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CORPORATE INFORMATION

Board of Directors

SUN Yin (*Chairman*)
CHU Lap Lik, Victor
ZHANG Yun Kun
ZHANG Zheng Ming
KWOK Fai
SATO Haruo*
Dr. LI Kwok Po, David*
POON Kwok Lim, Steven*
HUEGLE Peter P.*
KUT Ying Hay*
JIA Yuan*
CHIA Teck Swee*
JIA Jianping*

** 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

Room 1101, Shun Tak Centre
West Tower
200 Connaught Road Central
Hong Kong

Share Registrar

Central Registration Hong Kong Limited

CHAIRMAN'S STATEMENT

The audited consolidated profit after taxation of China Merchants China Direct Investments Limited and its subsidiaries ("the Group") for the year ended 31st December, 1996 totalled US\$7,491,816 (approximately HK\$58,436,165), an increase of 38% over 1995; the net asset value per share before final dividend was US\$1.105 (approximately HK\$8.62), an increase of 3.1% compared to the figure of US\$1.072 for 1995.

The Board of Directors has proposed a final dividend of US\$0.05 (approximately HK\$0.39) per share which together with the interim dividend of US\$0.01 per share, yields a total dividend per share for 1996 of US\$0.06 (approximately HK\$0.468).

As at the end of 1996, the Group has invested US\$65.6 million in 11 unlisted investment projects, representing 65.3% of its total net asset value. Moreover, the Group has also invested approximately US\$2.78 million in shares of listed companies, mainly on the B-shares listed on the Shenzhen and Shanghai Stock Exchanges in China and the H-shares and red chip shares listed on the Hong Kong Stock Exchange. The stock markets in China and Hong Kong rallied in the second half of 1996, offering satisfactory returns on our listed investments.

The Group continues to identify and expand investments in the areas of infrastructure and financial services and at the same time keeps exploring opportunities to realize investments. Satisfactory returns were obtained from the successive sales of our investment interests in Beijing Huapeng Mansions Co. Ltd. and in Shenzhen Anda group of companies in 1996. With the prominent success of the austerity measures in China, the People's Bank of China lowered the interest rates twice in 1996, providing new impetus for the growth of the Chinese economy. Meanwhile, the laws and regulations of China are gradually becoming more complete and systematic, giving better protection for the activities and interests of foreign investors.

The Group will as always actively explore investment areas that combine low risks with stable growth. In the coming year, we are confident that through a diversified investment portfolio and strategic planning, the Group will enjoy stable growth in investment returns. At the same time, the Group will further develop capital activities with a view to rewarding shareholders with maximum returns.

Owing to the busy business in the China Merchants Group, Mr. Li Yin Fei resigned as Chairman of the Company in March 1997. I would like to take this opportunity to extend my greatest thanks to Mr. Li and to several directors who resigned last year. Their contributions to the Group during their tenures have been valuable. Under the leadership of Mr. Li, the profits of the Group continued to grow in 1996, which has laid down a solid foundation for development in 1997.

Finally, on behalf of the Board, I would like to thank all members of the investment committee, our investment manager and all our fellow co-workers for their dedicated contribution and support. I also pledge to do my best endeavour to head the Group toward an even better results in 1997.

Sun Yin
Chairman

22nd May, 1997
Hong Kong

THE INVESTMENT MANAGER'S REPORT

As at 31st December, 1996, China Merchants China Direct Investments Limited and its subsidiaries ("the Group") have invested approximately US\$65.6 million in 11 unlisted investment projects and US\$2.78 million in listed investments. The unlisted investment projects are diversified into infrastructure (which accounts for approximately 26.8% of the Group's net assets); real estate (15.6%); manufacturing (14.3%); and financial services (8.6%). During the financial year, the Group realised two of its unlisted investment projects, namely Beijing Huapeng Mansions Co. Ltd. and Shenzhen Anda group of companies, and obtained satisfactory returns.

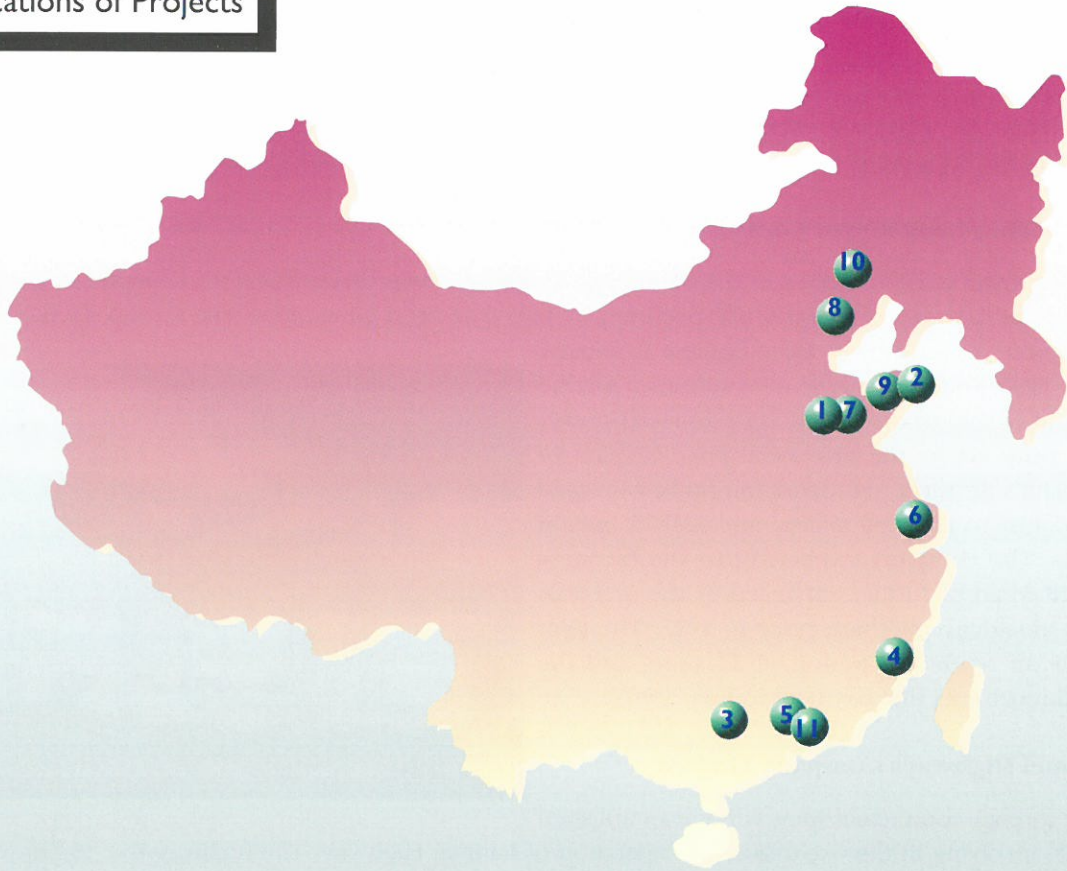
REVIEW OF UNLISTED INVESTMENTS

The following table sets out the investment projects the Group has contracted as at 31st December, 1996:

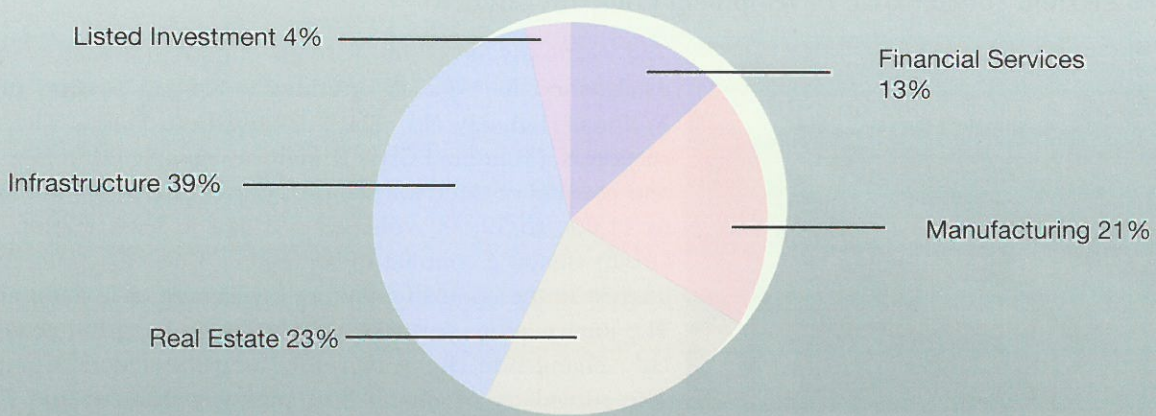
Name of Projects	Location	Business Nature	Investment Amount (US\$ million)	Percentage of net assets
Infrastructure:				
1. Weifang Yin Yuan Aviation Industry Co. Ltd.	Weifang, Shandong	Airport terminal	1.93	2.0
2. Yantai Huashang Power Co. Ltd.	Yantai, Shandong	Power plant	10.03	10.0
3. Luomei Highways Co. Ltd.	Luoding, Guangdong	Toll road	4.86	4.8
4. Zhangzhou Tongda Road Development Co. Ltd.	Zhangzhou, Fujian	Toll road	10.02	10.0
		Sub-total	26.84	26.8
Real Estate:				
5. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retail shops	4.30	4.3
6. China Merchants Plaza (Shanghai) Property Co. Ltd.	Shanghai	Office building	7.75	7.7
7. Weifang Zhaoyin Real Estate Development Ltd.	Weifang, Shandong	Low-cost housing	3.66	3.6
		Sub-total	15.71	15.6
Manufacturing:				
8. Tangshan Kintil Ceramics Ltd.	Tangshan, Hebei	Ceramic tiles	2.21	2.2
9. Zhaoyuan Jinbao Electronics Co. Ltd.	Zhaoyuan, Shandong	Copper foils & laminates	7.41	7.4
10. Chengde Wanli Steel Tubes Co. Ltd.	Chengde, Hebei	Welded steel tubes	4.79	4.7
		Sub-total	14.41	14.3
Financial Services:				
11. China Merchants Bank	Shenzhen, Guangdong	Banking	8.65	8.6
		Sub-total	8.65	8.6
		Total	65.61	65.3

THE INVESTMENT MANAGER'S REPORT (CONT'D)

Locations of Projects



Investment Distribution by Sector



THE INVESTMENT MANAGER'S REPORT (CONT'D)

1. Weifang Yin Yuan Aviation Industry Company Limited

The company was established in April 1994 to construct and operate an airport terminal in Weifang City, the third largest city of Shandong Province. The Group invested US\$2.875 million for a 31.265% interest and an operating period of 15 years. The airport was put into operation in March 1996 and passenger turnover has been increasing. As originally expected, the company experienced losses in the first year of operations. However, with the support of the municipal government, the Group received its returns on schedule.

2. Yantai Huashang Power Co. Ltd.

The company owned 27% interest in the Shandong Longkou Power Plant Phase II. Completed in 1989, the plant has a total capacity of 400,000 kW powered by two coal-fired generators. The Group formed the joint venture with the Yantai Power Development Company in January 1995 and owns a 33.47% interest. All the plant's output is sold to the Shandong provincial power grid at the price set by the provincial price bureau. In 1996, the plant's turnover and operating profit increased by 20% and 15% to RMB580 million and RMB71 million respectively. The company expected that the business performance could be further enhanced by the probable increase of electricity purchase price in 1997. The joint venture has an operation period of 21 years and the Group shall receive its first payment in June 1997.



3. Luomei Highways Company Limited

It is a Sino-foreign contractual joint venture established in June 1996 involving in the expansion and operation of Luomei Highway. The highway is a 35-km section of the National Highway No. 324 located in Luoding City of Guangdong Province. As a major east-west national trunk route linking Fujian, Guangdong, Guangxi, Guizhou and Yunnan, National Highway No. 324 has a total length of over 2,750 km. The Luomei section is planned to be upgraded to a four/six-lane Class I highway by mid-1997. A toll station has commenced operation in early March 1997. The Group and the Union Bank of Hong Kong Ltd. (a member of the China Merchants Group) each invested US\$5 million for a 33.4% interest in the company, shared equally.

4. Zhangzhou Tongda Road Development Company Limited



The company is a Sino-foreign contractual joint venture established in 1992. It operates a 114-km section of the National Highway No. 324 in Zhangzhou, Fujian. The road section is a four-lane Class II highway completed in late 1995 and consists of three toll stations. Current traffic flow amounts to 11,000 to 12,000 vehicles per day in each station. The Group signed a contract in September 1996 to acquire 16.8% interest in the company with an investment of US\$10 million. The joint venture partners include Zhang Long Industrial Co. Ltd., Zhangzhou Highway Traffic Industry General Company (the subsidiary of Zhangzhou Highway Bureau) and China

THE INVESTMENT MANAGER'S REPORT (CONT'D)

Insurance Group Investment Co. Ltd. The joint venture period is 20 years. The first payment was received in the first quarter of 1997.

5. Shenzhen Man Kam Square

Man Kam Square is a 33-storey office/commercial complex in Wen Jin North Road of Shenzhen developed by the Shenzhen Building Materials Industrial Group. In April 1994 when the building was still under construction, the Group together with City Chiu Chow (Holdings) Ltd. (a Hong Kong listed company) purchased all the retail space on Level 3, totally 5,262 sq.m. The Group itself holds a 35% interest. The purchase price represented a discount of 9.1% to the then valuation made by an independent surveyor. The original contract specified the completion date on or before 30th June, 1995. However, the project was still not completed by the end of 1996. In January 1997, the Group and City Chiu Chow (Holdings) Ltd. submitted a legal claim to the Shenzhen court for refund of deposit together with interest. The case is pending judgement by the Shenzhen court.

6. China Merchants Plaza (Shanghai) Property Co. Ltd.

China Merchants Plaza is composed of two towers of 28-storey office building and located in Jingan District, at the junction of Weihai Road and Chengdu Road, a prime location in Shanghai. The plaza, with a site area of 9,642 sq.m., was scheduled to be completed by the end of 1997 and provides commercial/office floor area of 58,000 sq.m. The Group owns 20% interest in the project. Other joint venture partners include Hong Kong Wahsheung Properties Ltd., a subsidiary of China Merchants Holdings (Hong Kong) Company Limited, and three other independent entities.

The construction works have been progressing smoothly. In the fourth quarter of 1995, pre-sale license was granted. Negotiation is underway for block sale or leasing.

7. Weifang Zhaoyin Real Estate Development Limited

The company develops low-cost housing and complementary facilities in the Weifang City of Shandong Province. A total of 3 million sq.m. of housing and facilities will be built during its 15-year joint venture period. The Group invested US\$4 million in May 1994 in this project for a 18% interest. The company was formed with the General Corporation of Weifang High & New Technology Industries Development and Bank of China Group Investment Ltd. In 1996, the company made a profit of RMB7 million on a turnover of RMB56 million. The Weifang municipal government has committed to underwrite all unsold flats when necessary. In the past two years, 42% of our investment has been recouped.



THE INVESTMENT MANAGER'S REPORT (CONT'D)

8. Tangshan Kintil Ceramics Limited

Tangshan Kintil Ceramics Ltd. is a Sino-foreign equity joint venture specializing in the production and sale of glazed mosaics and homogenous tiles. After the successful trial run, the factory commenced full production in April 1996, and achieved a sales volume of 1.20 million sq.m. in nine months of operation in 1996.



The plant, with an annual capacity of 1 million sq.m. of glazed mosaics and 1 million sq.m. of homogenous tiles, has adopted advanced technology imported from Italy. The company has a joint venture period of 18 years

and a total investment of US\$20.7 million. The Group has invested US\$2.21 million, holding a 15% interest.



9. Zhaoyuan Jinbao Electronics Company Limited

This Sino-foreign equity joint venture was set up in December 1993, engaging in the manufacture and sale of copper foils, copper-clad laminates and printed circuit boards. The Group owns 30% in the joint venture. Other participating partners



include BOC China Fund Limited and Shandong Zhaoyuan Electronic Materials Factory. The joint venture runs for 20 years.

Due to the rise in production cost and drop in gross profit margin, the joint venture generated a net profit of RMB 5.09 million in 1996, 49% lower than the previous year. However, as the market has started to recover, a better result is expected in 1997.



10. Chengde Wanli Steel Tubes Co. Ltd.

In March, 1996, the Group set up this Sino-foreign joint venture with Chengde Iron and Steel Group Ltd. in Chengde, Hebei. The Chinese partner has a long history and extensive experience in steel production, and is one of the top 500 industrial enterprises in China.

The Group has contributed US\$5 million out of the total investment of US\$17.6 million, for the production of seamless-like steel tubes, representing a 35% interest. Operations will run for 20 years. The joint venture has imported advanced equipment from Germany and was scheduled to be operational by the end of 1997. The products can be produced under the new facilities at a cost 20% lower than those made by conventional facilities and can be used in the medium-to-low pressure boilers, petroleum pipelines and construction industries.

THE INVESTMENT MANAGER'S REPORT (CONT'D)

11. China Merchants Bank

Since establishment in 1987, China Merchants Bank has evolved into a medium to large commercial bank with over 140 branches/offices across China. In July 1996, it was ranked the eleventh among the top 1,000 banks in the world in terms of profit on average capital by "The Bankers" magazine. In 1996, it recorded an operating profit of RMB2.42 billion, ranked the fifth among all China's commercial banks. At the end of 1996, its total assets grew by 45% to RMB103 billion. We have received about US\$1.2 million dividend for the year, representing about 14% yield on our initial investment of US\$8.65 million.

In order to enhance its capital base for business expansion, the Bank will raise further equity by issuing one billion new shares, amounts to 26% of the total issued capital after the capitalization program. A proposal is currently being considered to have the Bank's shares listed on the Shenzhen Stock Exchange. The Group currently holds 1.69% of the issued capital of the bank.

DISPOSAL OF UNLISTED INVESTMENTS DURING THE YEAR

Beijing Huapeng Mansions Company Limited

As reported in the 1995 Annual Report, the Group realized its investment in Beijing Huapeng Mansions Co. Ltd. in April 1996 at a return of about 21% p.a.

Shenzhen Anda Group of Companies

Shenzhen Anda group of companies are three joint ventures involving in cargo, container and passenger transportation businesses. The Group invested US\$4.875 million in June 1994 for a 25% interest in these companies. Due to severe competition, the business performance of these companies was not satisfactory in the past two years. In December 1996, the Group signed a contract with an independent third party to dispose the whole of its interest in these three companies at a total consideration of US\$5,606,250. The transaction was completed in February 1997. Over the two and a half years of investment period, the Group obtained an internal rate of return of approximately 14% p.a.

THE INVESTMENT MANAGER'S REPORT (CONT'D)

MAJOR EVENTS AFTER YEAR-END 1996

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

In February 1997, the Group signed a contract to invest US\$10 million in Tongfa for a 34.7% interest. Tongfa is a Sino-foreign joint venture company established to build and operate a 40-km section of the Provincial Highway No. 1987 in Maoming City of Guangdong Province. The highway is the only corridor between Maoming City and Huazhou City. The widening work at the road section is underway and the first phase will be completed in late-1997. A toll station has been in operations since 1990. Current traffic flow is about 15,000 vehicles per day. The project is now pending formal approval by relevant government authorities.

Luomei Highways Company Limited ("Luomei") & Zhangzhou Tongda Road Development Company Limited ("Tongda")

On 23rd April, 1997, the Group signed two conditional agreements to sell all its interests in Luomei and Tongda to China Merchants Hai Hong Holdings Company Limited ("Hai Hong"). Hai Hong is a subsidiary of China Merchants Holdings (Hong Kong) Company Limited and is listed on the Stock Exchange of Hong Kong. The consideration for Luomei is about US\$6 million and for Tongda is about US\$15.4 million, representing a premium of about 20% and 54% respectively over the investment cost of each project. The transactions are currently pending the approval of relevant extraordinary shareholders' meetings by both companies.

REVIEW OF LISTED INVESTMENTS

Triggered by the soft landing of the domestic economy and the relaxation of credit control, China's stock markets have risen drastically in 1996. The upward push also extended to Hong Kong's H-shares and red chip shares. Shanghai B-shares and Shenzhen B-shares have gone up by 41% and 145% respectively last year. While the Hang Seng Index only advanced by 34%, the prices of red chip shares in Hong Kong have been more than doubled in 1996. As a result, the Group has achieved a pre-tax profit of approximately US\$1.3 million from listed investments in 1996, accounted for 17% of the total profit before taxation. With the continued improvement of the Chinese economy and the increase of foreign interest in the China market, it is expected that the outstanding performance of China concept shares would persist. Therefore, the Group has increased its holdings of listed stocks from 2.8% of its net asset value at year-end 1996 to 5.4% at the end of first quarter 1997.

Zhang Yun Kun
Managing Director
**China Merchants China Investment
Management Limited**

Hong Kong, 22nd May, 1997

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Coral Room 2, 3rd Floor, Hotel Furama Kempinski Hong Kong, 1 Connaught Road Central, Hong Kong on Wednesday, 18th June, 1997 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 31st December, 1996.
2. To declare a final dividend for the year ended 31st December, 1996.
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 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;
 - (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.”

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

- 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."

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

Hong Kong, 22nd May, 1997

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, West Tower, 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 13th June, 1997 to 18th June, 1997, 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 12th June, 1997.
- (4) At the Annual General Meeting of the Company held on 25th June, 1996, 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 1997, unless renewed at that meeting. The Ordinary Resolutions sought in items 5A and 5B of this notice renew these mandates.
- (5) 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. 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 Explanatory Statement required by the Rules Governing the Listing of Securities on the Stock Exchange in connection with the proposed repurchase mandate will be despatched to shareholders 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, 1996.

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 activity and geographical location for the year ended 31st December, 1996 are as follows:

	Turnover <i>US\$</i>	Contributions to operating profit <i>US\$</i>
By activity:		
Interest income	3,890,417	3,890,417
Income from contractual joint ventures	1,746,632	1,746,632
Dividend income	1,275,878	1,275,878
	<u>6,912,927</u>	<u>6,912,927</u>
Indirect overheads		(2,176,925)
Operating profit		<u>4,736,002</u>
		Turnover <i>US\$</i>
By geographical location:		
The People's Republic of China ("PRC")		6,764,354
Hong Kong ("HK")		148,573
		<u>6,912,927</u>

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 1996 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 23 to 41.

An interim dividend of US\$0.01 per share, totalling US\$952,400 was paid on 5th November, 1996.

The Directors now recommend the payment of a final dividend of US\$0.05 per share, totalling US\$4,762,000.

FINANCIAL SUMMARY

A four year financial summary is shown on page 43.

REPORT OF THE DIRECTORS (CONT'D)

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:

Executive Directors

Mr. SUN Yin	<i>(Chairman)</i>
Mr. CHU Lap Lik, Victor	
Mr. ZHANG Yun Kun	<i>(Appointed on 1st January, 1996)</i>
Mr. ZHANG Zheng Ming	<i>(Appointed on 14th March, 1997)</i>
Mr. KWOK Fai	<i>(Appointed on 14th March, 1997)</i>
Mr. JIANG Bo	<i>(Resigned on 1st January, 1996)</i>
Mr. LI Yin Fei	<i>(Resigned on 14th March, 1997)</i>
Dr. SUN Ju	<i>(Resigned on 14th March, 1997)</i>

Non-executive Directors

Mr. KUT Ying Hay	
The Hon. LI Kwok Po, David	
Mr. POON Kwok Lim, Steven	
Mr. SATO Haruo	
Mr. HUEGLE Peter P.	
Mr. JIA Yuan	
Mr. CHIA Teck Swee	<i>(Appointed on 7th March, 1996)</i>
Mr. JIA Jianping	<i>(Appointed on 14th March, 1997)</i>
Mr. MULLER Beat M.	<i>(Alternate to ADAMI Manfred John, ceased to act on 7th March, 1996)</i>
Mr. TAN Kuan Hong	<i>(Resigned on 7th March, 1996)</i>
Dr. ADAMI Manfred John	<i>(Resigned on 7th March, 1996)</i>
Mr. TSANG Kam Lan	<i>(Resigned on 14th March, 1997)</i>

Under the provisions of the Company's Articles of Association, Mr. Sun Yin, Mr. Kwok Fai, Mr. Zhang Zheng Ming and Mr. Jia Jianping retire and, being eligible, offer themselves for re-election.

REPORT OF THE DIRECTORS (CONT'D)

Biographical details of Directors are as follows:

Executive Directors

Mr. SUN Yin, aged 59, is the chairman of the Company and has been an executive director of the Company since June, 1993. He is also a director of China Merchants China Investment Management Limited ("CMCIM"). Mr. Sun is an executive director and financial controller of China Merchants Holdings Company Limited ("China Merchants Holdings"), a director of China Merchants Steam Navigation Company Limited ("CMSNC"), China Merchants Holdings (Hong Kong) Company Limited ("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.

Mr. CHU Lap Lik, Victor, aged 40, 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 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 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. ZHANG Yun Kun, aged 40, has been an executive director of the Company since January, 1996. He is also the managing director 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 the Banking & Financial Sector of the China Merchants Group. Mr. Zhang holds a master degree in economics from South China Normal University.

Mr. ZHANG Zheng Ming, aged 47, has been an executive director of the Company since March, 1997. He is also a director and the deputy general manager of CMCIM. 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 Co., Ltd.

Mr. KWOK Fai, aged 39, has been an executive director of the Company since March, 1997. Mr. Kwok joined the China Merchants Group in 1974 and was involved in the development of China Merchants Shekou Industrial Zone. In 1997, he was appointed deputy general manager of the Banking & Financial Sector of the China Merchants Group.

Non-executive Directors

Mr. KUT Ying Hay, aged 42, 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.

REPORT OF THE DIRECTORS (CONT'D)

The Hon. LI Kwok Po, David, aged 58, has been a 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 an elected member of the Legislative Council (representative of the Finance Constituency) and an elected member of the Provisional Legislative Council. Dr. Li is the deputy chairman of Hong Kong Telecommunications Limited and a director of China Overseas Land & Investment Limited, Campbell Soup Company, Westinghouse Electric Corporation, Dow Jones & Company, Inc., The Hong Kong and China Gas Company Limited, Hong Kong Mortgage Corporation 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 53, has been a 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 currently 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.

Mr. SATO Haruo, aged 61, has been a non-executive director of the Company since June, 1993. He is a senior advisor, International Business, at 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 8 overseas subsidiaries of Yamaichi Securities Co., Limited.

Mr. HUEGLE Peter P., aged 60, 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 55, 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 operation manager of China International Advertising Company since 1988. Prior to that, Mr. Jia held managerial positions with China Civil Engineering Company and at 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. He has over 25 years of experience in marketing and business administration.

REPORT OF THE DIRECTORS (CONT'D)

Mr. CHIA Teck Swee, aged 48, 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 Singaporean Government.

Mr. JIA Jianping, aged 45, has been a non-executive director of the Company since March, 1997. Currently, he is the managing director of Bank of China Group Investment Limited ("BOCGI") and director of a number of companies controlled by BOCGI or in which BOCGI has an interest. Mr. Jia has extensive experience in banking. He was previously the chief representative of the representative office of Bank of China Rome.

Former Executive Directors

Mr. JIANG Bo, aged 72, 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. 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. LI Yin Fei, aged 54, was the former chairman of the Company. He was an executive director from June, 1993 to March 1997. Mr. Li is the executive director and president of China Merchants Holdings, CMSNC and CMHHK, a director of China Merchants Bank and the chairman of 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.

Dr. SUN Ju, aged 52, was an executive director of the Company from May, 1995 to March 1997. He was the managing director of CMCIM from May 1995 to December 1996. He is 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 Ph.D degrees in electrical engineering from the University of Southern California, U.S.A. Before he joined the China Merchants Group, he was the general manager of China International Economic and Technic Development Centre.

Former Non-executive Directors

Mr. MULLER Beat M., aged 45, 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.

Mr. TAN Kuan Hong, aged 41, was a non-executive director of the Company from July, 1994 to March, 1996. Mr. Tan is currently the executive director of Lazard Asia Investment Private Limited ("LAIM") Prior to joining LAIM, Mr. Tan was the General Manager of Temasek Holdings (HK) Limited and before that the executive director of CEF New Asia Company Limited in Hong Kong.

REPORT OF THE DIRECTORS (CONT'D)

Dr. ADAMI Manfred John, aged 56, 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 66, was a non-executive director of the Company from June, 1993 to March, 1997. Currently, he is the deputy chief executive of Bank of China, Hong Kong-Macau Regional Office and the chairman of 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 were 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.

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not 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 for the year ended 31st December, 1996 except that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at the Annual General Meeting in accordance with Article 101 of the Company's Articles of Association.

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 1996, 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, 1996 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.

REPORT OF THE DIRECTORS (CONT'D)

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December, 1996, 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
HSBC (Nominees) Limited	26,941,500	28.29%
China Merchants Holdings Company Limited (Note 1)	22,428,000	23.55%
China Merchants Steam Navigation Company Limited (Note 1)	22,428,000	23.55%
China Merchants Holdings (Hong Kong) Company Limited (Note 2)	18,248,000	19.16%
Hong Kong William Investment Company Limited	4,180,000	4.39%
Grand Spot Limited	2,298,000	2.41%

Note 1: Duplications of China Merchants Holdings (Hong Kong) Company Limited and Hong Kong William Investment Company Limited's holdings.

Note 2: China Merchants Holdings (Hong Kong) Company Limited is the indirect holding company of Grand Spot Limited. The interests of China Merchants Holdings (Hong Kong) Company Limited duplicate the interests in the Company of its indirect subsidiary.

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. Sun Yin, Mr. Chu Lap Lik, Victor, Mr. Zhang Yun Kun and Mr. Zhang Zheng Ming are directors of both the Company and CMCIM and Mr. Li Yin Fei and Dr. Sun Ju were directors 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.

REPORT OF THE DIRECTORS (CONT'D)

AUDITORS

The financial statements for the year have been audited by Messrs. Kwan Wong Tan & Fong who have expressed their willingness to continue in office. Messrs. Kwan Wong Tan & Fong have now merged with Messrs. Deloitte Touche Tohmatsu and the merged firm will practice under the name of Deloitte Touche Tohmatsu. Accordingly, a resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu 德勤•關黃陳方會計師行 as auditors of the Company.

On behalf of the Board
Zhang Yun Kun
Director

22nd May, 1997
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 23 to 41 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, 1996 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
22nd May, 1997

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December, 1996

	Note	1996 US\$	1995 US\$
GROSS REVENUE	(2)	<u>6,912,927</u>	<u>7,269,831</u>
Operating profit before exceptional items	(3)	4,736,002	5,539,275
Exceptional items	(5)	<u>2,606,341</u>	<u>(411,009)</u>
Profit from ordinary activities		7,342,343	5,128,266
Share of profits less losses of associated companies		<u>212,578</u>	<u>320,119</u>
Profit before taxation		7,554,921	5,448,385
Taxation	(6)	<u>(63,105)</u>	<u>(31,286)</u>
Profit attributable to shareholders	(7)	7,491,816	5,417,099
Dividends	(8)	<u>(5,714,400)</u>	<u>(4,762,000)</u>
Profit for the year retained		<u>1,777,416</u>	<u>655,099</u>
Earnings per share	(9)	<u>0.079</u>	<u>0.057</u>
Profit for the year is retained as follows:-			
By the Company and its subsidiaries		1,589,281	334,980
By associated companies		<u>188,135</u>	<u>320,119</u>
		<u>1,777,416</u>	<u>655,099</u>

The accompanying notes on pages 27 to 41 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31st December, 1996

	Note	1996 US\$	1995 US\$
Goodwill	(1a)&(10)	1,365	976,456
Interests in associated companies	(12)	19,455,324	21,255,883
Contractual joint ventures	(13)	35,290,444	20,140,360
Other investments	(14)	13,637,212	12,587,729
Net current assets	(15)	32,051,994	43,317,520
Net Assets		100,436,339	98,277,948
Representing:			
Share capital	(16)	9,524,000	9,524,000
Reserves	(17)	90,912,339	88,753,948
Shareholders' Funds		100,436,339	98,277,948
Net Asset Value per share	(18)	1.055	1.032

Sun Yin
Director

Chu Lap Lik, Victor
Director

The accompanying notes on pages 27 to 41 form an integral part of these financial statements.

BALANCE SHEET OF THE COMPANY

As at 31st December, 1996

	<i>Note</i>	1996 US\$	1995 US\$
Subsidiaries	(11)	75,334,344	59,417,596
Other investments	(14)	41,340	220,800
Net current assets	(15)	<u>24,180,515</u>	<u>38,469,364</u>
Net Assets		<u>99,556,199</u>	<u>98,107,760</u>
Representing:			
Share capital	(16)	9,524,000	9,524,000
Reserves	(17)	<u>90,032,199</u>	<u>88,583,760</u>
Shareholders' Funds		<u>99,556,199</u>	<u>98,107,760</u>

Sun Yin
Director

Chu Lap Lik, Victor
Director

The accompanying notes on pages 27 to 41 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 1996

	Note	1996 US\$	1995 US\$
Net cash (outflow)/inflow from operating activities	19(a)	<u>(2,414,409)</u>	<u>4,765,053</u>
Returns on investments and servicing of finance			
Dividends paid		<u>(4,762,000)</u>	<u>(3,809,600)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(4,762,000)</u>	<u>(3,809,600)</u>
Taxation			
Profits tax paid		<u>—</u>	<u>(193,267)</u>
Investing activities			
Decrease/(increase) in interests in associated companies		250,000	(3,708,510)
Increase in contractual joint ventures		(20,020,850)	(10,031,576)
Repayment of capital of contractual joint ventures		1,059,986	365,612
Decrease in other unlisted investments		—	500,000
Proceeds from disposal of listed investments		5,955,063	1,648,138
Acquisition of listed investments		(5,351,328)	(1,235,176)
Net cash inflow on disposal of subsidiaries	19(c)	<u>7,601,873</u>	<u>—</u>
Net cash outflow from investing activities		<u>(10,505,256)</u>	<u>(12,461,512)</u>
Decrease in cash and cash equivalents		<u>(17,681,665)</u>	<u>(11,699,326)</u>
Cash and cash equivalents as at 1st January		<u>44,625,274</u>	<u>56,324,600</u>
Cash and cash equivalents as at 31st December	19(b)	<u>26,943,609</u>	<u>44,625,274</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 1996

(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) Subsidiaries

A subsidiary is one in which more than 50% of its issued equity capital is held long term. Interests in subsidiaries are stated in the Company's balance sheet at cost less provision for permanent diminution in value where appropriate. Results of the subsidiaries are accounted for by the Company only to the extent of dividends received and receivable.

(c) 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 to the extent of 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.

(d) 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, 1996

(I) SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Other investments

(i) Unlisted

Other unlisted investments held for long term purposes are stated at cost or at their 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.

(f) 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.

(g) 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, 1996

(1) SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) 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:

	Group	
	1996 US\$	1995 US\$
Interest income	3,890,417	4,497,577
Income from contractual joint ventures	1,746,632	1,862,756
Dividend income from other investments	1,179,171	822,372
Dividend income from listed investments	96,707	87,126
	<u>6,912,927</u>	<u>7,269,831</u>

(3) OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS

	Group	
	1996 US\$	1995 US\$
Operating profit before exceptional items is arrived at after charging:		
Amortisation of goodwill	91	75,090
Auditors' remuneration	34,875	28,018
Exchange loss	4,076	-
Investment manager's fee	<u>1,739,725</u>	<u>1,469,509</u>
and after crediting:		
Exchange gain	<u>-</u>	<u>8,653</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(4) EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

(a) Directors

	Group	
	1996	1995
	US\$	US\$
Fees	<u>52,795</u>	<u>—</u>

The emoluments of the directors are within the following bands:

	Number of Directors	
	1996	1995
Nil - US\$100,000	<u>18</u>	<u>—</u>

(b) Employees' emoluments

The five highest paid individuals in the Group are the directors of the Company, details of whose emoluments are set out in note 4(a) to the financial statements.

(5) EXCEPTIONAL ITEMS

	Group	
	1996	1995
	US\$	US\$
Gain on disposal of subsidiaries	1,328,230	—
Gain on disposal of listed investments	1,490,089	—
Loss on revaluation of listed investments	(211,978)	(411,009)
	<u>2,606,341</u>	<u>(411,009)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(6) TAXATION

	Group	
	1996	1995
	US\$	US\$
Company and subsidiaries		
Hong Kong profits tax	11,329	31,286
Overseas taxation	27,333	-
Associated companies		
Overseas taxation	24,443	-
	<u>63,105</u>	<u>31,286</u>

Hong Kong profits tax has been provided at 16.5% (1995 : 16.5%) on the estimated assessable profits. Overseas taxation is provided at various rates applicable locally.

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\$7,160,299 (1995 : US\$7,091,759) is dealt with in the financial statements of the Company.

(8) DIVIDENDS

	1996	1995
	US\$	US\$
Interim dividend paid of US\$0.01 (1995 : US\$0.01) per ordinary share	952,400	952,400
Proposed final dividend of US\$0.05 (1995 : US\$0.04) per ordinary share	4,762,000	3,809,600
	<u>5,714,400</u>	<u>4,762,000</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\$7,491,816 (1995: US\$5,417,099) and 95,240,000 ordinary shares (1995 : 95,240,000 ordinary shares) in issue during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(10) GOODWILL

	Group	
	1996 US\$	1995 US\$
At cost		
Balance as at 1st January	1,126,637	1,126,637
Disposal during the year	<u>(1,125,000)</u>	—
Balance as at 31st December	<u>1,637</u>	<u>1,126,637</u>
Accumulated amortisation		
Balance as at 1st January	150,181	75,091
Charge for the year	91	75,090
Amount written back on disposal	<u>(150,000)</u>	—
Balance as at 31st December	<u>272</u>	<u>150,181</u>
Net book value		
Balance as at 31st December	<u><u>1,365</u></u>	<u><u>976,456</u></u>

(11) SUBSIDIARIES

	Company	
	1996 US\$	1995 US\$
Unlisted shares, at cost	10,066,350	11,126,649
Amounts due from subsidiaries	65,330,777	48,290,947
Amounts due to a subsidiary	<u>(62,783)</u>	—
	<u><u>75,334,344</u></u>	<u><u>59,417,596</u></u>

Details of all wholly-owned subsidiaries are as follows:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
CMCDI Zhaoyuan 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
China Merchants Industry Development (Shenzhen) Limited	PRC	Investment holding	Registered capital of US\$10,000,000

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(II) SUBSIDIARIES (CONT'D)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
Cotter International Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Co-Harbour Property Limited	HK	Dormant	500,000 ordinary shares of HK\$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
Kavan Investment Limited	BVI	Dormant	1 ordinary share of US\$1 each
Reed Overseas Limited	BVI	Investment holding	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
Supertone Investment Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Weaver International Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Wheaton International Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Woodford Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(12) INTERESTS IN ASSOCIATED COMPANIES

	Group	
	1996 US\$	1995 US\$
Share of attributable net assets	3,479,375	4,130,063
Amounts due from associated companies	<u>15,975,949</u>	<u>17,125,820</u>
	<u><u>19,455,324</u></u>	<u><u>21,255,883</u></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%
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, 1996

(13) CONTRACTUAL JOINT VENTURES

	Group	
	1996 US\$	1995 US\$
Unlisted investments		
Contributions to contractual joint ventures less amounts recovered	<u>35,290,444</u>	<u>20,140,360</u>

Details of contractual joint ventures are as follows:

Name	Principal activities	Expiry date of joint venture
Wei Fang Yin Yuan Aviation Industry Co., Ltd.	Airport construction	4th May, 2009
Weifang Zhaoyin Real Estate Development Co., Ltd.	Property development	23rd June, 2014
Yantai Hua Shang Power Co., Ltd.	Operation of power plant	20th January, 2016
Chengde Wanli Steel Tubes Co., Ltd.	Steel tubes manufacturing	12th March, 2016
Luomei Highways Co., Ltd.	Highway construction and operation	2nd June, 2021
Zhangzhou Tongda Road Development Co., Ltd.	Highway construction and operation	4th April, 2022

(14) OTHER INVESTMENTS

	Group		Company	
	1996 US\$	1995 US\$	1996 US\$	1995 US\$
Listed investments, at market value (see note a)				
– in Hong Kong	2,051,096	538,550	16,300	196,800
– outside Hong Kong	726,921	1,189,984	25,040	24,000
Unlisted investments, at cost	<u>10,859,195</u>	<u>10,859,195</u>	–	–
	<u>13,637,212</u>	<u>12,587,729</u>	<u>41,340</u>	<u>220,800</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(14) OTHER INVESTMENTS (CONT'D)

Note a: As at 31st December, 1996, 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
Shanghai Petrochemical Co., Ltd.* "H" share	Manufacturing of petrochemical products	598,756	638,400	0.64
Shenzhen Changchai Co., Ltd. "B" share	Manufacturing of diesel engines	211,876	226,287	0.23
Founder (HK) Ltd.*	Software development	194,100	192,500	0.20
Guangshen Railway Co., Ltd.* "H" share	Operation of railroad between Guangzhou and Shenzhen	159,777	192,252	0.20
Jingwei Textile Machinery Co., Ltd.* "H" share	Manufacturing of textile machinery	133,870	179,000	0.18
Northeast Electrical Transmission & Transformation Machinery Manufacturing Co., Ltd.* "H" share	Manufacturing of electricity transmission & transformation equipment	211,338	175,000	0.17
Shanghai Hai Xing Shipping Co., Ltd.* "H" share	Shipping	147,427	145,000	0.14
Cheung Kong Infrastructure Holdings Ltd.*	Infrastructure investment	79,367	127,344	0.13
Shanghai Haixin Co., Ltd. "B" share	Plush & flannel manufacturing	152,313	121,387	0.12
Harbin Power Equipment Co., Ltd.* "H" share	Manufacturing of power generating equipment	144,869	97,800	0.10
Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. "B" share	Land development	128,715	97,400	0.10
Shanghai Yaohua Pilkington Glass Co., Ltd. "B" share	Manufacturing of float glass	111,288	95,200	0.09
Shanghai Huang Shan Tour Co., Ltd. "B" share	Tourism	76,942	88,000	0.09

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(14) OTHER INVESTMENTS (CONT'D)

Name of securities	Principal activities	Historical cost US\$	Market value US\$	% of net asset value of the Group
Jilin Chemical Industrial Co., Ltd.* "H" share	Manufacturing of petrochemical products	66,397	85,250	0.08
Zhenhai Refining & Chemical Co., Ltd.* "H" share	Oil refinery	52,623	73,800	0.07
Shanghai Da Zhong Taxi Co., Ltd. "B" share	Taxi operator	58,739	73,514	0.07
Dongfang Electrical Machinery Co., Ltd.* "H" share	Manufacturing of power generating equipment	43,918	69,800	0.07
Yizheng Chemical Fibre Co., Ltd.* "H" share	Production and distribution of polyester chip and polyester stamp fibre	67,507	60,750	0.06
Guangdong Development Fund Ltd.	China direct investment	24,256	25,040	0.02
Capital Asia Limited*	Financial consultancy, beverage manufacturing and fashion retailing	16,274	14,200	0.01
Shenzhen China International Marine Containers Co., Ltd. "B" share	Manufacturing of containers	63	93	N/A
		2,680,415	2,778,017	2.77

* Securities listed in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(15) NET CURRENT ASSETS

	Group		Company	
	1996 US\$	1995 US\$	1996 US\$	1995 US\$
Current assets				
Cash and bank balances	26,943,609	44,625,274	23,339,807	42,597,144
Accounts receivable	10,562,723	3,172,707	6,261,500	319,228
Prepayments	2,410	6,017	2,410	6,017
Tax recovery	—	11,981	652	11,981
	<u>37,508,742</u>	<u>47,815,979</u>	<u>29,604,369</u>	<u>42,934,370</u>
Current liabilities				
Accounts payable, other payables and accrued charges	668,067	688,859	661,854	655,406
Dividend payable	4,762,000	3,809,600	4,762,000	3,809,600
Taxation	26,681	—	—	—
	<u>5,456,748</u>	<u>4,498,459</u>	<u>5,423,854</u>	<u>4,465,006</u>
Net current assets	<u>32,051,994</u>	<u>43,317,520</u>	<u>24,180,515</u>	<u>38,469,364</u>

(16) SHARE CAPITAL

	1996 US\$	1995 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>

As at 31st December, 1995, the Company had outstanding 19,048,000 warrants to be exercised on or before 30th June, 1996. 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. No warrants were exercised during the period up to 30th June, 1996. All warrants lapsed and there were no outstanding warrants as at 31st December, 1996.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(17) RESERVES

	Share premium US\$	Investment revaluation US\$	Exchange equalisation US\$	Retained profits US\$	Total US\$
Group					
Balance as at 1st January, 1996	85,716,544	81,511	164,479	2,791,414	88,753,948
Unrealised gains on revaluation of listed investments	-	375,106	-	-	375,106
Exchange differences on translation of financial statements of associated companies	-	-	5,869	-	5,869
Release on disposal of a foreign associated company	-	-	(21,675)	21,675	-
Profit for the year retained	-	-	-	1,777,416	1,777,416
	<u>85,716,544</u>	<u>456,617</u>	<u>148,673</u>	<u>4,590,505</u>	<u>90,912,339</u>
Company					
Balance as at 1st January, 1996	85,716,544	-	-	2,867,216	88,583,760
Unrealised gains on revaluation of listed investments	-	2,540	-	-	2,540
Profit for the year retained	-	-	-	1,445,899	1,445,899
	<u>85,716,544</u>	<u>2,540</u>	<u>-</u>	<u>4,313,115</u>	<u>90,032,199</u>

The distributable reserves of the Company as at 31st December, 1996 amounted to US\$4,313,115 (1995: US\$2,867,216).

(18) NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$100,436,339 (1995 : US\$98,277,948) and 95,240,000 ordinary shares (1995 : 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, 1996

(19) NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	1996 US\$	1995 US\$
Profit before taxation	7,554,921	5,448,385
Gain on disposal of subsidiaries	(1,328,230)	-
Gain on disposal of listed investments	(1,490,089)	(115,073)
Unrealised loss on revaluation of listed investments	211,978	411,009
Amortisation of goodwill	91	75,090
Share of profits less losses of associated companies	(212,578)	(320,119)
Dividends received from an associated company	345,258	319,134
Increase in accounts receivable and prepayments	(7,474,968)	(1,245,314)
(Decrease)/increase in accounts payable, other payables and accrued charges	(20,792)	191,941
Net cash (outflow)/inflow from operating activities	<u>(2,414,409)</u>	<u>4,765,053</u>

(b) Analysis of cash and cash equivalents

	1996 US\$	1995 US\$
Cash and bank balances	<u>26,943,609</u>	<u>44,625,274</u>

(c) Disposal of subsidiaries

	1996 US\$	1995 US\$
Net assets disposed of:		
Interest in an associated company	1,399,306	-
Interest in a contractual joint venture	3,810,780	-
Accounts receivable, prepayments and deposits	88,557	-
Goodwill	975,000	-
	6,273,643	-
Gain on disposal included in exceptional items	1,328,230	-
Proceeds on disposal	<u>7,601,873</u>	-
Satisfied by:		
Cash	<u>7,601,873</u>	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31st December, 1996

(20) COMMITMENTS

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

	Group	
	1996	1995
	US\$	US\$
Contracted but not provided for		
Outstanding capital contributions to an associated company	<u>490,000</u>	<u>490,000</u>

(21) POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31st December, 1996:

- (a) On 18th February, 1997, Storey Overseas Limited, a wholly-owned subsidiary of the Company, entered into an agreement to invest US\$10 million in a contractual joint venture for the construction and operation of a highway in Maoming City of Guangdong Province, the PRC.
- (b) On 23rd April, 1997, the Company entered into conditional agreements to dispose of two of its wholly-owned subsidiaries, Cotter International Limited and Reed Overseas Limited, at a consideration of approximately US\$6,000,000 and US\$15,400,000 respectively, resulting in gains of approximately US\$1,000,000 and US\$5,400,000 respectively to the Group. The details relating to these transactions are contained in the circular dated 14th May, 1997.

The completion of the agreements is conditional upon the passing of ordinary resolutions at an extraordinary general meeting to approve the disposals and the agreements relating thereto on 29th May, 1997.

(22) COMPARATIVES

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

(23) APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 22nd May, 1997.

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, 1996.*

COMBINED ASSETS AND LIABILITIES

As at 31st December, 1996

	1996 US\$	1995 US\$
Fixed assets	23,251,814	26,449,205
Investment in a subsidiary	1	1
Investment in an equity joint venture	25,413,421	25,418,993
Intangible assets	535,346	572,294
Formation and other deferred expenses	3,259	1,412,917
Net current assets	5,465,686	9,251,468
Loans and advances	(42,937,907)	(48,924,552)
Net assets	<u>11,731,620</u>	<u>14,180,326</u>

COMBINED RESULTS

for the year ended 31st December, 1996

	1996 US\$	1995 US\$
Turnover	<u>22,081,002</u>	<u>16,691,632</u>
Profit before taxation	755,949	1,042,405
Taxation	(81,272)	-
Profit for the year	<u>674,677</u>	<u>1,042,405</u>

FINANCIAL SUMMARY

	1993 US\$	1994 US\$	1995 US\$	1996 US\$
Financial				
Turnover	2,033,771	4,956,482	7,269,831	6,912,927
Profit before taxation	1,595,044	3,548,471	5,448,385	7,554,921
Profit attributable to shareholders	1,445,044	3,548,471	5,417,099	7,491,816
Total assets	98,359,810	101,094,687	102,776,407	105,893,087
Total liabilities	1,316,397	3,504,118	4,498,459	5,456,748
Shareholders' funds	97,043,413	97,590,569	98,277,948	100,436,339
Per share basis				
Earnings per share	0.015	0.037	0.057	0.079
Dividends per share	–	0.03	0.05	0.06
Net asset value per share	1.019	1.025	1.032	1.055

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