million, 2.66% of its net asset value, and cash at US\$40.52 million, 33.45% of its net asset value.

Looking at 2001, the economy of the PRC will continue growing, despite the global economic slowdown resulting from a slowing U.S. economy. After the PRC's entry into the World Trade Organization, its investment environment will continue to improve and investors' interest will also be further protected. The liberalization of China's domestic markets will translate into greater investment opportunities for the Group, which will also benefit from the PRC's deepening of financial reform. In 2001, the Group will continue to strengthen the management of existing projects and aim to consolidate the existing real estate projects so as to enable the Group to re-divert funds for other investments. In adhering to its existing investment strategy, the Group will continue to pursue investments in the financial services, infrastructure, and hi-tech sectors. Certain financial institutions the Group has invested are applying for listing their shares in the PRC, and significant capital gains will be expected to channel to the Group when these listing plans are realized. With the further adjustment of valuation of hi-tech stock worldwide to a more reasonable level, the Group's intention of investing in the technology arena will be expected to make progress. I believe these investments will generate considerable returns in the future for the shareholders of the Company.

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, 20 April 2001



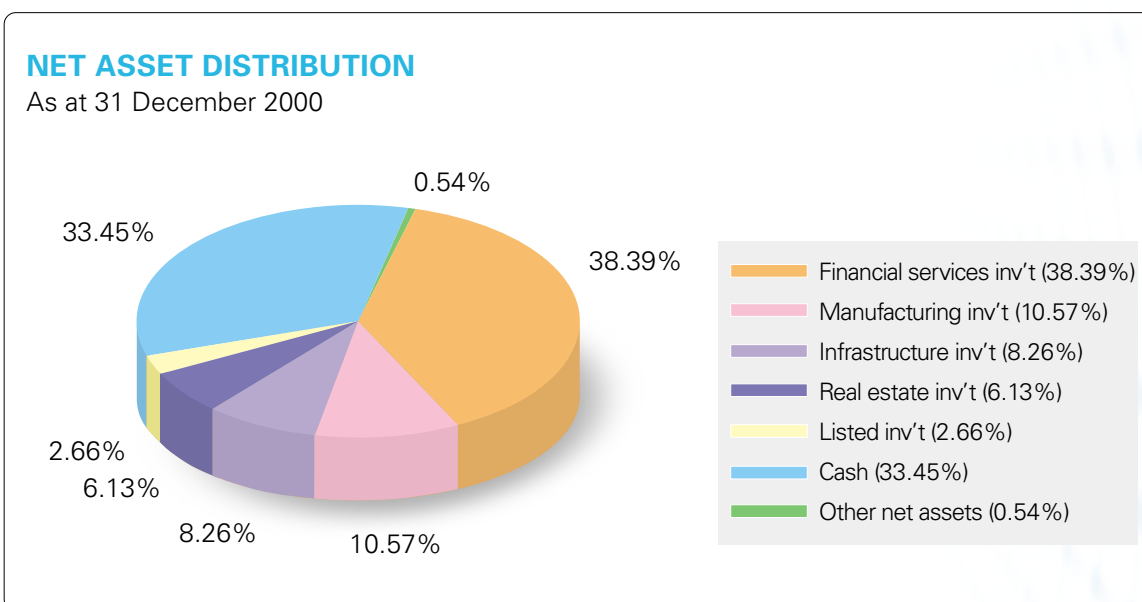
**Dr. Huang Dazhan**

Chairman of the Board of China Merchants China Investment Management Limited, the Investment Manager



For the year ended 31 December 2000, the turnover of China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") was US\$6.18 million, representing a 23% decrease against 1999. The Fund achieved profit attributable to shareholders of US\$3.65 million for the year 2000, representing a 49% increase over 1999. The earnings per share were US\$0.027. The drop in turnover was mainly due to the decline of incomes from contractual joint venture investments. The increase of profit was mainly due to the appreciation in the value of the Fund's financial services investments. As at 31 December 2000, the net assets of the Fund were US\$121.12 million, representing a 1.6% increase over 1999. The net asset value per share was US\$0.883.

At the end of 2000, the Fund had total investments of approximately US\$80.55 million, of which US\$77.33 million was in unlisted investments and US\$3.22 million in listed investments. The major unlisted investment projects are spread through the sectors of financial services (accounting for 38.39% of the Fund's net assets); manufacturing (10.57%); infrastructure (8.26%); and real estate (6.13%). Additionally, the Fund had cash and bank balances of US\$40.52 million, accounting for 33.45% of the Fund's net assets.







**Mr. Zhang Yun Kun**

Managing Director of China Merchants China Investment Management Limited, the Investment Manager

## REVIEW OF UNLISTED INVESTMENTS

The following table shows the major unlisted investment projects held by the Fund as at 31 December 2000:

Name of Projects	Location	Business Nature	Net Book Value US\$ million	Percentage of Net Assets
<b>Financial Services:</b>				
1. China Merchants Bank	Shenzhen, Guangdong	Banking	30.28	25.00
2. Fujian Industrial Bank	Fuzhou, Fujian	Banking	14.88	12.29
3. Industrial Securities Co. Ltd.	Fuzhou, Fujian	Securities	1.33	1.10
		<b>Sub-total</b>	<u>46.49</u>	<u>38.39</u>
<b>Manufacturing:</b>				
4. Zhaoyuan Jinbao Electronics Co. Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	8.85	7.30
5. Chengde Wanli Steel Tubes Co. Ltd.	Chengde, Hebei	Steel tubes	3.96	3.27
6. Tangshan Kintil Ceramics Co. Ltd.	Tangshan, Hebei	Ceramic tiles	—*	—
		<b>Sub-total</b>	<u>12.81</u>	<u>10.57</u>
<b>Infrastructure:</b>				
7. Maoming Tongfa Highway Co. Ltd.	Maoming, Guangdong	Toll road	10.00	8.26
8. Weifang Yin Yuan Aviation Industry Co. Ltd.	Weifang, Shandong	Airport terminal	—*	—
		<b>Sub-total</b>	<u>10.00</u>	<u>8.26</u>
<b>Real Estate:</b>				
9. China Merchants Plaza (Shanghai) Property Co. Ltd.	Shanghai	Office & Commercial	—*	—
10. Beijing Longbao Mansion	Beijing	Office & Apartments	4.98	4.11
11. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retail shops	2.45	2.02
12. Weifang Zhaoyin Real Estate Development Ltd.	Weifang, Shandong	Low-cost housing	—*	—
		<b>Sub-total</b>	<u>7.43</u>	<u>6.13</u>
		<b>Total</b>	<u>76.73</u>	<u>63.35</u>

\* Full provision was made. Please refer to the project's review listed below for the amount of provision.

## FINANCIAL SERVICES INVESTMENTS

**The financial services sector is one of the core investment areas of the Fund. The investment projects not only generated a stable cash inflow, but also contributed significant capital appreciation to the Fund.**

### ***China Merchants Bank ("CMB")***

CMB, the first joint-stock bank established by mainland enterprises, is the second largest commercial bank in the PRC, with over 230 offices distributed throughout the country. CMB's All-in-One Card (ATM card) and All-in-One Net (Internet banking services) are pioneering services in PRC's electronic banking industry and received popular support in the market.

The Fund invested US\$13.77 million to own a 1.62% stake in CMB. CMB recorded a profit before taxation of RMB1.6 billion for 2000, representing a 6.6% increase over 1999. In 2000, the Fund received distribution of US\$1.227 million from CMB.

CMB has applied to the relevant government authorities of the PRC for the listing of "A" shares on one of the domestic stock markets. At the end of 2000, the Fund's investment in CMB was valued at US\$30.28 million, representing a 30% increase over 1999.

### ***Fujian Industrial Bank Company, Limited ("FIB")***

FIB is a joint-stock commercial bank with 14 branches, 67 sub-branches, 2 representative offices, 82 offices and 71 deposit counters, totalling 237 business points in major cities such as Beijing, Shanghai, Shenzhen, Changsha, Hangzhou and Xiamen.

In 1998, the Fund invested US\$12.75 million and owned a 3.2% stake in FIB. In order to cope with increasing competition after the PRC's entry into the World Trade Organization, FIB enlarged its capital base by issuance of new shares in mid 2000. The Fund's shareholding was diluted to 2.13% after the completion of the new share placement.

FIB recorded a RMB500 million profit before taxation for 2000, representing a 14% increase over 1999. The Fund received a dividend of US\$0.928 million.

The Board of Directors of FIB is actively studying the feasibility of listing the FIB shares on domestic and foreign stock exchanges. At the end of 2000, the Fund's investment in FIB was valued at US\$14.88 million, representing an 8.3% increase over 1999.

On 12 April 2001, the Fund signed a conditional agreement with an existing shareholder of FIB to acquire 20 million shares of FIB at a total consideration of US\$4.84 million. The agreement is conditional upon the approval of the relevant authorities in the PRC. Upon the completion of the transaction, the Fund will own 84 million shares of FIB, representing a 2.8% interest in the bank.



***Industrial Securities Company, Limited ("ISCL")***

ISCL is a comprehensive securities company registered in the PRC, with paid-up capital of RMB900 million. ISCL was formerly the securities department of FIB. In 1994, it was restructured as Fujian Industrial Securities Corporation, a wholly owned subsidiary of FIB. However, at the end of 1999 ISCL separated from FIB. ISCL's range of business includes securities underwriting, broking, house trading and investment advice. It has 16 offices in major cities such as Beijing, Shanghai, Shenzhen, Wuhan, Fuzhou and Xiamen.

The Fund invested US\$1.03 million for 6.72 million shares or a 0.74% stake of ISCL.

At the end of 2000, the total and net assets of ISCL were RMB7.38 billion and RMB1.49 billion respectively. ISCL recorded a profit after taxation of RMB200 million for the year 2000. At the end of 2000, the Fund's investment in ISCL was valued at US\$1.33 million, representing a 29% increase over 1999.

**MANUFACTURING INVESTMENTS**

**The Fund's investments in the manufacturing sector include electronics, steel tubes and ceramic tiles. The investment return on these projects varied. The electronics project generated satisfactory returns to the Fund, but the steel tubes and ceramic tiles projects did not perform to our expectation. The Fund will gradually decrease investment in this sector.**

***Zhaoyuan Jinbao Electronics Company Limited ("Jinbao")***

The Fund, BOC China Fund and Shandong Zhaoyuan Electronic Materials Factory set up Jinbao in December 1993, to engage in the manufacture and sale of electronic materials, namely, copper foils and copper-clad laminates. Jinbao recorded a profit before taxation of RMB18.39 million for the year 2000, a slight decline over the previous year. The decrease in profit was mainly attributable to stock clearance. In 2000, the Fund received a total of US\$1.15 million from profit distribution and shareholder loan interest. The new 2,500-ton copper foil production line was scheduled to begin operation in the second half of 2001, and is expected to become a new source of profit.

***Chengde Wanli Steel Tubes Company Limited ("Wanli")***

Established in 1996, Wanli is a Sino-foreign cooperative joint venture engaged in the production and sale of seamless-like steel tubes. The Fund invested US\$5 million, to own a stake of 35%. After a prolonged trial period, the production line still fails to meet the pre-designated expectations. High production costs due to a high ratio of sub-standard products have resulted in

a lack of profit at Wanli. Since 1999, the Chinese party has decelerated its pace on return payment. The Fund therefore suspended recording predetermined return from Wanli as from the beginning of 2000. To date, the Chinese party has made the Fund a return payment US\$3.23 million in total, representing approximately 75% of the investment principal, though only 39% of the fourth payment of US\$1.25 million, due in March 2000, was actually made. Aside from already demanding an early settlement of due payments, we are in contact with the Chinese party for disposal of interest in the project, and both parties are currently working on the details of disposal agreement.

As the fourth payment has been due for a year, the Fund made a provision of US\$0.45 million against the outstanding receivable amount which was booked in 1999.

### ***Tangshan Kintil Ceramics Company Limited ("Kintil")***

In 1993, the Fund, together with Tangshan Victory Group (now combined with Tangshan Ceramics Group), Tangshan Hi-Tech Industries Development Zone Group and BOC China Fund, formed Kintil, to engage in the production and sale of glazed mosaics and homogenous tiles. The Fund invested US\$2.21 million, to own an interest of 15%. In the light of a continuing weak construction-material market, and due to huge recorded losses, Kintil terminated its production in 1999. Regarding the disposal of the Fund's interest in the project, the Fund has maintained constant contact with the Chinese party. As opinion from shareholders has so far not been consolidated, a final agreement has not yet been reached.

The Fund made a provision of US\$2 million in 1999. As the disposal agreement is unlikely to be concluded soon, a further provision of US\$0.21 million was made against the balance of the investment cost.

## **INFRASTRUCTURE INVESTMENTS**

**Infrastructure investments continued to generate cash income to the Fund. The Fund will continue to explore investment opportunities and invest in those projects that promise a high return.**

### ***Maoming Tongfa Highway Co. Ltd. ("Tongfa")***

Tongfa is a contractual joint venture with total investment and paid up capital of US\$28.8 million and US\$10 million respectively. The contractual period is 24 years. Tongfa is engaged in the construction and operation of the Provincial Highway No. 1987 linking Maoming City and Huazhou City.

The Fund invested US\$10 million and owned a 34.7% stake in Tongfa. In 2000, the Fund received return payment of US\$1.5 million in accordance with the joint-venture agreement.

***Weifang Yin Yuan Aviation Industry Company Limited ("Yin Yuan")***

Yin Yuan was established in 1994, with the aim of developing Weifang city's civil airport. The Fund invested 2.875 million, representing a 31.3% stake in the project. By the end of 1998, the Chinese party had fully repaid the Fund's investment principal. However, the termination of the Transportation Construction Fund collection by the Weifang Government has put the Chinese party under financial pressure. The Chinese party therefore proposed to cease cooperation following on partial settlement of the fifth guaranteed return. We have not agreed with this proposal and is conducting meetings with the Chinese party on the issue.

A provision of US\$0.998 million was made in 1999. As the fifth return payment has been outstanding for over one year, the Fund decided to make a full provision of US\$0.6 million against this payment.

**REAL ESTATE INVESTMENTS**

**Investment returns in the real estate sector have not been satisfactory, so we will adopt a more conservative attitude towards property projects in future.**

***China Merchants Plaza (Shanghai) Property Company Limited ("CM Plaza")***

CM Plaza is an office/commercial complex located at 333 Cheng Du Road in Shanghai, with a site area of 9,642 sq.m. Its gross floor area and saleable area are 70,805.95 sq.m. and 60,086 sq.m. respectively.

Through a 22% holding in Daily On Property Limited, the Group invested US\$7.682 million to develop CM Plaza. Leasing and sales started following its completion in 1998. However, the leasing and sales have been sluggish and CM Plaza's operating income was insufficient to cover its interest expenses, resulting in a lack of profit to the shareholders.

Because of the oversupply of office space in Shanghai and because no great improvement on leasing or sales is likely in the near future, the Fund provided in full the balance of the investment cost of US\$3.78 million, following collection of the shareholder's loan of US\$1.997 million in 2000.

***Beijing Longbao Mansion ("Longbao")***

Longbao is situated near the Third East Ring of Chaoyang District in Beijing. It comprises two blocks of 17-storey apartments and a podium, which is earmarked for office use. In 1997, the Fund invested US\$4.98 million and signed an agreement with the developer to jointly manage the Longbao rental space for three years. The Fund owned a 35% interest.



According to a joint-management agreement, the developer should pay a fixed investment return semi-annually to the Fund within the 3-year contractual period. However, the developer failed to pay further return after making the first year's return payment. We are examining various options in order to speed up recovery of capital. According to an independent surveyor's report, the market value of the property as at the end of 2000 was higher than its investment cost.

The Fund now owns 5,016 sq.m. of the property, of which the Fund has let 1,095 sq.m. The rental yield for this portion is about 10%. In view of the considerable time needed for the disposal of the property, a full provision of US\$0.78 million was made in 2000 against the previously recorded return payment.

### ***Shenzhen Man Kam Square ("Man Kam")***

Through a 35% holding in Hansen Enterprises Limited ("Hansen"), the Fund invested US\$4.3 million to purchase the whole of the retail space on level 3, totalling 5,262 sq.m. of Man Kam in 1994.

Man Kam is a 33-storey office/commercial complex in Wen Jin North Road of Shenzhen. At the outset, Hansen signed a pre-sale contract with the developer and made a down payment of 90% of the whole transaction. According to the pre-sale contract, the delivery date was originally scheduled for 30 June 1995. However, as the relevant floor was still not completed at the end of 1996, the developer failed to deliver the property on time.

Accordingly, in 1997, Hansen instituted legal proceedings requiring the developer to terminate the pre-sale contract, and to refund the deposit and make compensation as well. Hansen obtained a favorable judgement against the developer in both Shenzhen Intermediate Court and Guangdong Provincial High Court respectively. However, in the course of enforcing the judgements, the developer complained to the Beijing Supreme Court, which finally ordered Guangdong Provincial High Court to re-examine the case in July 1999. In November 2000, Guangdong Provincial Court made a judgment that both Hansen and the developer were required to honor the obligations of the pre-sale contract, whereby the developer compensate Hansen 10% of the contract sum for the delay. Hansen is now in the process of taking possession of the property.

Given the legal expenses incurred over the past few years and the decline in the Shenzhen real estate market, the investment's book value decreased by US\$1.85 million by the end of 2000. The Fund's share of loss of the project company and the provision for the project totalled US\$0.67 million for 2000.

***Weifang Zhaoyin Real Estate Development Limited ("Zhaoyin")***

Zhaoyin is a Sino-foreign cooperative joint venture set up in 1994 in the High & New Technology Industrial Development Zone in Weifang, Shandong Province for the development of the "Comfort Housing Program" in the zone. The Fund invested US\$4 million, to own an 18% interest in Zhaoyin. Other partners are Weifang Hi-Tech Industries Development Zone Group, BOC Investment Limited and China Merchants Investment Limited. Because of financial problems since 1997, the Chinese party stopped paying returns according to the contracted schedule. To date, the Fund has received return payments US\$2.18 million in total, representing 54.5% of the original investment. We, together with other foreign parties, are negotiating closely with the Chinese party, hoping that a new repayment schedule can soon be finalized.

Anticipating that return payment rescheduling would take a while, the Fund therefore decided to make a full provision of US\$1.91 million against the remaining investment cost.

**REVIEW OF LISTED INVESTMENTS**

While leading worldwide stock exchange indexes declined in 2000, the hi-tech stock suffered a even greater drop. Over this period, the H-share and red-chip indexes in Hong Kong dropped 18% and 17% respectively. Despite this, the Shenzhen and Shanghai B-share indexes recorded 63% and 136% increases. The gains from the Fund's B share investments offset part of the investment losses from other listed stocks. Over the whole year, the Fund realized a profit of US\$1.31 million from the disposal of listed investments. The dividends received were US\$0.19 million. The unrealized holding loss was US\$2.03 million. The Guangdong Enterprises' bond previously held by the Fund was exchanged into assets of Guangdong Enterprises following its restructuring. The aggregate value of these assets was approximately the carrying value of the bond. At the end of 2000, the Fund had listed shares valued at US\$3.22 million.

## INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS

Particulars of the Group's listed investment portfolio at 31 December 2000 are as follows:

<b>Name of Securities</b>	<b>Principal Activities</b>	<b>Cost US\$</b>	<b>Market Value US\$</b>	<b>Percentage of Net Assets</b>
Angang New Steel Co., Ltd. "H" share	Production and sale of steel products	127,870	91,359	0.08
Beijing Datang Power Generation Co., Ltd. "H" share	Operate coal-fired electric power plants	45,543	44,818	0.04
Beijing North Star Co., Ltd. "H" share	Property investment and development in Beijing, PRC	271,240	200,733	0.17
Beijing Yanhua Petrochemical Co., Ltd. "H" share	Manufacturing and sales of petrochemical products	492,498	200,733	0.17
China Mobile (Hong Kong) Ltd.	Provision of cellular telecommunications services	750,206	548,158	0.45
China Overseas Land & Investment Ltd.	Property development	403,059	259,924	0.21
China Shipping Development Co., Ltd. "H" share	Provision of cargo shipping services in PRC	200,201	151,837	0.13
CITIC Pacific Ltd.	Aviation, trading, property investment and development	542,514	355,787	0.29
Guangdong Development Fund Ltd. *	China direct investments	24,256	17,200	0.01



<b>Name of Securities</b>	<b>Principal Activities</b>	<b>Cost US\$</b>	<b>Market Value US\$</b>	<b>Percentage of Net Assets</b>
Guangdong Investment Ltd.	Infrastructure, property development and investment	15,483	15,483	0.01
Guangshen Railway Co., Ltd. "H" share	Operation of railroad between Guangzhou and Shenzhen	769,791	374,445	0.31
Harbin Power Equipment Co., Ltd. "H" share	Manufacturing thermal and hydro power equipment	357,709	133,179	0.11
I-Wood International Holdings Ltd.	Design and manufacture of wooden furniture products	103,984	38,603	0.03
Pacific Century Cyberworks Ltd.	Provision of telecommunication services	936,311	282,667	0.23
Phoenix Satellite Television Holdings Ltd.	Operating satellite television	280,927	273,435	0.23
Shenyang Public Utility Holdings Ltd. "H" share	Public utility development and operations	209,731	133,822	0.11
Skyworth Digital Holdings Ltd.	Manufacture and sale of Colour TV sets in the PRC	698,127	97,793	0.08
	<b>Total</b>	<b>6,229,450</b>	<b>3,219,976</b>	<b>2.66</b>

\* Securities traded overseas

## PROSPECTS

Since the investment strategy of the Fund focuses on the sectors of financial services, infrastructure and hi-tech industries, we will actively seek investment opportunities in the above sectors and recommend the Fund for further investments if appropriate. We believe that hi-tech industries will represent the highest growth area. Valuation of hi-tech projects has come down to a reasonable level after the major consolidation in 2000, rendering more investment opportunities for the Fund.

Meanwhile, we will try to decrease the investment weighting of the Fund in both manufacturing and property sectors and put more effort into the collection of return payments and on the realization of some non-core investment projects. We will also continue to strengthen our management efforts on the existing projects so as to bring a higher return to the Fund.

**Zhang Yun Kun**

*Managing Director*

**China Merchants China**

**Investment Management Limited**

Hong Kong, 20 April 2001

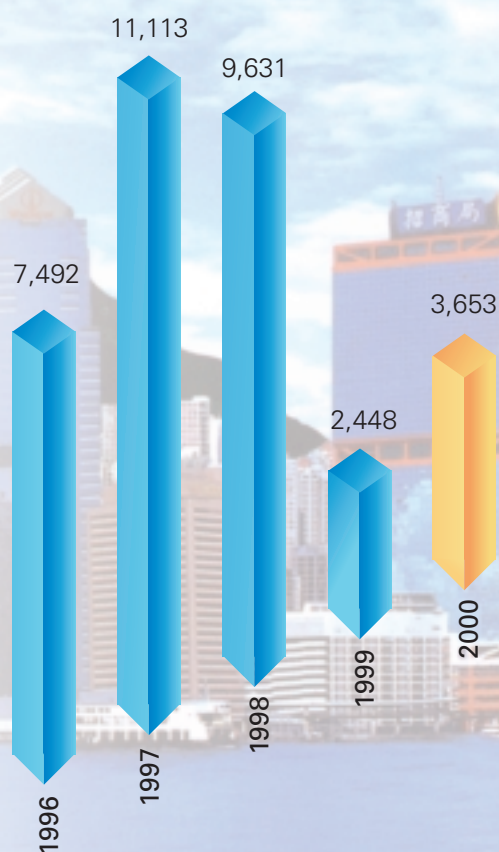
## *I* NVESTMENT MANAGER'S DISCUSSION AND ANALYSIS



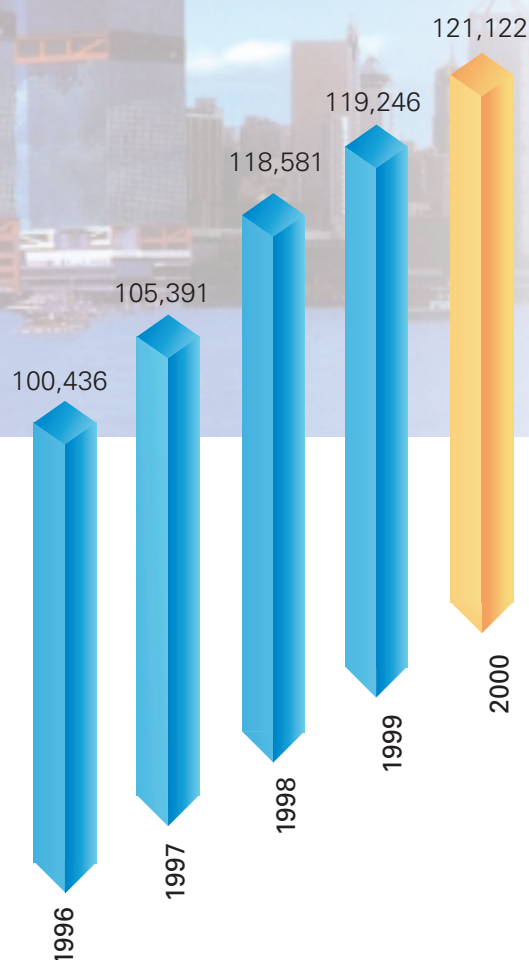
Directors of China Merchants China Investment Management Limited, the Investment Manager, from right, Dr. Huang Dazhan, Ms. Kan Ka Yee, Elizabeth and Mr. Zhang Yun Kun; from upper right, Mr. Wu Hui Feng and Mr. Tse Yue Kit.

# FINANCIAL HIGHLIGHTS

## NET PROFIT (US\$'000)



## NET ASSETS (US\$'000)



Year	Net profit US\$'000	Net Assets US\$'000
1996	7,492	100,436
1997	11,113	105,391
1998	9,631	118,581
1999	2,448	119,246
<b>2000</b>	<b>3,653</b>	<b>121,122</b>

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 28 and 15 respectively to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 December 2000 are set out in the consolidated income statement on page 32.

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 25 May 2001, amounting to US\$1,097,165, and the retention of the remaining profit for the year of US\$1,869,834.

## **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 20 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 59.

## **SHARE CAPITAL**

Details of the issued share capital of the Company are set out in note 19 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. ZHANG Yun Kun

Mr. TSE Yue Kit

(appointed on 29 November 2000)

Ms. KAN Ka Yee, Elizabeth

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

Mr. ZHANG Zheng Ming

(resigned on 29 November 2000)

### **Non-executive Directors**

The Hon. LI Kwok Po, David\*

Mr. KUT Ying Hay\*

Mr. POON Kwok Lim, Steven\*

Mr. HOW Peck Huat

Mr. LUO Jiansheng

(appointed on 2 June 2000)

Mr. WANG Xingdong

(appointed on 20 April 2001)

Mr. LI Kai Cheong, Samson\*

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

Mr. SUN Junjian

(resigned on 2 June 2000)

Mr. CUI Guisheng

(resigned on 20 April 2001)

In accordance with the provisions of the Company's Articles of Association, Mr. Chu Lap Lik, Victor, Mr. Tse Yue Kit, Mr. Luo Jiansheng and Mr. Wang Xingdong retire and, being eligible, offers themselves for re-election.

\* *Independent non-executive directors*

Biographical details of Directors are as follows:



**Dr. FU Yuning**, aged 43, is the chairman of the Company and has been an executive director of the Company since January 1999. Dr. Fu is a director and the president of China Merchants Holdings Company Limited, the chairman and a director of China Merchants Holdings (International) Company Limited. He is also the chairman and a director of two publicly listed companies in Shenzhen Stock Exchange: Shenzhen Chiwan Wharf Holdings Limited and Shenzhen Chiwan Petroleum Supply Base Company Limited. Dr. Fu graduated from Dalian Institute of Technology in China and obtained his Ph.D. Degree in Offshore Engineering from Brunel University, UK, in which he also carried on working as a post-doctorate research fellow.



**Dr. HUANG Dazhan**, aged 42, 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 also appointed as the managing director of China Merchants Finance Holdings Company Limited and the senior adviser of finance of China Merchants Holdings Company Limited. He also holds a number of directorships in the China Merchants Group, including China Merchants Financial Services Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers (Far East) Limited, China Merchants Finance Investment Holdings Company Limited, China Communication Securities Company Limited, China Merchants Holdings (UK) Limited, UB Holdings Limited. Dr. Huang obtained his master and Ph.D. degrees in economics from the University of Manchester, UK.



**Mr. CHU Lap Lik, Victor**, aged 43, 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 vice chairman of the ICC Commission on Financial Services and Insurance. Mr. Chu took his law degree at University College, London.



**Mr. ZHANG Yun Kun**, aged 43, has been an executive director of the Company since January 1996. He is also the managing director of the Investment Manager and a director of Fujian Industrial Bank. 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. TSE Yue Kit**, aged 39, 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 13 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 43, was appointed alternate director of the Company in 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 Certified Public Accountant (USA) 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 62, 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, DaimlerChrysler, the Federal Reserve Bank of New York International Capital Markets Advisory Committee, IBM, Lafarge, PowerGen Plc., 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, Jones Lang LaSalle Incorporated, PowerGen Plc., San Miguel Brewery Hong Kong Limited, Sime Darby Berhad, South China Morning Post (Holdings) Limited and Vitasoy International Holdings Limited.



**Mr. KUT Ying Hay**, aged 46, 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 57, 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 Selection Committee of the Hong Kong Special Administrative Region. He holds a master degree in electrical engineering and is a chartered engineer.



investments in Greater China.

**Mr. HOW Peck Huat**, aged 52, has been a non-executive director of the Company since September 1998. 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



**Mr. LUO Jiansheng**, aged 46, has been a non-executive director of the Company since June 2000. Mr. Luo has extensive experience in banking and investment. Currently, he is an assistant general manager of Bank of China Group Investment Limited ("BOCGI") and a director of a number of companies controlled by BOCGI or in which BOCGI has an interest.



President of Chimei Metals in the USA. Mr. Wang has extensive experience in international metals trading, investment strategies and corporate management.

**Mr. WANG Xingdong**, aged 40, was appointed as a non-executive director of the Company in April 2001. He is an Executive Director and the Managing Director of Onfem Holdings Limited 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 the Company, he was the





**Mr. LI Kai Cheong, Samson** (alternate to Dr. The Hon. LI Kwok Po, David), aged 40, 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 Zheng Ming**, aged 52, was an executive director of the Company from March 1997 to November 2000. He was also a director of the Investment Manager from December 1996 to February 1999. Mr. Zhang graduated from the Faculty of Accountancy, China Shanxi Financial and Economics University in 1982 and was awarded a bachelor of economics degree. Mr. Zhang joined the China Merchants Group in 1984 and was later appointed deputy general manager of China Merchants Shekou Trading Company Limited.

**Mr. SUN Junjian**, aged 46, was a Non-Executive Director of the Company between May 1999 to June 2000. Mr. Sun has extensive experience in banking and investment. He was a director and a 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. Currently, he has been transferred to China with a new job assignment.

**Mr. CUI Guisheng**, aged 54, was a non-executive director of the Company from August 1998 to April 2001. He was the managing director of ONFEM Holdings Limited, the president of China Nonferrous Metals Group (HK) Limited, an executive director and vice chairman of Oriental Metals (Holdings) Company Limited and the director of Jiangxi Copper Company Limited. Mr. Cui is a qualified senior economist in the PRC and is a tutor of the master degree research candidates in the Central South China University of Technology.

## **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.

## **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 2000, 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
HKSCC Nominees Limited	45,818,720
HSBC Nominees (Hong Kong) Limited	31,321,040
China Merchants Holdings Company Limited ( <i>Note 1</i> )	34,287,760
China Merchants Steam Navigation Company Limited ( <i>Note 1</i> )	34,287,760
China Merchants Holdings (Hong Kong) Company Limited ( <i>Note 1</i> )	34,287,760
China Merchants Finance Holdings Company Limited ( <i>Note 2</i> )	34,287,760
China Merchants Financial Services Limited ( <i>Note 1</i> )	33,989,760
Good Image Limited	33,989,760
Everlink Limited	298,000

*Note 1:* 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.

*Note 2:* The company is deemed to have interests in the shares opposite to its name by virtue of its controlling shareholding in China Merchants Financial Services Limited and Everlink Limited.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2000 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, Mr. Zhang Yun Kun, Mr. Tse Yue Kit and Ms. Kan Ka Yee, Elizabeth are directors of both the Company and Investment Manager and Dr. Fu Yuning was a director 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, 20 April 2001

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 32 to 58 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 2000 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, 20 April 2001




**CONSOLIDATED INCOME STATEMENT**

For the year ended 31 December 2000

	<i>NOTES</i>	<b>2000 US\$</b>	<b>1999 US\$</b>
Turnover	3	6,182,818	7,985,868
Unrealised holding gain of unlisted investments in securities		8,514,088	1,138,117
Gain on disposal of listed investments in securities		1,307,822	1,788,893
Other revenue		90,289	3,124
Administrative expenses		(2,548,785)	(2,236,348)
Provision for bad debts		(1,828,356)	–
Provision/loss on investments	5	(4,154,125)	(6,429,504)
Profit from operations		7,563,751	2,250,150
Finance cost		–	(14,323)
Share of results of associates		165,885	318,360
Provision for diminution in value of associates		(3,975,429)	–
Profit before taxation	6	3,754,207	2,554,187
Taxation	9	(101,480)	(106,087)
Profit attributable to shareholders	10	3,652,727	2,448,100
Dividends	11	(1,782,893)	(1,782,893)
Profit for the year, retained		1,869,834	665,207
Earnings per share	12	0.027	0.018


**CONSOLIDATED BALANCE SHEET**

As at 31 December 2000

	<b>NOTES</b>	<b>2000 US\$</b>	<b>1999 US\$</b>
<b>Non-current assets</b>			
Goodwill	13	–	1,092
Interests in associates	15	11,300,735	17,738,293
Contractual joint ventures	16	18,938,325	20,888,299
Investments in securities	17	50,314,765	44,088,870
		80,553,825	82,716,554
<b>Current assets</b>			
Accounts receivable and prepayments	18	1,819,392	5,098,726
Taxation recoverable		–	28,401
Cash and bank balances		40,519,160	33,535,162
		42,338,552	38,662,289
<b>Current liabilities</b>			
Accounts payable, other payables and accrued charges		640,293	1,003,916
Proposed dividend		1,097,165	1,097,165
Taxation payable		32,867	31,346
		1,770,325	2,132,427
Net current assets		40,568,227	36,529,862
<b>NET ASSETS</b>		121,122,052	119,246,416
<b>CAPITAL AND RESERVES</b>			
Share capital	19	13,714,560	13,714,560
Reserves	20	107,407,492	105,531,856
		121,122,052	119,246,416
<b>NET ASSET VALUE PER SHARE</b>	21	0.883	0.869

The financial statements on pages 32 to 58 were approved by the Board of Directors on 20 April 2001 and are signed on its behalf by:

**Fu Yuning**  
Chairman

**Zhang Yun Kun**  
Director

# *B*ALANCE SHEET

As at 31 December 2000

	<i>NOTES</i>	<b>2000 US\$</b>	<b>1999 US\$</b>
<b>Non-current assets</b>			
Investments in subsidiaries	14	64,931,260	75,713,949
Investments in securities	17	17,200	11,000
		64,948,460	75,724,949
<b>Current assets</b>			
Accounts receivable		344,920	791,610
Prepayments		26,740	26,800
Taxation recoverable		–	28,401
Cash and bank balances		33,296,837	30,493,396
		33,668,497	31,340,207
<b>Current liabilities</b>			
Accounts payable, other payables and accrued charges		614,691	637,139
Amount due to a subsidiary		59,936	60,225
Proposed dividend		1,097,165	1,097,165
		1,771,792	1,794,529
Net current assets		31,896,705	29,545,678
<b>NET ASSETS</b>		96,845,165	105,270,627
<b>CAPITAL AND RESERVES</b>			
Share capital	19	13,714,560	13,714,560
Reserves	20	83,130,605	91,556,067
		96,845,165	105,270,627

The financial statements on pages 32 to 58 were approved by the Board of Directors on 20 April 2001 and are signed on its behalf by:

**Fu Yuning**  
*Chairman*

**Zhang Yun Kun**  
*Director*

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2000

	<b>2000</b>	<b>1999</b>
	<b>US\$</b>	<b>US\$</b>
Exchange differences arising on translation of overseas operations not recognised in the income statement	5,802	122
Profit for the year	3,652,727	2,448,100
Total recognised gains	3,658,529	2,448,222


**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 31 December 2000

	<i>NOTES</i>	<b>2000 US\$</b>	<b>1999 US\$</b>
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	4,803,839	3,145,246
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(1,782,893)	(2,171,472)
Dividend received from an associate		557,602	412,891
Interest paid		–	(14,323)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(1,225,291)	(1,772,904)
TAXATION			
Hong Kong profits tax refunded (paid)		29,290	(5,631)
PRC income tax paid		(19,792)	(19,871)
TAX REFUNDED (PAID)		9,498	(25,502)
INVESTING ACTIVITIES			
Repayment from (advance to) associates		1,995,158	(29,325)
Repayment of capital from contractual joint ventures		38,804	465,408
Acquisition of listed investments in securities		(16,617,132)	(16,169,233)
Proceeds from disposal of listed investments in securities		17,895,342	13,102,235
Proceeds from disposal of debt securities		83,780	760,000
Decrease in pledged deposits		–	1,000,000
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		3,395,952	(870,915)
NET CASH INFLOW BEFORE FINANCING		6,983,998	475,925
FINANCING			
Repayment of secured bank loan	23	–	(603,996)
NET CASH OUTFLOW FROM FINANCING		–	(603,996)
INCREASE (DECREASE) IN CASH AND BANK BALANCES		6,983,998	(128,071)
CASH AND BANK BALANCES AS AT 1 JANUARY		33,535,162	33,663,233
CASH AND BANK BALANCES AS AT 31 DECEMBER		40,519,160	33,535,162



## 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 28 and 15 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. 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### ***Goodwill***

Goodwill arising on consolidation represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the net assets at the date of acquisition of a subsidiary and is capitalised and amortised on a straight line basis over its useful economic life, not exceeding twenty years. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On disposal of a subsidiary, the attributable amount of unamortised goodwill or negative goodwill previously credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

### ***Interests in subsidiaries***

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Interests in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment loss that is other than temporary.

### ***Interests in associates***

An associate is an enterprise, over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

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, as reduced by any impairment loss that is other than temporary.

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 impairment loss that is other than temporary.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### ***Contractual joint ventures***

The Group's contractual joint ventures 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 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 impairment loss that is other than temporary.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### ***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.

### ***Foreign currencies***

Transactions in foreign currencies 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.

# *N*OTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 3. TURNOVER

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

	THE GROUP	
	2000 US\$	1999 US\$
Interest income	2,399,501	2,700,908
Income from contractual joint ventures	1,481,226	2,957,433
Dividend income from listed investments in securities	194,723	115,032
Dividend income from unlisted investments in securities	2,107,368	2,212,495
	6,182,818	7,985,868

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 4. SEGMENTAL INFORMATION

The Group's turnover and contribution to operating profit for the year ended 31 December 2000, analysed by principal activity and geographical market, were as follows:

	2000		1999	
	Turnover US\$	Contribution to profit from operations US\$	Turnover US\$	Contribution to profit from operations US\$
By principal activity:				
Deposits placing	2,399,501	2,399,501	2,700,908	2,700,908
Contractual joint ventures investments	1,481,226	(2,258,301)	2,957,433	(313,691)
Unlisted investments in securities	2,107,368	10,412,261	2,212,495	1,350,612
Listed investments in securities	194,723	(531,214)	115,032	745,545
	6,182,818	10,022,247	7,985,868	4,483,374
Other revenue		90,289		3,124
Administrative expenses		(2,548,785)		(2,236,348)
Profit from operations		7,563,751		2,250,150
By geographical market:				
Hong Kong	1,034,918	(388,886)	499,912	1,451,218
Other regions in the People's Republic of China ("PRC")	5,147,900	10,411,133	7,485,956	3,032,156
	6,182,818	10,022,247	7,985,868	4,483,374
Other revenue		90,289		3,124
Administrative expenses		(2,548,785)		(2,236,348)
Profit from operations		7,563,751		2,250,150



# *N*OTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 5. PROVISION/LOSS ON INVESTMENTS

	THE GROUP	
	2000 US\$	1999 US\$
Unrealised holding loss of listed investments in securities	2,033,759	821,105
Unrealised holding loss of unlisted investments in securities	209,195	2,000,000
Provision for diminution in value of contractual joint venture	1,911,171	3,271,124
Provision for diminution in value of debt securities	–	300,000
Loss on disposal of debt securities	–	37,275
	4,154,125	6,429,504

## 6. PROFIT BEFORE TAXATION

	THE GROUP	
	2000 US\$	1999 US\$
Profit before taxation has been arrived at after charging:		
Amortisation of goodwill	1,092	91
Auditors' remuneration	44,653	43,216
Net foreign exchange losses	22,471	22,756
Investment manager's fee	2,181,726	1,954,681
Interest expense on bank loans repayable within five years	–	14,323
Directors' fee	30,000	30,770

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 7. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2000 US\$	1999 US\$
Directors' fees		
– Executive	15,000	15,385
– Non-executive	15,000	15,385
	30,000	30,770
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 2000 and 1999 were less than US\$125,000.

The amounts disclosed above include directors' fees of US\$7,693 (1999: US\$7,693) payable to independent non-executive directors.

## 8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2000 and 1999 were all directors of the Company and details of their emoluments are included in note 7 above.

## 9. TAXATION

	THE GROUP	
	2000 US\$	1999 US\$
The charge comprises:		
Profits tax for the year		
Hong Kong	(889)	(3,953)
Other regions in the PRC	21,313	20,419
Taxation attributable to the Company and its subsidiaries	20,424	16,466
Share of taxation on results of associates		
Other regions in the PRC	81,056	89,621
	101,480	106,087

No Hong Kong profits tax has been provided in the financial statements as there are 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 the amount involved is insignificant.

## 10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit for the year of US\$3,652,727 (1999: US\$2,448,100), a loss of US\$6,642,569 (1999: US\$1,184,383) has been dealt with in the financial statements of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 11. DIVIDENDS

	THE GROUP	
	2000 US\$	1999 US\$
Ordinary shares:		
Interim, paid – US\$0.005 per share (1999: US\$0.005)	685,728	685,728
Final , proposed – US\$0.008 per share (1999: US\$0.008)	1,097,165	1,097,165
	1,782,893	1,782,893

## 12. EARNINGS PER SHARE

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

	THE GROUP	
	2000	1999
Earnings for the purpose of basic earnings per share (US\$)	3,652,727	2,448,100
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600

# *N*OTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 13. GOODWILL

	<b>THE GROUP</b>
	<b>2000</b>
	<b>US\$</b>
<b>AT COST</b>	
Balance as at 1 January and 31 December	1,637
<b>ACCUMULATED AMORTISATION</b>	
Balance as at 1 January	545
Provided for the year	1,092
Balance as at 31 December	1,637
<b>NET BOOK VALUE</b>	
Balance as at 31 December	–

## 14. INVESTMENTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2000</b>	<b>1999</b>
	<b>US\$</b>	<b>US\$</b>
<b>Investments at cost (less amounts written off):</b>		
Unlisted shares, at cost	10,066,348	10,066,348
Amounts due from subsidiaries	54,864,912	65,647,601
	64,931,260	75,713,949

Particulars of the principal subsidiaries at 31 December 2000 are set out in note 28.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2000 US\$	1999 US\$
Share of net assets	7,862,779	3,475,188
Amount due from associates	11,013,385	17,863,105
	18,876,164	21,338,293
Less : Provision for diminution in value of associates	(7,575,429)	(3,600,000)
	11,300,735	17,738,293

As at 31 December 2000, 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 Co., Ltd.*	PRC/PRC	Registered capital	Manufacturing electronics products	30%

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



## 16. CONTRACTUAL JOINT VENTURES

	THE GROUP	
	2000 US\$	1999 US\$
Unlisted investments		
Contributions to contractual joint ventures less capital recovered	18,938,325	20,888,299

Particulars of contractual joint ventures at 31 December 2000 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
Chengde Wanli Steel Tubes Co., Ltd.	Steel tubes manufacturing	12 March 2016
Maoming Tongfa Highway Co., Ltd.	Highway construction and operation	28 February 2021
Beijing Longbao Mansion Joint Operation Project	Property investment	24 July 2000*

\* *The Group is in the process of negotiating a new joint management contract.*

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 17. INVESTMENTS IN SECURITIES

### THE GROUP

	Held to		Other		Total	
	maturity securities		investments			
	2000	1999	2000	1999	2000	1999
	US\$	US\$	US\$	US\$	US\$	US\$
Equity securities:						
Listed	-	-	3,219,976	5,199,710	3,219,976	5,199,710
Unlisted	-	-	46,551,115	38,189,160	46,551,115	38,189,160
	-	-	49,771,091	43,388,870	49,771,091	43,388,870
Debt securities:						
Listed	-	700,000	-	-	-	700,000
Unlisted	543,674	-	-	-	543,674	-
	543,674	700,000	-	-	543,674	700,000
Total:						
Listed						
Hong Kong	-	-	3,202,776	3,533,809	3,202,776	3,533,809
Elsewhere	-	700,000	17,200	1,665,901	17,200	2,365,901
Unlisted	543,674	-	46,551,115	38,189,160	47,094,789	38,189,160
	543,674	700,000	49,771,091	43,388,870	50,314,765	44,088,870
Market value of listed securities	-	266,643	3,219,976	5,199,710	3,219,976	5,466,353

**17. INVESTMENTS IN SECURITIES** *(continued)*
**THE COMPANY**

	<b>Other Investment</b>	
	<b>2000 US\$</b>	<b>1999 US\$</b>
Equity securities		
Listed, at market value	17,200	11,000

Particulars of the Group's unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2000 disclosed pursuant to Section 129(2) of the Companies Ordinance are as follows:

<b>Name</b>	<b>Place of incorporation</b>	<b>Class of share capital</b>	<b>Percentage of equity held by the Group</b>
China Merchants Bank	PRC	equity	1.62%
Fujian Industrial Bank Co., Ltd.	PRC	equity	2.13%

# *N*OTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 18. ACCOUNTS RECEIVABLE AND PREPAYMENTS

As at 31 December 2000, all the account receivable amounts were due within one year.

## 19. SHARE CAPITAL

	2000 US\$	1999 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 (1999: 114,288,000) ordinary shares of US\$0.10 each	13,714,560	11,428,800
Issued by capitalization of the share premium account (Note 24)	–	2,285,760
137,145,600 (1999: 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 2000

## 20. RESERVES

	Share premium US\$	Exchange equalisation US\$	Retained profits US\$	Total US\$
<b>THE GROUP</b>				
At 1 January 1999	83,811,744	124,266	23,216,277	107,152,287
Exchange differences on translation of financial statements of associates	–	122	–	122
Issue of bonus shares	(2,285,760)			(2,285,760)
Profit for the year, retained	–	–	665,207	665,207
As at 1 January 2000	81,525,984	124,388	23,881,484	105,531,856
Exchange differences on translation of financial statements of associates	–	5,802	–	5,802
Profit for the year, retained	–	–	1,869,834	1,869,834
As at 31 December 2000	81,525,984	130,190	25,751,318	107,407,492
<b>THE COMPANY</b>				
As at 1 January 1999	83,811,744	–	12,997,359	96,809,103
Issue of bonus shares	(2,285,760)	–	–	(2,285,760)
Loss for the year	–	–	(1,184,383)	(1,184,383)
Dividends	–	–	(1,782,893)	(1,782,893)
As at 1 January 2000	81,525,984	–	10,030,083	91,556,067
Loss for the year	–	–	(6,642,569)	(6,642,569)
Dividends	–	–	(1,782,893)	(1,782,893)
As at 31 December 2000	81,525,984	–	1,604,621	83,130,605

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 20. RESERVES (continued)

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

	<b>2000 US\$</b>	<b>1999 US\$</b>
As at 1 January	329,532	513,682
Loss for the year, accumulated	(472,772)	(184,150)
As at 31 December	(143,240)	329,532

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\$1,604,621 (1999: US\$10,030,083).

## 21. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$121,122,052 (1999: US\$119,246,416) and 137,145,600 ordinary shares (1999: 137,145,600 ordinary shares) of US\$0.10 each in issue.



# *N*OTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

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

	<b>2000</b> <b>US\$</b>	<b>1999</b> <b>US\$</b>
Profit before taxation	3,754,207	2,554,187
Non-cash dividend income	(8,930)	(1,028,062)
Interest expense on bank loan	–	14,323
Share of results of associates	(165,885)	(318,360)
Unrealised holding gain of unlisted investments in securities	(8,514,088)	(1,138,117)
Gain on disposal of listed investments in securities	(1,307,822)	(1,788,893)
Unrealised holding loss of listed investment in securities	2,033,759	821,105
Discount recognised on debt securities	–	(203,685)
Loss on disposal of debt securities	–	37,275
Amortisation of goodwill	1,092	91
Provision for diminution in value of associates	3,975,429	–
Provision for diminution in value of contractual joint ventures	1,911,171	3,271,124
Unrealised holding loss of unlisted investments in securities	209,195	2,000,000
Provision for diminution in value of debt securities	–	300,000
Decrease (increase) in accounts receivable and prepayments	3,279,334	(1,592,182)
(Decrease) increase in accounts payable, other payables and accrued charges	(363,623)	216,440
Net cash inflow from operating activities	4,803,839	3,145,246

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 23. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	THE GROUP	
	2000	1999
	US\$	US\$
As at 1 January	–	603,996
Repayment during the year	–	(603,996)
As at 31 December	–	–

## 24. MAJOR NON-CASH TRANSACTIONS

In the year 1999, 22,857,600 bonus shares were issued, by the capitalization of US\$2,285,760 of share premium account.

## 25. LEASE COMMITMENTS

At 31 December 2000, the Group and the Company had no commitment under non-cancellable operating leases (1999: Nil).

## 26. COMMITMENTS

At 31 December 2000, the Group and the Company had no capital commitment not provided for in the financial statements (1999: Nil).

## 27. 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\$2,181,726 (1999: US\$1,954,681) 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 2000 were US\$533,550 (1999: US\$550,299).

## 28. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2000, which are all wholly-owned and directly held by the Company, are as follows:

<b>Name</b>	<b>Place of incorporation</b>	<b>Principal activities</b>	<b>Particulars of issued share capital</b>
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
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

# *N*OTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 28. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

<b>Name</b>	<b>Place of incorporation</b>	<b>Principal activities</b>	<b>Particulars of issued share capital</b>
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 2000 or at any time during the year.

\* *Company not audited by Deloitte Touche Tohmatsu.*

## RESULTS

	For the year ended 31 December				
	1996 US\$	1997 US\$	1998 US\$	1999 US\$	2000 US\$
Turnover	6,912,927	7,294,666	8,949,687	7,985,868	6,182,818
Profit from operations after finance costs	7,342,343	12,903,902	10,865,513	2,235,827	7,563,751
Share of results of associates	212,578	(1,634,694)	(1,149,028)	318,360	(3,809,544)
Taxation	(63,105)	(155,977)	(85,422)	(106,087)	(101,480)
Profit attributable to shareholders	7,491,816	11,113,231	9,631,063	2,448,100	3,652,727

## ASSETS AND LIABILITIES

	As at 31 December				
	1996 US\$	1997 US\$	1998 US\$	1999 US\$	2000 US\$
Total assets	105,893,087	110,498,195	121,489,101	121,378,843	122,892,377
Total liabilities	(5,456,748)	(5,106,965)	(2,908,014)	(2,132,427)	(1,770,325)
Shareholders' funds	100,436,339	105,391,230	118,581,087	119,246,416	121,122,052

# *N*OTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at Jade Room, 3rd Floor, Hotel Furama Kempinski Hong Kong, 1 Connaught Road Central, Hong Kong on Friday, 25 May 2001 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 2000.
2. To declare a final dividend for the year ended 31 December 2000.
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



## NOTICE OF ANNUAL GENERAL MEETING

(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) 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) 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

**Zhang Yun Kun**

*Executive Director*

Hong Kong, 20 April 2001

*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 22 May 2001 to 25 May 2001, 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 21 May 2001.
- (4) At the Annual General Meeting of the Company held on 29 June 2000, 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 2001, 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 despatched to shareholders together with the Annual Report of the Company.