

CONTENTS

| | <i>Pages</i> |
|---|--------------|
| CORPORATE INFORMATION | 2 |
| CHAIRMAN'S STATEMENT | 3 |
| THE INVESTMENT MANAGER'S REPORT | 5 |
| NOTICE OF ANNUAL GENERAL MEETING | 11 |
| REPORT OF THE DIRECTORS | 14 |
| REPORT OF THE AUDITORS | 21 |
| CONSOLIDATED PROFIT AND LOSS ACCOUNT | 22 |
| CONSOLIDATED BALANCE SHEET | 23 |
| BALANCE SHEET OF THE COMPANY | 24 |
| CONSOLIDATED CASH FLOW STATEMENT | 25 |
| NOTES TO THE FINANCIAL STATEMENTS | 26 |
| SUMMARY OF FINANCIAL INFORMATION OF ASSOCIATED COMPANIES | 38 |
| FINANCIAL SUMMARY | 39 |

CORPORATE INFORMATION

Board of Directors

LI Yin Fei (*Chairman*)
CHU Lap Lik, Victor
Dr. SUN Ju
SUN Yin
ZHANG Yun Kun
TSANG Kam Lan*
SATO Haruo*
Dr. LI Kwok Po, David*
POON Kwok Lim, Steven*
HUEGLE Peter P.*
KUT Ying Hay*
JIA Yuan*
CHIA Teck Swee*

** non-executive directors*

Company Secretary

Kan Ka Yee, Elizabeth, *AICPA, AHKSA*

Custodian Banks

Union Bank of Hong Kong Limited
China Merchants Bank
Bank of China, Hong Kong Branch

Auditors

Kwan Wong Tan & Fong • BDO

Legal Advisers

Victor Chu & Co.

Head Office and Principal Place of Business

1101 Shun Tak Centre
200 Connaught Road Central
Hong Kong

Share and Warrant Registrar

Central Registration Hong Kong Limited

CHAIRMAN'S STATEMENT

As at 31st December, 1995, the audited net profits for China Merchants China Direct Investments Limited and its subsidiaries ("the Group") totalled US\$5,417,099 (HK\$42,253,372), an increase of 53% over 1994; net asset value per share before final dividend is US\$1.072 (HK\$8.36), an increase of 1.6% compared to the figure of US\$1.055 for 1994.

The Board of Directors ("the Board") has proposed a final dividend of US\$0.04 per share (HK\$0.312) together with an interim dividend of US\$0.01 per share, total dividend payable per share for 1995 amounted to US\$0.05 (HK\$0.39).

As of today, the Group has invested in 11 unlisted projects at a total investment of US\$61.5 million, representing 62% of total net asset value. The Group has been actively developing investment opportunities; apart from investing US\$5 million in Chengde Wanli Steel Tubes Company Limited for the manufacture of quality welded steel tubes, we also committed US\$5 million in the improvement project of the Luomei section of National Highway No. 324. This is our first toll road project which marks one further step towards achieving a diversified investment portfolio.

The Group has also been exploring opportunities to realize some of its investments, and has recently succeeded in transferring our 25% equity interest in Beijing Huapeng Mansions Co. Ltd. to an independent investor. This is the first time that we are selling an unlisted investment for a substantial profit, demonstrating our capability in project realization and in generating extraordinary income.

Infrastructure investments, such as highways and bridges are designated as priority projects by the Chinese Government. These projects generally offer relatively stable returns and low risks. The Group therefore intends to increase its investments in such projects in the future. Apart from the National Highway No. 324, the Group is currently negotiating several bridge and other high grade toll road projects, which, if successful, will provide a steady stream of income.

Our investment manager has been applying strict criteria in assessing investment opportunities. The projects in which we have invested are all quality ones which promise higher growth potential and lower risk. This investment approach is in line with the Group's objective which provides active support for China's industrial and economic modernization, while bringing in healthy long term profits for our shareholders.

The Group has also invested approximately 3% of its net asset value in shares of listed companies, focusing mainly on the B shares listed on the Shenzhen and Shanghai Stock Exchanges and the H shares listed on The Stock Exchange of Hong Kong. Under China's stringent monetary policy, stock trading activity has slowed down in general, leading to a somewhat lackluster performance of our investments in this area.

The stringent monetary measures introduced in China since 1994 have curbed investment activity to a certain extent, causing delays in the forming of many joint ventures. This, together with the rise in interest rates, have weakened investment sentiment in general, and thereby, our speed of investment last year.

With the success of the austerity measures in controlling inflation and stabilizing the investment environment in China, the Board expects that there is likely to be a slight relaxation on credit control, which will help improve corporate earnings. As interest rates have come down, it will be easier to control operating costs which will lead directly to increased income. In addition, China's banking and financial regulations are gradually becoming more systematic, providing better security for foreign investors.

Given all of these favourable factors, we are confident that through a diversified investment portfolio and strategic planning, the Group will continue to secure further quality projects which will further improve our financial picture.

CHAIRMAN'S STATEMENT (CONT'D)

I would like to take this opportunity to extend my greatest thanks to Mr. Jiang Bo, the Group's ex-chairman, and several directors who resigned last year, including Mr. Wang Bai Yong; Dr. Manfred John Adami; Mr. Beat M. Muller; Mr. Tan Kuan Hong and Mr. Ng Siu Fai, for their valuable contributions to the Group during their tenure. Under the leadership of Mr. Jiang, the Group experienced steady growth in 1995, laying a strong foundation for its future development.

Finally, I would also like to thank all members of the investment committee, our investment manager and fellow co-workers for their continued support. I here pledge my full support and best effort in leading the Group to the development of more new investment opportunities; thereby, achieving satisfactory results for the Year of the Rat.

Li Yin Fei
Chairman

20th May, 1996
Hong Kong

THE INVESTMENT MANAGER'S REPORT

To date, China Merchants China Direct Investments Limited and its subsidiaries ("the Group") have invested approximately US\$61.5 million in 11 unlisted projects, which accounts for 62% of the total net asset value. These investments are diversified into financial and transportation services (which accounts for approximately 14% of the Group's net assets); infrastructure (17%); manufacturing (14%); and real estate (17%). During the period under review, the Group successfully disposed of one of its unlisted investments. The Group has also invested approximately US\$3.36 million in shares of listed companies.

REVIEW OF UNLISTED INVESTMENTS

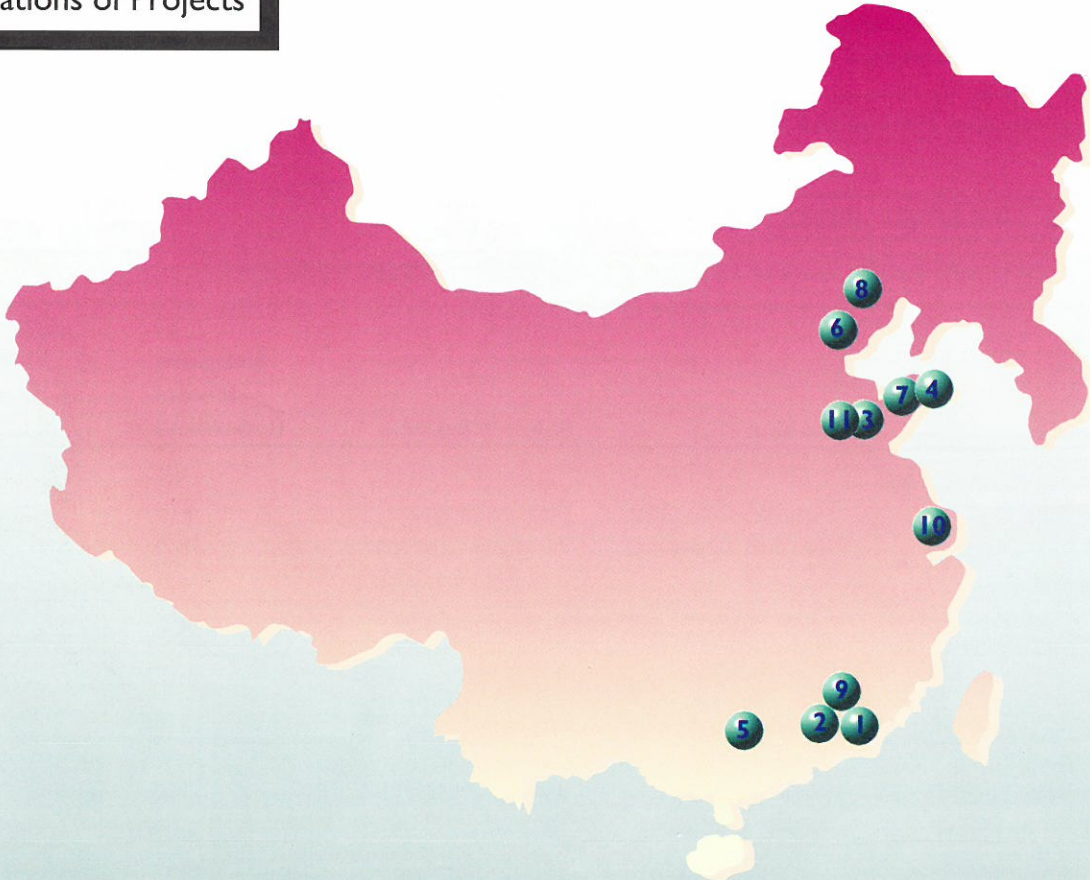
The following table sets out the investment projects the Group has contracted to date:

| Name of project | Location | Nature of business | Investment amount (US\$million) | Approximate % of net asset value of the Group |
|--|---------------------|--|---------------------------------|---|
| Financial & Transportation Services: | | | | |
| 1. China Merchants Bank | Shenzhen, Guangdong | Commercial bank | 8.65 | 9 |
| 2. Shenzhen Anda Group of Companies | Shenzhen, Guangdong | Passenger, cargo and container transportation | 4.875 | 5 |
| | | | <u>13.525</u> | <u>14</u> |
| Infrastructure: | | | | |
| 3. Wei Fang Yin Yuan Aviation Industry Co. Ltd. | Weifang, Shandong | Civil airport | 2.30 | 2 |
| 4. Yantai Huashang Power Co. Ltd. | Yantai, Shandong | Power generating plant | 10.0 | 10 |
| 5. Luomei Highways Co. Ltd. | Luoding, Guangdong | Toll road | 5.0 | 5 |
| | | | <u>17.30</u> | <u>17</u> |
| Manufacturing: | | | | |
| 6. Tangshan Kintil Ceramic Ltd. | Tangshan, Hebei | Production of ceramic tiles for construction | 2.2 | 2 |
| 7. Zhaoyuan Jinbao Electronics Co. Ltd. | Zhaoyuan, Shandong | Production of copper foils and copper clad laminates | 7.0 | 7 |
| 8. Chengde Wanli Steel Tubes Co. Ltd. | Chengde, Hebei | Production of welded steel tubes | 5.0 | 5 |
| | | | <u>14.2</u> | <u>14</u> |
| Real Estate: | | | | |
| 9. Shenzhen Man Kam Square | Shenzhen, Guangdong | Retail shops | 4.755* | 5 |
| 10. China Merchants Plaza | Shanghai | Office building | 7.68 | 8 |
| 11. Weifang Zhaoyin Real Estate Development Ltd. | Weifang, Shandong | Development of low-cost residential housing | 4.0 | 4 |
| | | | <u>16.435</u> | <u>17</u> |
| | | Total | <u>61.46</u> | <u>62</u> |

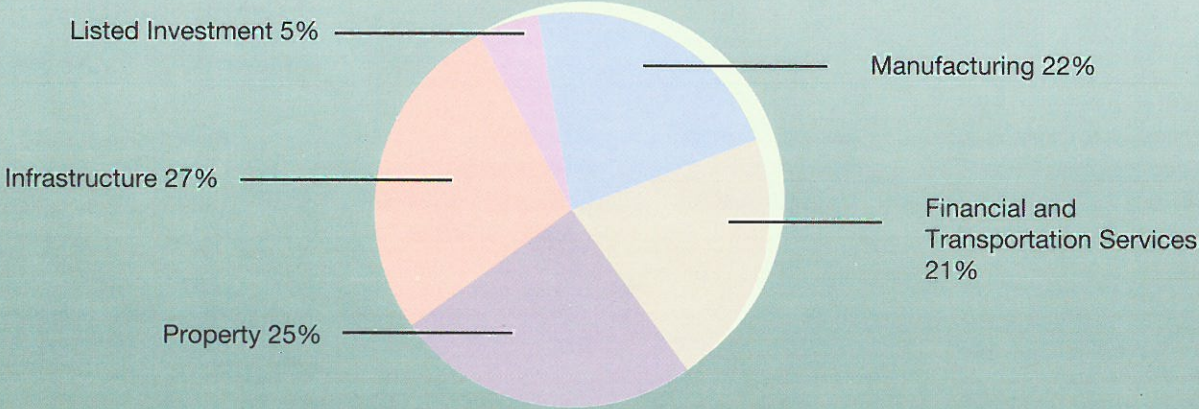
* of which US\$0.49 million will be payable upon issuance of the occupancy permit.

THE INVESTMENT MANAGER'S REPORT (CONT'D)

Locations of Projects



Investment Distribution by Sector



THE INVESTMENT MANAGER'S REPORT (CONT'D)

China Merchants Bank

The Group injected US\$8.65 million in May, 1994 to acquire 19,000,000 shares of China Merchants Bank. China Merchants Bank is the first corporate bank in China, its business has been expanding rapidly in the country with total asset value now reaching RMB70.9 billion. Although the operating environment for banks was not very favourable in 1995, China Merchants Bank still achieved an outstanding growth on profits of 80% and a final dividend of RMB0.36 per share was distributed.

The Bank will focus on developing its savings business in 1996 through promoting savings in both RMB and foreign currencies. The Bank will also work hard on strengthening the management of gearing ratio, expediting the process of computerized banking and further enhancing service quality.

Shenzhen Anda Group of Companies ("Anda")

"Anda" comprises of three companies which are engaged in passenger, cargo and container transportation in Shenzhen. In mid 1994, the Group acquired a 25% equity interest in the three companies for US\$4.875 million with terms of operation expiring in the year 2007 and 2008. The Chinese partner of this project is Shekou Anda Industry Co. Ltd., a company listed on the Shenzhen Stock Exchange and is also an associated company of China Merchants Holdings Co. Ltd.



In 1995, the revenue derived from passenger transportation reached the expected target while the performance in cargo and container transportation was below expectation due to keen competition. Return on investment in 1995 reached 15%.

Wei Fang Yin Yuan Aviation Industry Company Limited

The Group invested US\$2.875 million in this joint venture in 1994, accounting for 31.26% of its interest, for a contract period of 15 years. The joint venture's main business is to construct, operate and manage a civil airport which started operations in mid 1995.

Yantai Huashang Power Company Limited

The joint venture owns a 54% equity interest in two coal-fired generators in Longkou Power Station Phase II located in Yantai, Shandong. Construction work has been completed and the generators have already commenced production at a capacity of 400,000kw. Due to delays in the approval process, the Group's capital injection of US\$10 million was postponed to the end of 1995. The Group accounts for 33.47% of the equity interest in the joint venture with a contract term of 21 years.

Luomei Highways Company Limited

In May 1996, the Group closed a deal to invest in the expansion and operation of the Luomei Section of National Highway No. 324 in the municipality of Luoding City of Guangdong Province. Reconstruction work of the 35-kilometer highway section started in early 1995 and is already 50% complete. It is expected that the road section can be open to traffic before the end of 1996.

THE INVESTMENT MANAGER'S REPORT (CONT'D)

This section of the highway is one of the main roads connecting the provinces of Guangdong and Guangxi and is planned to be upgraded to a Grade A highway. The Group will invest US\$5 million for a 16.7% equity interest in the project for a period of 25 years. The project is now pending for approval by relevant government authorities.

Tangshan Kintil Ceramics Company Limited ("Kintil")

The Group owns a 15% interest in Kintil, the former Tangshan Yinli Ceramics Limited and Tangshan Shenjian Ceramics Limited, with the contract expiring in the year 2011. Kintil is engaged in the production of tiles for construction purposes with a total annual production capacity of 1 million square meters of glazed mosaics and 1 million square meters of homogeneous tiles. Three new production lines imported from Italy have been installed, one of which has commenced production while the other two are still undergoing trial run.

Zhaoyan Jinbao Electronics Company Limited

The Group established a Sino-foreign equity joint enterprise in collaboration with BOC China Fund Limited and Shandong Zhaoyuan Electronic Materials Factory, to manufacture copper foils, copper-clad laminates and printed circuit boards. At the end of 1995, together with shareholder's loans, the Group's total investment was US\$7 million, accounting for 30% of its equity interest, and the contract will last for 20 years.



The expansion work of the joint venture has been basically completed. Profit for 1995 was RMB10.07 million, a 8.4% decrease compared with that of the previous year. This was mainly due to the rise in price of raw materials and shortage of working capital.

Chengde Wanli Steel Tubes Company Limited

The Group established a Sino-foreign joint venture with Chengde Iron and Steel Group Ltd. in Chengde, Hebei at the beginning of 1996 for the production of welded steel tubes. The total investment in the project amounted to US\$17.6 million of which the Group accounts for US\$5 million, representing a 35% interest in the joint venture. This operation will run for 20 years.

This joint venture employs equipment imported from Germany and its expected annual output capacity is 100,000 tons. Products manufactured by the joint venture will replace seamless steel tubes used in a number of industries.

THE INVESTMENT MANAGER'S REPORT (CONT'D)

Shenzhen Man Kam Square



Man Kam Square, located at the junction of Man Kam North Road and Sun Gang Road, Lowu, Shenzhen, is a 33-storey building with a gross floor area of 117,000 square meters. The Square mainly consists of a high class office building, a hotel and a shopping arcade. The Group, together with City Chiu Chow (Holdings) Limited (a Hong Kong listed company), purchased an area of 5,260 square meters in the commercial complex and holds a 35% interest. It is expected that the premises will be handed over for occupation shortly.

China Merchants Plaza

China Merchants Plaza is a commercial and office building in Shanghai, jointly invested and developed by China Merchants Holdings (Hong Kong) Company Limited, the Group and three other independent entities. The Group holds a 20% interest in the project. Located at the junction of Weihai Road and Chengdu Road in Central Shanghai, this building occupies a site of 9,600 square meters and will have a gross floor area of 58,000 square meters after completion. Since the cornerstone ceremony in April, 1995, the construction work is progressing as scheduled and the building is expected to be completed by the end of 1997.

Weifang Zhaoyin Real Estate Development Limited

This joint venture is engaged in the development of a "Comfortable Home" project in the Weifang City High and New Technology Industrial Development Zone of the Shandong Province, which involves the construction of general residential housing and complementary facilities. The term for the joint venture is 20 years. In 1995, the joint venture completed 110,000 square meters of residential housing of which 73% have been sold at a net profit of RMB26.42 million.

The Group invested US\$4 million in this project in 1994 for 18% shareholding. The Weifang Municipal Government has committed to underwrite all the unsold flats as and when necessary.



UNLISTED INVESTMENT SOLD

Beijing Huapeng Mansions Company Limited

Beijing Huapeng Mansions Company Limited is engaged in the leasing and management of Huapeng Mansions. Huapeng Mansions has offices and shops of 15,000 square meters available for leasing. The Group injected a total of US\$1.675 million in 1994 and 1995 for a 25% stake in the Company.

The Group has entered into a Sale and Purchase Agreement with Ever Wealth Enterprises Ltd. by which the Group agreed to sell its entire stake in Beijing Huapeng Mansions Company Limited. The sale enables the Group to realize an internal rate of return of approximately 21% from the investment project.

THE INVESTMENT MANAGER'S REPORT (CONT'D)

REVIEW OF LISTED INVESTMENTS

In 1995, the performance of neither the B shares in the Shanghai and Shenzhen stock markets nor the H shares in the Hong Kong stock market was satisfactory. In 1995, the B share index fell 25% in Shanghai and 31% in Shenzhen, while the H share index in Hong Kong fell 29%. This was mainly due to the worsening economic situation in China since the Chinese Government started to enforce austerity measures at the beginning of 1994. The tight monetary policy has adversely affected the performance of the majority of the listed companies issuing B and H shares, leading to a loss of interest among investors in investing in the shares of these companies. The Group was also very cautious in its investments in listed companies, which accounted for a mere 3% of the net asset value of the Group.

Sun Ju
Managing Director
**China Merchants China Investment
Management Limited**

Hong Kong, 20th May, 1996

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Coral Room 1, 3rd Floor, Hotel Furama Kempinski Hong Kong, 1 Connaught Road Central, Hong Kong on Tuesday, 25th June, 1996 at 4:00p.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 31st December, 1995.
2. To declare a final dividend for the year ended 31st December, 1995.
3. To re-elect retiring Directors.
4. To re-appoint Auditors and authorise the Directors to fix their remuneration.
5. As special business to consider and, if thought fit, to pass with or without modifications the following resolutions as Ordinary Resolutions:

A. "THAT:

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

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

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

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

“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 and warrants 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 aggregate number of warrants which may be repurchased pursuant to such approval shall not exceed 10 per cent of the aggregate amount of warrants of the Company outstanding 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 5A and 5B 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 5B 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 5A, 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.”

6. As special business to consider and, if thought fit, to pass with or without modifications the following resolution as a Special Resolution:

“THAT the Articles of Association of the Company be amended by the addition of the following provision as Article 96A:

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

“Where a shareholder is a recognised clearing house within the meaning of the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong), it may authorise such person or persons as it thinks fit to act as its representative (or representatives) at any shareholders’ general meeting or any meeting of any class of shareholders provided that, if more than one person is so authorised, the authorisation must specify the number and class of shares in respect of which each such person is so authorised. A person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house (or its nominees) could exercise if it were an individual shareholder of the Company”.

By Order of the Board
Elizabeth Ka-Yee Kan
Company Secretary

Hong Kong, 20th May, 1996

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 1101, Shun Tak Centre, 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 19th June, 1996 to 25th June, 1996, 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, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on 18th June, 1996.
- (4) The register of warrant holders of the Company will be closed from 19th June, 1996 to 25th June, 1996, both days inclusive, during which period no transfer of warrants will be effected. Holders of the Company’s 1996 warrants who wish to exercise their subscription rights to subscribe for shares which will qualify for the proposed final dividend must lodge the relevant warrant certificates together with the subscription forms, duly completed and signed, and the requisite subscription monies with the Company’s registrars, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on 18th June, 1996.
- (5) At the Annual General Meeting of the Company held on 21st June, 1995, 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 Rules Governing the Listing of Securities on the Stock Exchange these general mandates lapse at the conclusion of the Annual General Meeting for 1996, unless renewed at that meeting. The Ordinary Resolutions sought in items 5A and 5B of this notice renew these mandates.
- (6) With reference to the Ordinary Resolutions sought in items 5A and 5B of this notice, the Directors wish to state that they have no immediate plans to repurchase any existing shares or to issue any new shares of the Company other than the shares that may be issued when any of the subscription rights attaching to the existing warrants are being exercised by any warrant holders during the exercise period of the warrants that ends on 30th June, 1996. Approval is being sought from members as a general mandate pursuant to the Companies Ordinance and the Listing Rules of the Stock Exchange.
- (7) With reference to the Special Resolution sought in item 6 of this notice, the proposed amendment is necessary to comply with the stock admission requirements of the Hong Kong Securities Clearing Company Limited in relation to the admission of the Company’s securities to the Central Clearing and Settlement System.
- (8) A circular setting out further information regarding Resolutions 5B and 6 of this notice will be despatched to shareholders and, for information only, warrant holders together with the Annual Report of the Company.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to shareholders their annual report and the audited financial statements of the Company and the Group for the year ended 31st December, 1995.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its subsidiaries are shown in note 11 to the financial statements.

An analysis of the Group's consolidated turnover and consolidated contributions to operating results by activities and geographical locations for the year ended 31st December, 1995 are as follows:

| | Turnover <i>US\$</i> | Contributions to operating profit <i>US\$</i> |
|--|--------------------------------|---|
| By activities: | | |
| Interest income | 4,497,577 | 4,497,577 |
| Income from contractual joint ventures | 1,862,756 | 1,862,756 |
| Dividend income | 909,498 | 909,498 |
| | <u>7,269,831</u> | <u>7,269,831</u> |
| Indirect overheads | | (1,730,556) |
| Operating profit | | <u>5,539,275</u> |
| | | Turnover <i>US\$</i> |
| By geographical locations: | | |
| The People's Republic of China ("PRC") | | 7,048,677 |
| Hong Kong ("HK") | | 149,717 |
| Others | | 71,437 |
| | | <u>7,269,831</u> |

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 1995 and the state of the Company's and the Group's affairs as at that date are shown in the financial statements as set out on pages 22 to 37.

An interim dividend of US\$0.01 per share, totalling US\$952,400 was paid on 23rd October, 1995.

The Directors now recommend the payment of a final dividend of US\$0.04 per share, totalling US\$3,809,600.

REPORT OF THE DIRECTORS (CONT'D)

FINANCIAL SUMMARY

A three year financial summary is shown on page 39.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 11 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of the issued share capital and warrants of the Company are set out in note 16 to the financial statements.

RESERVES

Movements in reserves during the year are set out in note 17 to the financial statements.

DIRECTORS

Except where otherwise stated, the Directors who held office during the year and up to the date of this report were:

| | |
|----------------------------|--|
| Mr. LI Yin Fei | <i>(Chairman)</i> |
| Mr. JIANG Bo | <i>(Resigned on 1st January, 1996)</i> |
| Mr. CHU Lap Lik, Victor | |
| Mr. WANG Bai Yong | <i>(Resigned on 19th May, 1995)</i> |
| Mr. SUN Yin | |
| Dr. SUN Ju | <i>(Appointed on 19th May, 1995)</i> |
| Mr. ZHANG Yun Kun | <i>(Appointed on 1st January, 1996)</i> |
| Mr. WIRTH William Ralph* | <i>(Resigned on 6th January, 1995)</i> |
| Mr. MULLER Beat M.* | <i>(Alternate to WIRTH William Ralph and ADAMI Manfred John, ceased to act on 7th March, 1996)</i> |
| Mr. TSANG Kam Lan* | |
| Mr. NG Siu Fai* | <i>(Resigned on 22nd June, 1995)</i> |
| Mr. KUT Ying Hay* | |
| Dr. LI Kwok Po, David* | |
| Mr. POON Kwok Lim, Steven* | |
| Mr. SATO Haruo* | |
| Mr. TAN Kuan Hong* | <i>(Resigned on 7th March, 1996)</i> |
| Mr. HUEGLE Peter P.* | |
| Dr. ADAMI Manfred John* | <i>(Appointed on 6th January, 1995 and resigned on 7th March, 1996)</i> |
| Mr. JIA Yuan* | <i>(Appointed on 22nd June, 1995)</i> |
| Mr. CHIA Teck Swee* | <i>(Appointed on 7th March, 1996)</i> |

* non-executive directors

Under the provisions of the Company's Articles of Association, Mr. Jia Yuan, Mr. Zhang Yun Kun, Mr. Chia Teck Swee and Mr. Chu Lap Lik, Victor retire and, being eligible, offer themselves for re-election.

REPORT OF THE DIRECTORS (CONT'D)

Biographical details of Directors are as follows:

Mr. LI Yin Fei, aged 53, is the chairman of the Company and has been an executive director since June, 1993. Mr Li is the executive director and president of China Merchants Holdings Company Limited ("China Merchants Holdings"), China Merchants Steam Navigation Company Limited ("CMSNC") and China Merchants Holdings (Hong Kong) Company Limited ("CMHHK"), a director of China Merchants Bank, the chairman of China Merchants China Investment Management Limited ("CMCIM"), Union Bank of Hong Kong Limited and China Merchants Hai Hong Holdings Company Limited. He also holds directorships in various other companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest. Before he joined the China Merchants Group in 1992, he was the managing director of Qing Dao Ocean Shipping Company which operates the largest bulk fleet in the PRC.

Mr. JIANG Bo, aged 71, was an executive director and the chairman of the Company from June, 1993 to December, 1995. He was the executive vice chairman of China Merchants Holdings, the chairman of CMSNC, CMHHK, Union Bank of Hong Kong Limited, China Merchants Bank, China Merchants Hai Hong Holdings Company Limited and the vice chairman of The Hong Kong Chinese Enterprises Association. He was also the chairman or director of various other companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest. Mr. Jiang joined the China Merchants Group in 1983 as a director and deputy general manager. During his tenure with the China Merchants Group, he had been actively involved in the formulating and carrying out of its investment objectives and strategies which include transforming the China Merchants Group into a well diversified conglomerate with active participation in the development of industrial zones in the PRC.

Mr. CHU Lap Lik, Victor, aged 38, has been an executive director of the Company since June, 1993. He is also a director of CMCIM. Mr. Chu is a practising solicitor in Hong Kong and is the senior partner of Victor Chu & Co.. He is the chairman of First Eastern Investment Group which is actively involved in direct investments in the PRC. Mr. Chu currently serves on the Takeovers Panel and the Advisory Committee of the Securities and Futures Commission. Mr. Chu took his law degree at University College, London.

Mr. WANG Bai Yong, aged 65, was an executive director of the Company from June, 1993 to May, 1995. He held directorships in various other companies which are controlled by the China Merchants Group, including Union Bank of Hong Kong Limited and China Merchants Bank, or in which the China Merchants Group has an interest. He joined the China Merchants Group in 1984 as the general manager of the Projects and Enterprises Division, which has responsibility for seeking investment opportunities, negotiating and implementing investments and the subsequent management of investee companies.

Mr. SUN Yin, aged 58, has been an executive director of the Company since June, 1993. He is also a director of CMCIM. Mr. Sun is an executive director and financial controller of China Merchants Holdings, a director of CMSNC, CMHHK, Union Bank of Hong Kong Limited and China Merchants Bank. He also holds directorships in various other companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest. Before he joined the China Merchants Group in 1990, he was the chief accountant of China Jin Ling Shipyard Co. and Chang Jiang Oil Shipping Company.

Dr. SUN Ju, aged 51, has been an executive director of the Company and the managing director of CMCIM since May, 1995. He is also a director of Union Bank of Hong Kong Limited, China Merchants Holdings (UK) Limited and China Merchants Insurance Company Limited. He graduated from Qing Hua University, Beijing, PRC and obtained his master and doctorate degrees in electrical engineering from the University of Southern California, USA. Before he joined the China Merchants Group, he was the general manager of China International Economic and Technological Development Centre.

REPORT OF THE DIRECTORS (CONT'D)

Mr. ZHANG Yun Kun, aged 39, has been an executive director of the Company since January, 1996. He is also a director and the deputy general manager of CMCIM. 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. He was also the deputy general manager of China Merchants Group's Travel Management Division. Mr. Zhang holds a master degree in economics from South China Normal University.

Mr. WIRTH William Ralph, aged 65, was a non-executive director of the Company from June, 1993 to January, 1995. Mr. Wirth was formerly a member of the Executive Board of Credit Suisse and was responsible for fund management and trading of Credit Suisse worldwide. Mr. Wirth obtained his doctorate in economics at the University of Zurich.

Mr. MULLER Beat M., aged 44, was formerly a member of senior management and chief representative of Credit Suisse in Hong Kong. He was an alternate director in the Company from June, 1993 to March, 1996. Mr. Muller joined Credit Suisse in 1975 and has worked with Credit Suisse in Europe, the Middle East, Singapore and Hong Kong.

Dr. ADAMI Manfred John, aged 55, was a non-executive director of the Company from January, 1995 to March, 1996. Dr. Adami was formerly a member of the executive board of Credit Suisse.

Mr. TSANG Kam Lan, aged 65, has been a non-executive director of the Company since June, 1993. Currently, he is the deputy chief executive of Bank of China, Hong Kong-Macau Regional Office and the chairman of Bank of China Group Investment Limited ("BOCGI"), Bank of China Group Securities Limited and Bank of China Group Insurance Company Limited, and the vice chairman of BOC China Fund Limited. Besides, he is also the chairman of Hopewell Power (China) Limited and acts as the chairman or director of a number of companies controlled by BOCGI or in which BOCGI has an interest. Mr. Tsang has over 30 years' experience in banking, of which over 15 years was in senior executive positions with various banks of the Bank of China Group. He was previously the deputy general manager of The Kwangtung Provincial Bank, Hong Kong Branch and the general manager of The China and South Sea Bank Limited, Hong Kong Branch.

Mr. NG Siu Fai, aged 40, was a non-executive director of the Company from June, 1993 to June, 1995. He has more than 20 years of experience in the shipping industry, of which over 10 years are in business management and China trade. He is the chairman and the managing director of Jinhui Holdings Company Limited ("Jinhui") as well as a non-executive director of ONFEM Holdings Limited, both of which are listed on the Hong Kong Stock Exchange. As one of the original founders of the Jinhui Group of companies, Mr. Ng's responsibility is to formulate strategic planning as well as oversee all aspects of the operations for the Jinhui Group of companies.

Mr. KUT Ying Hay, aged 41, has been a non-executive director of the Company since June, 1993. He is a non-executive director of China Merchants Hai Hong Holdings 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, Australia. He is also a member of the Board of Review established by the Hong Kong Government pursuant to the Inland Revenue Ordinance.

The Hon. LI Kwok Po, David, aged 56, has been a non-executive director of the Company since June, 1993. Dr. Li is the deputy chairman and chief executive of The Bank of East Asia, Limited. He is an elected member of the Legislative Council (representative of the Finance Constituency). Dr. Li is the deputy chairman of Hong

REPORT OF THE DIRECTORS (CONT'D)

Kong Telecommunications Limited and a director of China Overseas Land & Investment Limited, Dow Jones & Company, Inc., The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, San Miguel Brewery Hong Kong Limited, Sime Darby Berhad, Sime Darby Hong Kong Limited, South China Morning Post (Holdings) Limited and Vitasoy International Holdings Limited. He is a member of The Avon International Advisory Council, Bank Austria International Advisory Board, Bank of Montreal International Advisory Council, IBM Asia/Pacific and IBM Greater China Advisory Boards. Dr. Li is the chairman of The Chinese Banks' Association, Limited and the Hong Kong Management Association. He is a member of the Banking Advisory Committee and the Exchange Fund Advisory Committee, a Hong Kong Affairs Adviser to China, a member of the Hong Kong Special Administrative Region Preparatory Committee and convener of the investment committee of The Hong Kong Special Administrative Region Government Land Fund Trust.

Mr. POON Kwok Lim, Steven, aged 52, has been a non-executive director of the Company since June, 1993. He is the managing director of Bright World Enterprise Limited, a director of International Bank of Asia and a Hong Kong Affairs Adviser to China. Formerly, Mr. Poon was the general manager and the chief operating officer of a Hong Kong public utility company, China Light & Power Company, Limited, a member of the Hong Kong Stock Exchange Council and a Legislative Councillor. Mr. Poon holds a master degree in electrical engineering and is a chartered engineer.

Mr. SATO Haruo, aged 60, has been a non-executive director of the Company since June, 1993. He is a senior managing director and head of International Division of Yamaichi Securities Co., Limited. Mr. Sato joined Yamaichi Securities Co., Limited in 1960 and has worked in Canada, the United Kingdom, Switzerland and the United States of America. He has extensive experience in international finance and graduated from Tokyo University. He is presently also a director of 10 overseas subsidiaries of Yamaichi Securities Co., Limited.

Mr. TAN Kuan Hong, aged 40, was a non-executive director of the Company from July, 1994 to March, 1996. Mr. Tan also serves on the board of Crown Pacific Development Limited and Canadian Eastern Life Assurance Limited. Mr Tan is currently an executive director of Lazard Asia Investment Management (Pte) Ltd.

Mr. HUEGLE Peter P., aged 59, has been a non-executive director of the Company since May, 1994. Mr. Huegle is the chief investment officer and a member of the executive board of Swiss Reinsurance Company, Zurich. He is also on the board of SR International Business Insurance Company Limited, London, European Reinsurance Company of Zurich, Zurich, Swiss Re Global Fund, Zurich, and J. Henry Schroder Bank AG, Zurich. Mr Huegle obtained his master degree in business administration from the University of Zurich.

Mr. JIA Yuan, aged 54, has been a non-executive director of the Company since June, 1995. He is the deputy managing director of ONFEM Holdings Limited and an executive director of China Nonferrous Metals Holdings (HK) Limited. He has been an operations manager of China International Advertising Company since 1988. Prior to that, Mr. Jia held managerial positions with China Civil Engineering Company and the Department of Foreign Aid under the Ministry of Railways in the PRC. Between 1973 and 1980, he was a member of the Chinese experts team who worked on the Tanzania-Zambia railway project. Mr. Jia graduated from Beijing Railway College and is a qualified senior economist in the PRC.

Mr. CHIA Teck Swee, aged 47, has been a non-executive director of the Company since March, 1996. He graduated from the University of Singapore. Before Mr. Chia joined Cassia Fund Management Pte Limited, a wholly-owned subsidiary of Temasek Holdings (Pte) Ltd in November, 1995, he had worked for the Development Bank of Singapore Limited and the Singapore Government.

REPORT OF THE DIRECTORS (CONT'D)

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the financial period from 1st July, 1995 to 31st December, 1995, in compliance with 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 the non-executive directors are not appointed for a specific term as they are subject to retirement at the next Annual General Meeting following their appointment in accordance with Article 101 of the Company's Articles of Association.

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 1995, none of the Directors or their associates were interested, beneficially or otherwise, in any shares of the Company or its associated corporations as recorded in the register required under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance").

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any related company (holding companies, subsidiaries or fellow subsidiaries) was a party or were parties 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 with the Company.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31st December, 1995 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 its associated corporations and none of the Directors or their spouse or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December, 1995, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following interests, being 10% or more of the Company's issued share capital.

| Name | Number of ordinary shares | Percentage of total issued shares |
|---|------------------------------|--------------------------------------|
| China Merchants Holdings (Hong Kong) Company Limited | 10,000,000 | 10.50% |
| HSBC (Nominees) Limited | 24,021,500 | 25.22% |

REPORT OF THE DIRECTORS (CONT'D)

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares and warrants during the year.

INVESTMENT MANAGEMENT AGREEMENT

China Merchants China Investment Management Limited ("CMCIM"), a company incorporated in Hong Kong, continues to be the Investment Manager to the Company for both listed and unlisted investments. Mr. Li Yin Fei, Mr. Chu Lap Lik, Victor, Dr. Sun Ju, Mr. Zhang Yun Kun and Mr. Sun Yin are directors of both the Company and CMCIM and Mr. Wang Bai Yong was director of both the Company and CMCIM during the year.

The investment management agreement became effective on 15th July, 1993 and is 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

The retiring auditors, Messrs. Kwan Wong Tan & Fong, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Yin Fei
Chairman

20th May, 1996
Hong Kong

REPORT OF THE AUDITORS



Kwan Wong Tan & Fong
Certified Public Accountants
關黃陳方會計師行

TO THE SHAREHOLDERS OF
CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 22 to 37 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 Company's and the Group'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, in all material respects, of the state of the Company's and the Group's affairs as at 31st December, 1995 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

KWAN WONG TAN & FONG
Certified Public Accountants

Hong Kong
20th May, 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December, 1995

| | Note | 1995 US\$ | 1994 US\$ |
|--|------|--------------------|------------------|
| GROSS REVENUE | (2) | <u>7,269,831</u> | <u>4,956,482</u> |
| Operating profit before exceptional item | (3) | <u>5,539,275</u> | 3,582,764 |
| Exceptional item | (5) | <u>(411,009)</u> | (452,625) |
| Profit from ordinary activities | | <u>5,128,266</u> | 3,130,139 |
| Share of profits less losses of associated companies | | <u>320,119</u> | 418,332 |
| Profit before taxation | | <u>5,448,385</u> | 3,548,471 |
| Taxation | (6) | <u>(31,286)</u> | — |
| Profit attributable to shareholders | (7) | <u>5,417,099</u> | 3,548,471 |
| Dividends | (8) | <u>(4,762,000)</u> | (2,857,200) |
| Profit for the year retained | | <u>655,099</u> | <u>691,271</u> |
| Earnings per share | (9) | <u>0.057</u> | <u>0.037</u> |
| Profit for the year is retained as follows:— | | | |
| By the Company and its subsidiaries | | <u>334,980</u> | 272,939 |
| By associated companies | | <u>320,119</u> | 418,332 |
| | | <u>655,099</u> | <u>691,271</u> |

The accompanying notes on pages 26 to 37 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

as at 31st December, 1995

| | Note | 1995 US\$ | 1994 US\$ |
|-----------------------------------|-------------|-------------------|-------------------|
| Goodwill | (1a) & (10) | 976,456 | 1,051,546 |
| Interests in associated companies | (12) | 21,255,883 | 17,493,367 |
| Contractual joint ventures | (13) | 20,140,360 | 10,474,396 |
| Other investments | (14) | 12,587,729 | 13,817,368 |
| Net current assets | (15) | 43,317,520 | 54,753,892 |
| Net assets | | 98,277,948 | 97,590,569 |
| Representing: | | | |
| Share capital | (16) | 9,524,000 | 9,524,000 |
| Reserves | (17) | 88,753,948 | 88,066,569 |
| Shareholders' funds | | 98,277,948 | 97,590,569 |
| Net Asset Value per share | (18) | 1.032 | 1.025 |

Li Yin Fei
Director

Chu Lap Lik, Victor
Director

The accompanying notes on pages 26 to 37 form an integral part of these financial statements.

BALANCE SHEET OF THE COMPANY

as at 31st December, 1995

| | Note | 1995 US\$ | 1994 US\$ |
|----------------------------|------|--------------------------|--------------------------|
| Subsidiaries | (11) | 59,417,596 | 43,984,189 |
| Other investments | (14) | 220,800 | 307,842 |
| Net current assets | (15) | <u>38,469,364</u> | <u>51,485,970</u> |
| Net assets | | <u>98,107,760</u> | <u>95,778,001</u> |
| Representing: | | | |
| Share capital | (16) | 9,524,000 | 9,524,000 |
| Reserves | (17) | <u>88,583,760</u> | <u>86,254,001</u> |
| Shareholders' funds | | <u>98,107,760</u> | <u>95,778,001</u> |

Li Yin Fei
Director

Chu Lap Lik, Victor
Director

The accompanying notes on pages 26 to 37 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 1995

| | 1995 US\$ | 1994 US\$ |
|---|----------------------------|---------------------|
| Net cash inflow/(outflow) from operating activities (see note 1) | <u>4,765,053</u> | <u>(1,959,558)</u> |
| Taxation | | |
| Profits tax paid | <u>(193,267)</u> | - |
| Returns on investments and servicing of finance | | |
| Dividends paid | <u>(3,809,600)</u> | - |
| Investing activities | | |
| Increase in interests in associated companies | (3,708,510) | (16,963,575) |
| Increase in contractual joint ventures | (10,031,576) | (6,935,779) |
| Repayment of capital of contractual joint ventures | 365,612 | 211,383 |
| Increase in other unlisted investments | - | (10,916,683) |
| Decrease in other unlisted investments | 500,000 | - |
| Proceeds from disposal of listed investments | 1,648,138 | 1,141,707 |
| Acquisition of listed investments | (1,235,176) | (2,647,934) |
| Purchase of subsidiaries | - | (1,126,637) |
| Net cash outflow from investing activities | <u>(12,461,512)</u> | <u>(37,237,518)</u> |
| Decrease in cash and cash equivalents | <u>(11,699,326)</u> | <u>(39,197,076)</u> |
| Cash and cash equivalents as at 1st January | <u>56,324,600</u> | <u>95,521,676</u> |
| Cash and cash equivalents as at 31st December | <u>44,625,274</u> | <u>56,324,600</u> |
| Analysis of cash and cash equivalents | | |
| Cash and bank balances | <u>44,625,274</u> | <u>56,324,600</u> |

Note 1: Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

| | | |
|--|-------------------------|--------------------|
| Profit before taxation | 5,448,385 | 3,548,471 |
| Gain on disposal of listed investments | (115,073) | (164,487) |
| Unrealised loss on revaluation of listed investments | 411,009 | 452,625 |
| Amortisation of goodwill | 75,090 | 75,091 |
| Share of profits less losses of associated companies | (320,119) | (418,332) |
| Dividends received from an associated company | 319,134 | - |
| Increase in accounts receivable and prepayments | (1,245,314) | (668,123) |
| Increase/(decrease) in accounts payable, other payables and accrued charges | 191,941 | (4,861,991) |
| Exchange differences | - | 77,188 |
| Net cash inflow/(outflow) from operating activities | <u>4,765,053</u> | <u>(1,959,558)</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 1995

(I) SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and of its subsidiaries made up to the balance sheet date and include the Group's proportionate share of the post-acquisition results of associated companies. Results of subsidiaries and associated companies acquired or disposed of during the year are included as from the dates of acquisition or up to the dates of disposal respectively.

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

Goodwill arising on consolidation, representing the excess of the cost of investments in subsidiaries over the appropriate share of the fair value of the net tangible assets at the date of acquisition, is amortised on a straight line basis over the estimated useful economic lives of the underlying investments for a period of not more than 25 years from the year of acquisition.

(b) Associated companies

A company is an associated company if not less than 20% nor more than 50% of the issued voting capital, or registered capital in the case of an equity joint venture company established in the PRC, is held as long term investment and the Group is in a position to exercise significant influence in its financial and operating policy decisions.

Interests in associated companies are carried in the consolidated balance sheet at the Group's attributable share of net assets of the associated companies, after adjusting for the fair value of their assets at the time of acquisition, plus any premium or discount on acquisition. The calculation of the Group's share of post-acquisition results of associated companies is based on their audited or unaudited financial statements made up to the balance sheet date.

(c) Contractual joint ventures

A contractual joint venture refers to a joint venture established in the PRC in respect of which the rights and obligations of the joint venture partners are governed by joint venture contracts. Under the terms of the joint venture contracts, the joint venture companies are obliged to pay an annual dividend which comprises a fixed sum and, in some instances, is adjusted in accordance with the market rate of interest. The Group is not entitled to share in the net assets of the joint venture companies upon expiration of the joint venture contracts. The Group's investments in contractual joint ventures are carried at cost less amounts recovered.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(I) SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Other investments

(i) Unlisted

Other unlisted investments held for long term purposes are stated at cost or at respective fair values as determined in good faith by the Investment Manager in accordance with generally accepted valuation principles and procedures. The unrealised appreciation or depreciation of investments is dealt with in reserves.

(ii) Listed

Listed investments held for long term purposes are valued at the latest available quoted or traded market prices as at the balance sheet date. The unrealised appreciation or depreciation of investments is dealt with in reserves to the extent of any surplus previously arising from investments on an individual investment basis.

(e) Recognition of revenue

(i) Interest

Interest income is accrued on a time proportion basis on the principal outstanding and at the rate applicable.

(ii) Income from contractual joint ventures

Income from contractual joint ventures is recognised by reference to the rate of return implicit in the joint venture contract.

(iii) Dividends

Dividend income is recognised when the Company's right as a shareholder to receive payment is established. Dividends from listed investments are recognised when the share price becomes ex-dividend. As for dividends from unlisted investments, interim dividends are recognised when their directors declare such dividends, and final dividends are recognised when the shareholders in general meeting approve such dividends.

(f) Foreign currency translation

The Company maintains its books and records in United States dollars.

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 foreign currencies are translated into United States dollars at the approximate rates ruling on the balance sheet date and any profits or losses arising on exchange are dealt with in the profit and loss account.

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(1) SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Deferred taxation

Deferred taxation is provided using the liability method on all timing differences that are expected to crystallise in the foreseeable future.

(2) GROSS REVENUE

Gross revenue, which represents the turnover of the Group is analysed as follows:

| | 1995 US\$ | 1994 US\$ |
|---|------------------|------------------|
| Interest income | 4,497,577 | 3,502,457 |
| Income from contractual joint ventures | 1,862,756 | 879,057 |
| Dividend income from other investments | 822,372 | 559,227 |
| Dividend income from listed investments | 87,126 | 15,741 |
| | <u>7,269,831</u> | <u>4,956,482</u> |

(3) OPERATING PROFIT BEFORE EXCEPTIONAL ITEM

Operating profit before exceptional item is arrived at after charging:

| | 1995 US\$ | 1994 US\$ |
|--|--------------|--------------|
| Amortisation of goodwill | 75,090 | 75,091 |
| Auditors' remuneration | 28,018 | 25,000 |
| Exchange loss | — | 1,861 |
| Investment manager's fee | 1,469,509 | 1,192,826 |
| Investment manager's performance bonus | — | — |
| and after crediting: | | |
| Exchange gain | <u>8,653</u> | <u>—</u> |

(4) EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

No emoluments were paid to any director or employee of the Company or any of its subsidiaries.

(5) EXCEPTIONAL ITEM

| | 1995 US\$ | 1994 US\$ |
|---|----------------|----------------|
| Loss on revaluation of listed investments | <u>411,009</u> | <u>452,625</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(6) TAXATION

| | 1995 US\$ | 1994 US\$ |
|--------------------------|---------------|--------------|
| Company and subsidiaries | 31,286 | - |
| Associated companies | - | - |
| | <u>31,286</u> | <u>-</u> |

Hong Kong profits tax has been provided at 16.5% (1994: 16.5%) on the estimated assessable profits. There are no known tax liabilities arising from operations in any other jurisdiction.

No deferred taxation has been provided for as there are no significant timing differences arising between profits as computed for taxation purposes and profits as stated in the financial statements.

(7) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit for the year, profit of US\$7,091,759 (1994: US\$1,949,613) is dealt with in the financial statements of the Company.

(8) DIVIDENDS

| | 1995 US\$ | 1994 US\$ |
|--|------------------|------------------|
| Interim dividend paid of US\$0.01 (1994: Nil) per ordinary share | 952,400 | - |
| Proposed final dividend of US\$0.04 (1994: US\$0.03) per ordinary share | 3,809,600 | 2,857,200 |
| | <u>4,762,000</u> | <u>2,857,200</u> |

The amount of final dividend payable is calculated based on the number of shares in issue as at the date of approval of the financial statements.

(9) EARNINGS PER SHARE

The calculation of earnings per share is based on earnings for the year of US\$5,417,099 (1994: US\$3,548,471) and 95,240,000 ordinary shares (1994: 95,240,000 ordinary shares) in issue during the year.

The fully diluted earnings per share is not presented as the exercise of the Company's warrants (note 16) will not have a material dilution effect on the basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(10) GOODWILL

| | Group | |
|---------------------------------|------------------|------------------|
| | 1995 US\$ | 1994 US\$ |
| At cost | | |
| Balance as at 1st January | 1,126,637 | – |
| Additions during the year | – | 1,126,637 |
| Balance as at 31st December | <u>1,126,637</u> | <u>1,126,637</u> |
| Accumulated amortisation | | |
| Balance as at 1st January | 75,091 | – |
| Charge for the year | 75,090 | 75,091 |
| Balance as at 31st December | <u>150,181</u> | <u>75,091</u> |
| Net book value | | |
| Balance as at 31st December | <u>976,456</u> | <u>1,051,546</u> |

(11) SUBSIDIARIES

| | Company | |
|-------------------------------|-------------------|-------------------|
| | 1995 US\$ | 1994 US\$ |
| Unlisted shares, at cost | 11,126,649 | 11,126,645 |
| Amounts due from subsidiaries | 48,290,947 | 32,857,544 |
| | <u>59,417,596</u> | <u>43,984,189</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(II) SUBSIDIARIES (CONT'D)

Details of all wholly-owned subsidiaries are as follows:

| Name | Place of incorporation | Principal activities | Particulars of issued share capital |
|---|--------------------------------|-----------------------------|--|
| CMCDI Zhao Yuan Limited | British Virgin Islands ("BVI") | Investment holding | 1 ordinary share of US\$1 each |
| CMCDI Power Development Limited | BVI | Investment holding | 1 ordinary share of US\$1 each |
| CMCDI Property Management Company Limited | BVI | Investment holding | 1 ordinary share of US\$1 each |
| China Merchants Industry Development (Shenzhen) Limited | PRC | Investment holding | Registered capital of US\$10,000,000 |
| China Faith International 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 |
| Reed Overseas Limited | BVI | Dormant | 1 ordinary share of US\$1 each |
| Ryan Pacific Limited | BVI | Investment holding | 1 ordinary share of US\$1 each |
| Star Group Limited | HK | Dormant | 2 ordinary shares of HK\$1 each |
| Storey Overseas Limited | BVI | Investment holding | 1 ordinary share of US\$1 each |
| Weaver International Limited | BVI | Investment holding | 1 ordinary share of US\$1 each |
| Wheaton International Limited | BVI | Investment holding | 1 ordinary share of US\$1 each |
| Woodford Pacific Limited | BVI | Investment holding | 1 ordinary share of US\$1 each |

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(12) INTERESTS IN ASSOCIATED COMPANIES

| | Group | |
|---|-------------------|-------------------|
| | 1995 | 1994 |
| | US\$ | US\$ |
| Companies incorporated in the BVI and HK: | | |
| Unlisted shares, at cost | 21,267 | 21,267 |
| Share of post-acquisition profits/(losses) | 2,370 | (1,740) |
| Exchange adjustments | 41,466 | (24) |
| | <u>65,103</u> | <u>19,503</u> |
| Amounts due from associated companies | <u>11,974,860</u> | <u>11,942,437</u> |
| | <u>12,039,963</u> | <u>11,961,940</u> |
| Joint venture companies established in the PRC: | | |
| Unlisted investments, at cost | 3,525,000 | 3,525,000 |
| Share of post-acquisition profits | 416,947 | 420,071 |
| Exchange adjustments | 123,013 | 111,484 |
| | <u>4,064,960</u> | <u>4,056,555</u> |
| Amounts due from joint venture companies | <u>5,150,960</u> | <u>1,474,872</u> |
| | <u>9,215,920</u> | <u>5,531,427</u> |
| | <u>21,255,883</u> | <u>17,493,367</u> |

Details of associated companies are as follows:

| Name | Place of incorporation/ operation | Principal activities | Group equity interest |
|--|---|--|--------------------------|
| Daily On Property Limited | HK/PRC | Property development | 22% |
| Beijing Huapeng Mansions Co. Limited | PRC/PRC | Property investment | 25% |
| Hansen Enterprises Limited | BVI/PRC | Property investment | 35% |
| Zhaoyuan Jinbao Electronics Company Limited | PRC/PRC | Manufacturing of electronics products | 30% |

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(13) CONTRACTUAL JOINT VENTURES

| | Group | |
|---|-------------------|-------------------|
| | 1995 US\$ | 1994 US\$ |
| Unlisted investments | | |
| Contributions to registered capital of contractual joint ventures | | |
| less amounts recovered | <u>20,140,360</u> | <u>10,474,396</u> |

Details of contractual joint ventures are as follows:

| Name | Principal activities | Expiry date of joint venture |
|---|-----------------------------|------------------------------|
| Wei Fang Yin Yuan Aviation Industry Co., Limited | Airport construction | 4th May, 2009 |
| Shenzhen Anda Passenger Transportation Co., Limited | Taxi services | 16th January, 2008 |
| Shenzhen Anda Container Transportation Co., Limited | Container transportation | 28th September, 2007 |
| Shenzhen Anda Cargo Transportation Co., Limited | Road freight transportation | 12th January, 2008 |
| Weifang Zhaoyin Real Estate Development Limited | Property development | 23rd June, 2014 |
| Yantai Hua Shang Power Company Limited | Operation of power plant | 20th January, 2016 |

(14) OTHER INVESTMENTS

| | Group | | Company | |
|---|-------------------|-------------------|----------------|----------------|
| | 1995 US\$ | 1994 US\$ | 1995 US\$ | 1994 US\$ |
| Listed investments, at market value (see note a) | | | | |
| – in Hong Kong | 538,550 | 770,769 | 196,800 | 307,842 |
| – outside Hong Kong | 1,189,984 | 1,687,404 | 24,000 | – |
| Unlisted convertible bonds, at cost | – | 500,000 | – | – |
| Unlisted investments, at cost | <u>10,859,195</u> | 10,859,195 | – | – |
| | <u>12,587,729</u> | <u>13,817,368</u> | <u>220,800</u> | <u>307,842</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

Note a: As at 31st December, 1995, the investment portfolio of the Group's listed investments was as follows:

| Name of securities | Principal activities | Historical cost US\$ | Market value US\$ | % of net asset value of the Group |
|---|--|-------------------------|----------------------|-----------------------------------|
| Maanshan Iron & Steel Co., Ltd* "H" share | Production of Iron and steel | 383,505 | 182,000 | 0.18 |
| Shanghai Haixin Co., Ltd "B" share | Manufacturing of plush | 96,928 | 72,600 | 0.07 |
| Shenzhen Special Economic Zone Real Estate and Properties (Group) Co., Ltd "B" share | Property investment and development | 673,497 | 385,200 | 0.39 |
| Shenzhen China International Marine Containers Co., Ltd "B" share | Manufacturing of containers | 626,673 | 708,184 | 0.72 |
| Harbin Power Equipment Co., Ltd* "H" share | Manufacturing of thermal & hydro plant equipment | 33,723 | 14,800 | 0.02 |
| Shanghai Hai Xing Shipping Co., Ltd* "H" share | Shipment of cargo and passenger transportation services | 107,793 | 50,250 | 0.05 |
| Shanghai Petrochemical Co., Ltd* "H" share | Production of a broad ranges of synthetic fibres resins and plastics, intermediate petrochemicals and petroleum products | 151,049 | 144,000 | 0.14 |
| Tianjin Bohai Chemical Industry (Group) Co., Ltd* "H" share | Manufacturing of marine chemical | 64,803 | 35,000 | 0.04 |
| Yizheng Chemical Fibre Co., Ltd* "H" share | Production and distribution of polyester chip and polyester stamp fibre | 138,055 | 112,500 | 0.11 |
| Guangdong Development Fund Ltd | China direct investment | 24,256 | 24,000 | 0.02 |
| | | <u>2,300,282</u> | <u>1,728,534</u> | <u>1.74</u> |

* Securities listed in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(15) NET CURRENT ASSETS

| | Group | | Company | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 1995 US\$ | 1994 US\$ | 1995 US\$ | 1994 US\$ |
| Current assets | | | | |
| Cash and bank balances | 44,625,274 | 56,324,600 | 42,597,144 | 54,735,060 |
| Accounts receivable | 3,172,707 | 1,927,393 | 319,228 | 210,820 |
| Prepayments | 6,017 | 6,017 | 6,017 | 6,017 |
| Tax recovery | 11,981 | — | 11,981 | — |
| | <u>47,815,979</u> | <u>58,258,010</u> | <u>42,934,370</u> | <u>54,951,897</u> |
| Current liabilities | | | | |
| Accounts payable, other payables and accrued charges | 688,859 | 496,918 | 655,406 | 458,727 |
| Dividend payable | 3,809,600 | 2,857,200 | 3,809,600 | 2,857,200 |
| Taxation | — | 150,000 | — | 150,000 |
| | <u>4,498,459</u> | <u>3,504,118</u> | <u>4,465,006</u> | <u>3,465,927</u> |
| Net current assets | <u>43,317,520</u> | <u>54,753,892</u> | <u>38,469,364</u> | <u>51,485,970</u> |

(16) SHARE CAPITAL

| | 1995 US\$ | 1994 US\$ |
|--|-------------------|-------------------|
| Authorised: | | |
| 150,000,000 ordinary shares of US\$0.10 each | <u>15,000,000</u> | <u>15,000,000</u> |
| Issued and fully paid: | | |
| 95,240,000 ordinary shares of US\$0.10 each | <u>9,524,000</u> | <u>9,524,000</u> |

The Company had 19,048,000 warrants in issue during the year. Each warrant confers upon its holder the right to subscribe for one share of US\$0.10 at a price of US\$1.00 in the capital of the Company and, unless exercised on or prior to 30th June, 1996, the warrants will lapse and be of no further effect. No warrants were exercised during the year ended 31st December, 1995.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(17) RESERVES

| | Share premium US\$ | Investment revaluation US\$ | Exchange equalisation US\$ | Retained profits US\$ | Total US\$ |
|--|--------------------------|-----------------------------------|----------------------------------|-----------------------------|--------------------------|
| Group | | | | | |
| Balance as at 1st January, 1995 | 85,716,544 | 102,250 | 111,460 | 2,136,315 | 88,066,569 |
| Unrealised losses on investments | – | (20,739) | – | – | (20,739) |
| Exchange differences on translation of financial statements of associated companies | – | – | 53,019 | – | 53,019 |
| Profit for the year retained | – | – | – | 655,099 | 655,099 |
| | <u>85,716,544</u> | <u>81,511</u> | <u>164,479</u> | <u>2,791,414</u> | <u>88,753,948</u> |
| Company | | | | | |
| Balance as at 1st January, 1995 | 85,716,544 | – | – | 537,457 | 86,254,001 |
| Unrealised losses on investments | – | – | – | – | – |
| Profit for the year retained | – | – | – | 2,329,759 | 2,329,759 |
| | <u>85,716,544</u> | <u>–</u> | <u>–</u> | <u>2,867,216</u> | <u>88,583,760</u> |

The distributable reserves of the Company as at 31st December, 1995 amounted to US\$2,867,216 (1994: US\$537,457).

(18) NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$98,277,948 (1994: US\$97,590,569) and 95,240,000 ordinary shares (1994: 95,240,000 ordinary shares) of US\$0.10 each in issue.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1995

(19) COMMITMENTS

As at the balance sheet date, there were commitments not provided for in the financial statements in respect of the following:

| | 1995 | Group |
|---|--------------------|-----------------------|
| | US\$ | 1994 US\$ |
| Contracted but not provided for | | |
| a) Outstanding capital contributions to associated companies | 490,000 | 2,490,000 |
| b) Outstanding capital contributions to contractual joint ventures and other investee companies | <u> -</u> | <u> 579,600</u> |
| Authorised but not contracted for | | |
| a) Outstanding capital contributions to contractual joint ventures and other investee companies | <u> -</u> | <u> 10,000,000</u> |

(20) POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31st December, 1995:

- a) On 12th January, 1996, Supertone Investment Limited, a newly acquired wholly-owned subsidiary of the Company, entered into an agreement to invest US\$5M in a contractual joint venture for the construction and operation of a steel tube plant in the PRC.
- b) On 29th April, 1996, the Company disposed of one of its wholly-owned subsidiaries, CMCDI Property Management Company Limited, at a consideration of US\$2,021,883, resulting in a gain of approximately US\$534,000.
- c) On 15th May, 1996, Cotter International Limited, a newly acquired wholly-owned subsidiary of the Company, entered into an agreement to invest US\$5M in a contractual joint venture for the construction and operation of a highway in Guangdong Province, PRC.

(21) COMPARATIVES

Certain comparative figures have been reclassified to conform with the current year's presentation.

(22) APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 20th May, 1996.

SUMMARY OF FINANCIAL INFORMATION OF ASSOCIATED COMPANIES

The following is a summary of the combined assets and liabilities and the combined results of the associated companies prepared from their unaudited or audited financial statements made up to 31st December, 1995.

COMBINED ASSETS AND LIABILITIES

as at 31st December, 1995

| | 1995 US\$ | 1994 US\$ |
|---------------------------------------|-------------------|-------------------|
| Fixed assets | 26,449,205 | 15,638,789 |
| Investment in a subsidiary | 1 | 1 |
| Investment in an equity joint venture | 25,418,993 | 34,601,296 |
| Intangible assets | 572,294 | 601,461 |
| Formation and other deferred expenses | 1,412,917 | 1,227,634 |
| Net current assets | 9,251,468 | 5,615,009 |
| Loans and advances | (48,924,552) | (43,745,719) |
| Net assets | <u>14,180,326</u> | <u>13,938,471</u> |

COMBINED RESULTS

for the year ended 31st December, 1995

| | 1995 US\$ | 1994 US\$ |
|------------------------|-------------------|-------------------|
| Turnover | <u>16,691,632</u> | <u>11,051,510</u> |
| Profit before taxation | 1,042,405 | 1,393,251 |
| Taxation | — | — |
| Profit for the year | <u>1,042,405</u> | <u>1,393,251</u> |

FINANCIAL SUMMARY

| | 1993 US\$ | 1994 US\$ | 1995 US\$ |
|-------------------------------------|--------------|--------------|--------------------|
| Financial | | | |
| Turnover | 2,033,771 | 4,956,482 | 7,269,831 |
| Profit before taxation | 1,595,044 | 3,582,764 | 5,539,275 |
| Profit attributable to shareholders | 1,445,044 | 3,548,471 | 5,417,099 |
| Total assets | 98,359,810 | 101,094,687 | 102,776,407 |
| Total liabilities | 1,316,397 | 3,504,118 | 4,498,459 |
| Shareholders' funds | 97,043,413 | 97,590,569 | 98,277,948 |
| Per share basis | | | |
| Earnings per share | 0.015 | 0.037 | 0.057 |
| Dividends per share | – | 0.03 | 0.05 |
| Net asset value per share | 1.019 | 1.025 | 1.032 |

