

**CHINA MERCHANTS CHINA DIRECT
INVESTMENTS LIMITED**

Annual Report 1997

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CORPORATE INFORMATION

BOARD OF DIRECTORS

SUN Yin (*Chairman*)

CHU Lap Lik, Victor

ZHANG Yun Kun

ZHANG Zheng Ming

KWOK Fai

The Hon. LI Kwok Po, David*

POON Kwok Lim, Steven*

KUT Ying Hay*

JIA Jianping*

TEO Eu Seng*

JIA Yuan*

SATO Haruo*

* non-executive directors

COMPANY SECRETARY

Kan Ka Yee, Elizabeth, *AICPA, AHKSA*

CUSTODIAN BANKS

Union Bank of Hong Kong Limited
122-126 Queen's Road Central,
Hong Kong

China Merchants Bank
No. 2, Shennan Road Central,
Shenzhen, Republic of China

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

AUDITORS

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

LEGAL ADVISERS

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

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

CHAIRMAN'S STATEMENT



Mr. Sun Yin,
Chairman

With the continued support and dedicated contribution of our shareholders, the members of the investment committee and investment manager, China Merchants China Direct Investments Limited achieved a profit increase of 48% in 1997.

The audited consolidated profit after taxation of China Merchants China Direct Investments Limited and its subsidiaries ("the Group") for the year ended 31 December, 1997 totalled US\$11,113,231 (approximately HK\$86,683,202), an increase of 48% over 1996; the net asset value per share before final dividend was US\$1.152 (approximately HK\$8.99), an increase of 4.25% compared to the figure of US\$1.105 for 1996.

The Board of Directors has proposed a final dividend of US\$0.045 (approximately HK\$0.35) per share and 1 bonus share for every 5 shares held. Total cash dividend per share for 1997 is US\$0.06 (approximately HK\$0.47).

The year 1997 was an eventful year in the history, politics and economy of Hong Kong and the mainland China. The recent closing of the 15th National People's Congress and the smooth take-over of the third-generation leaders realized a stable transition of power from the state's aged core leadership to a younger generation. The return of Hong Kong's sovereignty to the motherland and her status as a special administrative region (SAR), the central government's handling of matters in the SAR in strict compliance with the principle of "One Country, Two Systems" and the SAR government's implementation of efficient administration of Hong Kong according to the Basic Law, enhanced the confidence of both local and international investors in the future of Hong Kong. Though Hong Kong has been affected by the Asian financial turmoil since the fourth quarter of 1997, resulting in a downturn in the market environment and operational difficulties to different sectors of the community, yet the impact on the Group has been minimal owing to its diversified investment in the infrastructure, financial services, industrial and real estates sectors in China. The Group still recorded a satisfactory growth in the year's profit.

As at the end of 1997, the Group has invested in 11 unlisted investment projects of value US\$63.08 million, representing 59.9% of its total net asset value. Moreover, the Group has invested US\$990,000 in shares of listed companies by the end of 1997 and obtained a profit of US\$1.36 million from share investment for the whole year.

In line with the long-held investment strategies of the Group, while seeking new investment opportunities, we keep on exploring profit-making opportunities through assets realization. In 1997, the Company has again achieved good results in capital activities. The Group successfully disposed of its investment interests in the Zhangzhou and Luomei sections of National Highway No. 324 and realized a profit of approximately US\$6.6 million. Since 1995, the Group had already disposed of four assets and generated satisfactory returns.

The year 1998 is full of opportunities and challenges. Though the economic fundamentals of mainland China and Hong Kong remain favourable, the adverse impact of the Asian financial turmoil on Hong Kong and mainland China would subsist for some time. The pace of economic development in China will slow down to a certain extent. Fortunately, the lowering of interest rates by the People's Bank of China in early 1998 will create new impetus for the growth of the Chinese economy. It is believed that further development of the Chinese economy will have a positive influence on the fast recovery of the Hong Kong economy.

The Group currently possesses a considerable sum of funds through the realization of assets. The current policy of banks tightening their credits opens us to a wider choice of investment opportunities. In the coming year, we will continue our efforts in exploring investment opportunities which are low risks and stable in return. In addition, we will strengthen our role in monitoring our investments to yield better return to the Group.

Finally, on behalf of the Board, I would like to thank members of the investment committee, our investment managers and all our fellow co-workers for their dedicated contribution and support. I also pledge to do my best endeavour to head the Group towards a new century with excellent results.

Sun Yin

Chairman

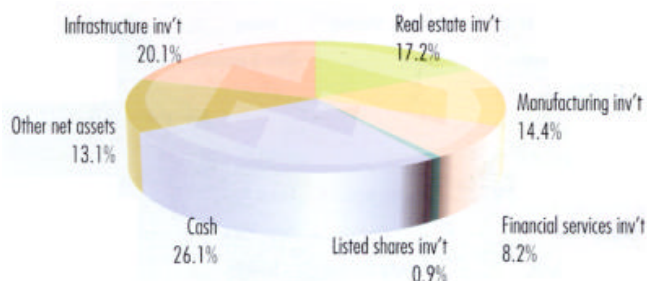
14 May, 1998

THE INVESTMENT MANAGER'S REPORT



The Chairman of the Company together with the senior management of the Investment Manager, Mr. Zhang Yun Kun, managing director and Ms. Elizabeth Kan, deputy managing director

As at 31 December, 1997, China Merchants China Direct Investments Limited and its subsidiaries ("the Group") have invested in 11 unlisted investment projects (valued at US\$63.08 million) and 8 listed investments (valued at US\$990,000). The unlisted investment projects are diversified into infrastructure (which accounts for approximately 20.1% of the Group's net assets); real estate (17.2%); manufacturing (14.4%); and financial services (8.2%). During the financial year, the Group realised two infrastructure projects and obtained satisfactory returns.



Infrastructure inv't 20.1%	Real estate inv't 17.2%	Financial services inv't 8.2%
Other net assets 13.1%	Manufacturing inv't 14.4%	Listed shares inv't 0.9%
Cash 26.1%		

REVIEW OF UNLISTED INVESTMENTS

The following table sets out the unlisted investment projects held by the Group in 1997:

Name of Projects	Location	Business Nature	Investment Amount*	Percentage of net assets
Infrastructure:				
1. Weifang Yin Yuan Aviation Industry Co. Ltd.	Weifang, Shandong	Airport terminal	1.55	1.5
2. Yantai Huashang Power Co. Ltd.	Yantai, Shandong	Power plant	9.49	9.0
3. Luomei Highways Co. Ltd.	Luoding, Guangdong	Toll road	(Disposed of in mid 97)	
4. Zhangzhou Tongda Road Development Co. Ltd.	Zhangzhou, Fujian	Toll road	(Disposed of in mid 97)	
5. Maoming Tongfa Highway Co. Ltd.	Maoming, Guangdong	Toll road	10.08	9.6
		Sub-total	<u>21.12</u>	<u>20.1</u>

Name of Projects	Location	Business Nature	Investment Amount*	Percentage of net assets
Real Estate:				
6. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retail shops	3.46	3.3
7. China Merchants Plaza (Shanghai) Property Co. Ltd.	Shanghai	Office building	6.56	6.3
8. Weifang Zhaoyin Real Estate Development Ltd.	Weifang, Shandong	Low-cost housing	3.10	2.9
9. Beijing Longbao Mansion	Beijing	Office & apartments	4.98	4.7
		Sub-total	<u>18.10</u>	<u>17.2</u>
Manufacturing:				
10. Tangshan Kintil Ceramics Ltd.	Tangshan, Hebei	Ceramic tiles	2.21	2.1
11. Zhaoyuan Jinbao Electronics Co. Ltd.	Zhaoyuan, Shandong	Copper foils & laminates	8.49	8.1
12. Chengde Wanli Steel Tubes Co. Ltd.	Chengde, Hebei	Steel Tubes	4.51	4.2
		Sub-total	<u>15.21</u>	<u>14.4</u>
Financial Services:				
13. China Merchants Bank	Shenzhen, Guangdong	Banking	8.65	8.2
		Sub-total	<u>8.65</u>	<u>8.2</u>
		Total	<u><u>63.08</u></u>	<u><u>59.9</u></u>

* Net Book Value at 31 December, 1997 (US\$ million).

LOCATIONS OF PROJECTS



Weifang Yin Yuan Aviation Industry Company Limited



The company has an operating right of Weifang City Airport for a period of 15 years. The Group invested US\$2.875 million for a 31.265% interest. Since the official opening of the airport in April 1996, the number of flights and passenger turnover have increased. The Group received its third installment return in May 1997 on schedule. To date, the Group received a total of US\$2.3116 million in return, representing 80.4% of the investment amount of the project.

Yantai Huashang Power Co. Ltd.

Yantai Huashang Power Co. Ltd., a joint venture established by the Group and Yantai Power Development Company in January 1995, owns a 27% interest in Shandong Longkou Power Plant Phase II. The Group invested a total of US\$10 million which accounted for a 33.47% interest in the joint venture and ultimately owned 9.04% of such plant. Because of over supply in electricity in Shandong province, power output and sales of the plant for 1997 fell to 2.402 billion KWh and RMB 535.61 million from 2.606 billion KWh and RMB 579.62 million respectively in the previous year. Nevertheless, the Group still received the first two phases returns of a total of US\$1.682 million in 1997.



Maoming Tongfa Highway Co. Ltd.

The company is a Sino-foreign co-operative joint venture established in May 1997. The company is mainly engaged in re-constructing and operating the Provincial Highway No. 1987 in Maoming, Guangdong Province. The 40-km highway linking the urban areas of Huazhou city and Maoming city was planned to be reconstructed as a four-lane Class I highway. The average traffic flow recorded was 15,000 per day in 1997. The first phase of the project was completed in early 1998. The Group invested US\$10 million in the company, representing a 34.7% interest. The traffic of the road section is expected to have a stable growth in the next few years. A management personnel will be delegated by the Group to station in the city to enhance the operation of the joint venture.



Shenzhen Man Kam Square



Man Kam Square is a 33-storey commercial building located at Wen Jin North Road in Shenzhen City. In April 1994, Hansen Enterprises Limited ("Hansen"), an equity joint venture set up by the Group and City Chiu Chow (Holdings) Ltd., purchased the whole of the retail space on Level 3, totalling 5,262 sq.m. of the Man Kam Square through its four subsidiaries. The Group owns a 35% interest in Hansen and has invested a total of approximately US\$4.29 million as at the end of 1997.

According to the pre-sale contract of Man Kam Square, the delivery date was originally scheduled for 30 June, 1995. However, as the relevant floor was still not completed in January 1997, Hansen instituted legal proceedings in court and required the developer to refund deposit and make compensation. Hansen has obtained favourable judgement against the developer in both Shenzhen Intermediate Court and

Guangdong High Court respectively. To allow for possible expenses expected to be incurred in the enforcement of the judgement and to reflect the changes in real estate market condition, the management has made a provision of US\$800,000 for the project.

China Merchants Plaza (Shanghai) Property Co. Ltd.



The company is developing a 26-storey commercial building named China Merchants Plaza in Shanghai. The plaza, located at Chengdu Road in Jingan District, commenced construction in 1994 and completed over 90% of its works by the end of 1997. The Group owns a 19.8% interest in the project. It is expected that China Merchants Plaza will offer a floor space of approximately 60,000 sq.m. when it is available for occupancy in mid-1998. As supply still exceeds demand in Shanghai's real estate market, the progress of sales and lease of China Merchants Plaza has been slow. As Shanghai's office market is expected to remain stagnant for quite some time, the management has made a US\$1.2 million provision for the project according to the most recent sales situation.

Weifang Zhaoyin Real Estate Development Limited

The joint venture, established in 1994, is principally engaged in developing "Comfort Housing Program" in the High & New Technology Industrial Development Zone in Weifang City, Shandong Province. The Group invested US\$4 million for an 18% interest and the term of co-operative operation is 20 years. The Weifang Branch of the Bank of China was appointed by three foreign investors to manage the project and would guarantee their returns. The People's Government of Weifang City has committed to purchase the completed but unsold residential units when necessary in order to ensure the returns of the parties stipulated in the contract. Yet the Group has not received the third payment which was due in August 1997 in full. The management has been intensively coordinating with all parties concerned and expected that a satisfactory solution will be reached.



Beijing Longbao Mansion



The building, a Sino-foreign joint equity development project located at Liang Ma river bank, has a gross floor area of 25,500 sq.m. and was completed at the end of 1995. The Group invested US\$4.98 million in August 1997 for the joint operation and management of 15,000 sq.m. of apartments and office space for the leasing purpose with the developer of Longbao Mansion. Though Beijing's real estate market is still in "digestive" stage, the portion owned by the Group had an occupancy rate of 70% at the end of 1997 owing to its prime location and comprehensive facilities. The project has provided the Group with a stable investment return.

Tangshan Kintil Ceramics Limited

The company has maintained stable production since its official commencement in April 1996. The factory produced a total of 1,810,000 sq.m. of tiles in 1997, representing 91% of its design capacity. Due to the weak real estate market in China and the pressure on the prices of building materials, the company recorded a net profit of RMB3.64 million last year. Tangshan Kintil Ceramics Limited has three production lines which were imported from Italy and has the capacity to produce 1 million sq.m. glazed mosaics and 1 million sq.m. homogenous tiles. The Group invested US\$2.21 million, accounting for a 15% interest. As housing reform in China is underway, the company is expected to generate a better result in 1998.

Zhaoyuan Jinbao Electronics Company Limited

The Sino-foreign equity joint venture set up by the Group together with Shandong Zhaoyuan Electronic Materials Factory and BOC China Fund Limited is mainly engaged in the manufacture and sale of copper foils, copper-clad laminates and printed circuit boards. The Group owns a 30% interest. Thanks for the

continuing recovery in the market, the Company achieved satisfactory results for 1997. Sales and net profit increased from RMB180 million and RMB5.09 million in 1996 to RMB260 million and RMB10.89 million, up 44% and 114% respectively, contributing to the results of the Group.



Chengde Wanli Steel Tubes Co. Ltd.



The total investment for this Sino-foreign co-operative joint venture is US\$17.6 million, in which the Group and Chengde Iron and Steel Group hold respectively a 35% and 65% interest. The joint venture has introduced equipment and technology from Germany for the production of seamless-like steel tubes. It has a production capacity of 100,000 tonnes per year. Since establishment in 1996, construction work has been progressing smoothly. Official production is scheduled in mid-1998. With the advanced production technology,

conventional seamless steel tubes can be replaced by the factory's new products which can be produced at 20% lower cost. Therefore, the products are expected to be highly competitive in the market. The Group has, in accordance with the joint venture contract, received the second installment of its investment return of US\$750,000 in March 1998.

China Merchants Bank

China Merchants Bank is a joint stock commercial bank based in Shenzhen. The Group holds a 1.7% interest in the bank through its subsidiary, China Merchants Industry Development (Shenzhen) Ltd. In 1997, the bank recorded a pre-tax profit of RMB 2.87 billion, representing a 18.4% increase over that of the previous year. Compared to the corresponding period of the previous year, the bank's deposits and advances have achieved a 19.2% and 18.5 % growth respectively. In terms of return on net assets, the bank has always ranked first in China.



DISPOSAL OF UNLISTED INVESTMENTS DURING THE YEAR

Luomei Highways Company Limited and Zhangzhou Tongda Road Development Company Limited

Each of the two companies is operating a toll-collecting section of the National Highway No.324 in Luoding City of Guangdong Province and Zhangzhou City of Fujian Province respectively. In April 1997, the Group announced the sale of all interests held in the two Sino-foreign co-operative joint ventures to China Merchants Holdings (International) Company Limited at a consideration of US\$21.40 million.

The transaction was duly completed in July 1997. After incorporating all distributions received and deducting all expenses, the overall annual rate of return of these investments was over 50%.

REVIEW OF LISTED INVESTMENTS

Owing to the Asian financial turmoil which took place in the fourth quarter of 1997, stock markets in the region had become highly volatile. Over the whole year, the Hong Kong Heng Sang Index and Heng Sang China Enterprises Index had dropped by 20% and 26% respectively, and the B shares listed in Shenzhen and Shanghai also dropped by 32% and 17% respectively. The Group has always adopted a cautious and conservative policy for its listed investments. The amount of total investment in the stock market has always been maintained at less than 8% of the net assets value. With the continuous sale of profitable stocks during the first three quarters of last year, the Group has locked-in significant profits. Therefore, over the whole year, the Group still managed to obtain a pre-tax profit of US\$1.362 million from listed investments.

In the upcoming year, the financial markets in the Asia-Pacific region is not expected to be fully stabilized, Hong Kong's economic growth will still be constrained by high interest rates. Under the leadership of the new government, large and medium-sized enterprises on Mainland China will hasten the pace to reform. The growth in aggregate demand will inject new impetus into economic development. It is anticipated that the PRC-listed B shares, Hong Kong-listed H shares and China-concept shares will be on a gradual recovery. Nevertheless, the overall investment atmosphere is still less favourable than that of last year. The Group will continue to maintain a prudent investment strategy, and to select good-quality stocks for medium and long-term investment.

Zhang Yun Kun

Managing Director

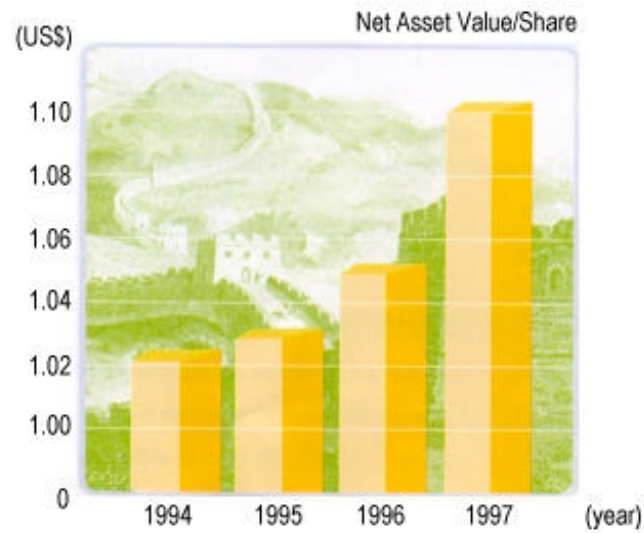
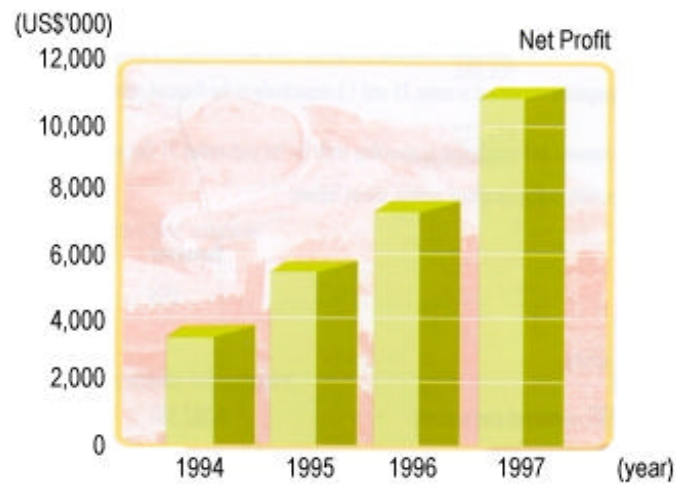
China Merchants China Investment

Management Limited

Hong Kong, 14 May, 1998

FINANCIAL HIGHLIGHTS

Year	Net profit US\$'000	Net Asset Value/ share US\$
1994	3,548	1.025
1995	5,417	1.032
1996	7,492	1.055
1997	11,113	1.107



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December, 1997.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries and associated companies are set out in notes 23 and 13 respectively to the financial statements.

The Group's turnover and contribution to operating profit for the year ended 31 December, 1997, analysed by principal activity and geographical market, are as follows:

	Turnover <i>US\$</i>	Operating profit <i>US\$</i>
By principal activity:		
Income from contractual joint ventures	4,282,351	4,282,351
Interest income	2,913,363	2,913,363
Dividend income	98,952	98,952
	<u>7,294,666</u>	<u>7,294,666</u>
Contribution from associated companies		365,306
Exceptional items		5,964,057
Indirect overheads		(2,354,821)
Profit from ordinary activities before taxation		<u>11,269,208</u>

	Turnover <i>US\$</i>	Operating profit <i>US\$</i>
By geographical market:		
The People's Republic of China ("PRC")	6,914,357	6,914,357
Hong Kong ("HK")	380,309	380,309
	<u>7,294,666</u>	<u>7,294,666</u>
Contribution from associated companies		365,306
Exceptional items		5,964,057
Indirect overheads		<u>(2,354,821)</u>
Profit from ordinary activities before taxation		<u>11,269,208</u>

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the Company's subsidiaries and associated companies at 31 December, 1997 are set out in notes 23 and 13 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December, 1997 are set out in the consolidated profit and loss account on page 31.

An interim dividend of US\$0.015 per share amounting to US\$1,428,600 was paid to shareholders during the year. The Directors now recommend the payment of a final dividend of US\$0.045 per share to the shareholders on the register of members on 29 June, 1998, amounting to US\$4,285,800, and the retention of the remaining profit for the year of US\$5,398,831.

RESERVES

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past four financial years is set out on page 52.

SHARE CAPITAL

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

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

DIRECTORS

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

Executive Directors

Mr. SUN Yin	(Chairman)
Mr. CHU Lap Lik, Victor	
Mr. ZHANG Yun Kun	
Mr. ZHANG Zheng Ming	(Appointed on 14 March, 1997)
Mr. KWOK Fai	(Appointed on 14 March, 1997)
Mr. LI Yin Fei	(Resigned on 14 March, 1997)
Dr. SUN Ju	(Resigned on 14 March, 1997)

Non-executive Directors

Mr. KUT Ying Hay

The Hon. LI Kwok Po, David *

Mr. POON Kwok Lim, Steven *

Mr. JIA Yuan

Mr. JIA Jianping

(Appointed on 14 March, 1997)

Mr. TEO Eu Seng

(Appointed on 25 August, 1997)

Mr. TSANG Kam Lan

(Resigned on 14 March, 1997)

Mr. HUEGLE Peter P.

(Resigned on 25 August, 1997)

Mr. CHIA Teck Swee

(Resigned on 25 August, 1997)

Mr. SATO Haruo

(Resigned on 14 May, 1998)

* Independent non-executive directors

Under the provisions of the Company's Articles of Association, Mr. Chu Lap Lik, Victor and Mr. Teo Eu Seng retire and, being eligible, offer themselves for re-election.

The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

Biographical details of Directors are as follows:



Mr. SUN Yin, aged 60, 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, a director of China Merchants Steam Navigation Company Limited, China Merchants Holdings (Hong Kong) Company Limited, Union Bank of Hong Kong Limited and China Merchants Bank. He also holds directorships in 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 is a part-time member of the Central Policy Unit of the Hong Kong Government, and has served on the Council of the Hong Kong Stock Exchange, the Takeover and Mergers 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 41, 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 is also a 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 and is a qualified senior economist in China.



Mr. ZHANG Zheng Ming, aged 49, has been an executive director of the Company since March, 1997. He is also a director 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 40, has been an executive director of the Company since March, 1997. He joined the China Merchants Group for more than 20 years. Currently, Mr Kwok is the general manager of the Banking & Financial Sector of China Merchants Holdings Company Limited. He also holds a number of other directorships within the China Merchants Group including China Merchants Holdings (International) Company Limited and Union Bank of Hong Kong Limited. Mr Kwok holds a master degree in business administration.



Mr. KUT Ying Hay, aged 43, has been a non-executive director of the Company since June, 1993. He is a non-executive director of China Merchants Holdings (International) Company Limited. Mr Kut is a practising solicitor and notary public and the proprietor of Messrs. Kut & Co., a firm of solicitors. He is an attesting officer appointed by the Ministry of Justice of the PRC. He is also a solicitor of the Supreme Courts of England, Victoria of Australia, Singapore and is an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators & Mediators, Australia. 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 59, has been an independent non-executive director of the Company since June, 1993. Dr. Li is the chairman and chief executive of The Bank of East Asia, Limited. He was an elected member of the Provisional Legislative Council and a member of the Hong Kong Special Administrative Region Preparatory Committee, and is an elected member of the Legislative Council (representative of the Finance Constituency). Dr. Li is the deputy chairman of Hong Kong Telecommunications Limited and a director of China Overseas Land & Investment Limited, Campbell Soup Company, Dow Jones & Company, Inc., The Hong Kong and China Gas Company Limited, The 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 and 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, the Exchange Fund Advisory Committee, the Land Fund Advisory Committee and a Hong Kong Affairs Adviser to China.



Mr. POON Kwok Lim, Steven, aged 54, has been an independent non-executive director of the Company since June, 1993. He is the managing director of Bright World Enterprise Limited and a director of International Bank of Asia. Formerly, Mr Poon was the general manager and the chief operating officer of a Hong Kong public utility company, China Light & Power Company Limited, and served as a member of the Hong Kong Stock Exchange Council. He was previously a Legislative Councillor and is a member of the Selection Committee of the Hong Kong Special Administrative Region.

He holds a master degree in electrical engineering and is a chartered engineer.



Mr. JIA Yuan, aged 56, has been a non-executive director of the Company since June, 1995. He is the managing director of ONFEM Holdings Limited and an executive director of China Nonferrous Metals Holdings (HK) Limited. He was responsible for the business management 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 26 years of experience in marketing and business administration.



Mr. JIA Jianping, aged 47, has been a non-executive director of the Company since March, 1997. Currently, he is the vice-chairman and 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.



Mr. TEO Eu Seng, aged 41, has been a non-executive director of the Company since August, 1997. He is the general manager of Temasek Holdings (HK) Limited. Mr Teo was awarded a bachelor of engineering degree from the National University of Singapore and a master degree in business administration from the University of New South Wales, Australia. He has 12 years of experience working with industrial companies to establish start-up projects, joint ventures and acquisition of businesses.

The following directors have resigned since the date of the last annual report:

Mr. HUEGLE Peter P., aged 61, was a non-executive director of the Company from May, 1994 to August, 1997. 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 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. CHIA Teck Swee, aged 49, was a non-executive director of the Company from March, 1996 to August, 1997. 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. SATO Haruo, aged 62, was a non-executive director of the Company from June, 1993 to May, 1998. He was 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

None of the directors or chief executives, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any related company (holding companies, subsidiaries or fellow subsidiaries) was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 1997, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company.

Name	Number of ordinary shares	Percentage of total issued shares
HSBC (Nominees) Limited	27,418,500	28.79%
China Merchants Holdings Company Limited (Note)	24,050,000	25.25%
China Merchants Steam Navigation Company Limited (Note)	24,050,000	25.25%
China Merchants Holdings (Hong Kong) Company Limited	15,950,000	16.74%
Hong Kong William Investment Company Limited	4,430,000	4.65%
Grand Spot Limited	3,122,000	3.28%
Fair Oaks Development Limited	548,000	0.58%

Note : Duplications of holdings of China Merchants Holdings (Hong Kong) Company Limited, Hong Kong William Investment Company Limited, Grand Spot Limited and Fair Oaks Development Limited.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December, 1997 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.

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 was a director of both the Company and CMCIM during the year.

The investment management agreement became effective on 15 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

Messrs. Kwan Wong Tan & Fong merged with Messrs. Deloitte Touche Tohmatsu in April 1997. The merged firm, which practises under the name of Messrs. Deloitte Touche Tohmatsu, were appointed as auditors of the Company at the last Annual General Meeting. A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Sun Yin

Chairman

Hong Kong, 14 May, 1998

AUDITORS' REPORT

Deloitte Touche
Tohmatsu



德勤•關黃陳方
會計師行

Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

執業會計師
香港中環干諾道中111號
永安中心26樓

TO THE MEMBERS OF

CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 31 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 of the state of affairs of the Company and the Group as at 31 December, 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 14 May, 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER, 1997

	NOTES	1997 US\$	1996 US\$
TURNOVER	2	<u>7,294,666</u>	<u>6,912,927</u>
OPERATING PROFIT EXCLUDING			
EXCEPTIONAL ITEMS	3	4,939,845	4,736,002
EXCEPTIONAL ITEMS	4	<u>5,964,057</u>	<u>2,606,341</u>
OPERATING PROFIT		<u>10,903,902</u>	<u>7,342,343</u>
SHARE OF RESULTS OF ASSOCIATED			
COMPANIES		365,306	212,578
PROFIT FROM ORDINARY ACTIVITIES			
BEFORE TAXATION		11,269,208	7,554,921
TAXATION	7	<u>(155,977)</u>	<u>(63,105)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	8	<u>11,113,231</u>	<u>7,491,816</u>
DIVIDENDS	9	<u>(5,714,400)</u>	<u>(5,714,400)</u>
PROFIT FOR THE YEAR, RETAINED		<u>5,398,831</u>	<u>1,777,416</u>
EARNINGS PER SHARE	10	<u>0.117</u>	<u>0.079</u>

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER, 1997

	NOTES	1997 US\$	1996 US\$
GOODWILL	11	1,274	1,365
INTERESTS IN ASSOCIATED COMPANIES	13	18,514,621	19,455,324
CONTRACTUAL JOINT VENTURES	14	33,711,654	35,290,444
OTHER INVESTMENTS	15	11,849,343	13,637,212
NET CURRENT ASSETS	16	41,314,338	32,051,994
NET ASSETS		<u>105,391,230</u>	<u>100,436,339</u>
Financed by:			
SHARE CAPITAL	17	9,524,000	9,524,000
RESERVES	18	95,867,230	90,912,339
SHAREHOLDERS' FUNDS		<u>105,391,230</u>	<u>100,436,339</u>
NET ASSET VALUE PER SHARE		<u>1.107</u>	<u>1.055</u>

The financial statements on pages 31 to 50 were approved by the Board of Directors on 14 May, 1998.

Chu Lap Lik, Victor
Director

Zhang Yun Kun
Director

BALANCE SHEET

AS AT 31 DECEMBER, 1997

	NOTES	1997 US\$	1996 US\$
INTERESTS IN SUBSIDIARIES	12	87,051,985	75,334,344
OTHER INVESTMENTS	15	163,160	41,340
NET CURRENT ASSETS	16	18,815,996	24,180,515
NET ASSETS		<u>106,031,141</u>	<u>99,556,199</u>
Financed by:			
SHARE CAPITAL	17	9,524,000	9,524,000
RESERVES	18	96,507,141	90,032,199
SHAREHOLDERS' FUNDS		<u>106,031,141</u>	<u>99,556,199</u>

Chu Lap Lik, Victor
Director

Zhang Yun Kun
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER, 1997

	NOTES	1997 US\$	1996 US\$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	19	(3,402,672)	<u>(2,759,667)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(6,190,600)	(4,762,000)
Dividend received from an associated company		156,868	<u>345,258</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(6,033,732)	<u>(4,416,742)</u>
TAXATION			
Hong Kong profits tax paid		(18,455)	-
PRC income tax paid		(24,185)	-
		(42,640)	<u>-</u>
INVESTING ACTIVITIES			
(Advance to)/ repayment of capital in associated companies		(892,009)	250,000
Contributions to contractual joint ventures		(15,055,096)	(20,020,850)
Repayment of capital of contractual joint ventures		2,141,711	1,059,986
Proceeds from disposal of listed investments		23,986,388	5,955,063
Acquisition of listed investments		(21,292,644)	(5,351,328)
Net cash inflow on disposal of subsidiaries	20	21,118,665	<u>7,601,873</u>
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		10,007,015	<u>(10,505,256)</u>
INCREASE/(DECREASE) IN CASH AND BANK BALANCES		527,971	(17,681,665)
CASH AND BANK BALANCES AS AT 1 JANUARY		26,943,609	<u>44,625,274</u>
CASH AND BANK BALANCES AS AT 31 DECEMBER		27,471,580	<u>26,943,609</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER, 1997

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

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

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

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

Goodwill

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

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

Subsidiaries

A subsidiary is a company if more than 50% of the issued share capital is held by the Company for long term or, the composition of the board of directors is controlled by the Company.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for any permanent diminution in value.

Associated companies

An associated company is a company, other than a subsidiary, in which the Group has a long term equity interest and over which the Group is in a position to exercise significant influence in management, including participation in commercial and financial policy decisions.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of its associated companies for the year. In the consolidated balance sheet, investments in associated companies are stated at the Group's share of the net assets.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The results of associated companies are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associated companies are stated at cost less provision, if necessary, for any permanent diminution in value.

Contractual joint ventures

A contractual joint venture refers to a joint venture established in the People's Republic of China (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 a fixed return which consists of an income element, with the remainder being a reduction in the cost of investment. The income element is credited to the profit and loss account as income from contractual joint ventures. The fixed return is in some instances, 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.

Other investments

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. 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 other investments is dealt with in reserves to the extent that increases in valuation are credited to revaluation reserves; decreases are first set off against increases on earlier valuations on an individual basis and thereafter are debited to the profit and loss account. Where a depreciation has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the depreciation previously charged.

Revenue recognition

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

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

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

Foreign currencies

Transactions in foreign currencies are translated into United States dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the approximate rates ruling on the balance sheet date.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 the exchange equalisation reserve.

Taxation

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

2. TURNOVER

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

	Group	
	1997	1996
	US\$	US\$
Interest income	2,913,363	3,890,417
Income from contractual joint ventures	4,282,351	1,746,632
Dividend income from other investments	-	1,179,171
Dividend income from listed investments	98,952	96,707
	<u>7,294,666</u>	<u>6,912,927</u>

3. OPERATING PROFIT EXCLUDING EXCEPTIONAL ITEMS

	Group	
	1997	1996
	US\$	US\$
Operating profit excluding exceptional items has been arrived at after charging:		
Amortisation of goodwill	91	91
Auditors' remuneration	36,647	34,875
Exchange loss, (net)	3,743	4,076
Investment manager's fee	<u>1,922,540</u>	<u>1,739,725</u>

4. EXCEPTIONAL ITEMS

	Group	
	1997	1996
	US\$	US\$
Gain on disposal of subsidiaries	6,601,565	1,328,230
Gain on disposal of listed investments	2,623,886	1,490,089
Loss on revaluation of listed investments	(1,261,394)	(211,978)
Provision for diminution in value of unlisted investments	(2,000,000)	-
	<u>5,964,057</u>	<u>2,606,341</u>

5. DIRECTORS' EMOLUMENTS

	Group	
	1997	1996
	US\$	US\$
Directors' fees		
Executive	18,605	23,292
Non-executive	21,705	29,503
	<u>40,310</u>	<u>52,795</u>
Other emoluments		
Salaries and other benefits	-	-
Contribution to retirement benefits schemes	-	-
Performance related incentive payment	-	-
Incentive payment on joining	-	-
	<u>-</u>	<u>-</u>

Emoluments of the directors were within the following bands:

	Number of Directors	
	1997	1996
US\$nil - US\$100,000	<u>17</u>	<u>18</u>

6. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 1997 and 1996 were all directors of the Company and details of their emoluments are included in note 5 above.

7. TAXATION

	Group	
	1997	1996
	US\$	US\$
The charge comprises:		
Profit for the year		
Hong Kong	61,843	11,329
Overseas taxation	40,307	27,333
Share of tax on results of associated companies	53,827	24,443
	<u>155,977</u>	<u>63,105</u>

Hong Kong profits tax is calculated at 16.5% (1996 : 16.5%) of the estimated assessable profit for the year.

Overseas taxation is calculated at the rates prevailing in the relevant jurisdictions.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit for the year of US\$11,113,231 (1996 : US\$7,491,816), a profit of US\$12,191,882 (1996 : US\$7,160,299) has been dealt with in the financial statements of the Company, and a profit after dividend of US\$154,611 (1996 : (US\$157,123)) is retained by/(attributable to) the associated companies.

9. DIVIDENDS

	1997 US\$	1996 US\$
Ordinary shares:		
Interim, paid - US\$0.015 (1996 : US\$0.01) per share	1,428,600	952,400
Final , proposed - US\$0.045 (1996 : US\$0.05) per share	4,285,800	4,762,000
	<u>5,714,400</u>	<u>5,714,400</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.

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of US\$11,113,231 (1996: US\$7,491,816) and 95,240,000 (1996 : 95,240,000) ordinary shares in issue during the year.

11. GOODWILL

	Group	
	1997 US\$	1996 US\$
AT COST		
Balance as at 1 January	1,637	1,126,637
Disposal of subsidiaries	-	(1,125,000)
Balance as at 31 December	<u>1,637</u>	<u>1,637</u>
ACCUMULATED AMORTISATION		
Balance as at 1 January	272	150,181
Charge for the year	91	91
Amount written back on disposal	-	(150,000)
Balance as at 31 December	<u>363</u>	<u>272</u>
NET BOOK VALUE		
Balance as at 31 December	<u>1,274</u>	<u>1,365</u>

12. INTERESTS IN SUBSIDIARIES

	Group	
	1997	1996
	US\$	US\$
Investment at cost (less amounts written off):		
Unlisted shares	10,066,349	10,066,350
Amounts due from subsidiaries	77,047,159	65,330,777
Amounts due to a subsidiary	(61,523)	(62,783)
	<u>87,051,985</u>	<u>75,334,344</u>

Details of all principal subsidiaries are set out in note 23.

13. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	1997	1996
	US\$	US\$
Share of attributable net assets	3,646,663	3,479,375
Amounts due from associated companies	16,867,958	15,975,949
	<u>20,514,621</u>	<u>19,455,324</u>
Less : Provision for diminution in value of investments	(2,000,000)	-
	<u>18,514,621</u>	<u>19,455,324</u>

13. INTERESTS IN ASSOCIATED COMPANIES (CONT'D)

Details of associated companies are as follows:

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

The financial statements of the above associated companies are not audited by Deloitte Touche Tohmatsu International.

14. CONTRACTUAL JOINT VENTURES

	Group 1997 US\$	1996 US\$
Unlisted investments		
Contributions to contractual joint ventures less repayment of capital	33,711,654	35,290,444

14. CONTRACTUAL JOINT VENTURES (CONT'D)

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	4 May 2009
Weifang Zhaoyin Real Estate Development Co., Ltd.	Property development	23 June 2014
Yantai Huashang Power Co., Ltd.	Operation of power plant	20 January 2016
Chengde Wanli Steel Tubes Co., Ltd.	Steel tubes manufacturing	12 March 2016
Maoming Tongfa Highway Co., Ltd.	Highway construction and operation	28 February 2021
Beijing Longbao Mansion Joint Operation Project	Property investment	24 July 2000

15. OTHER INVESTMENTS

	Group		Company	
	1997 US\$	1996 US\$	1997 US\$	1996 US\$
At cost less provision:				
Listed shares in Hong Kong	643,906	2,051,096	141,000	16,300
Listed shares overseas	346,242	726,921	22,160	25,040
Unlisted investments in the PRC	10,859,195	10,859,195	-	-
	<u>11,849,343</u>	<u>13,637,212</u>	<u>163,160</u>	<u>41,340</u>
Market value of listed shares	<u>990,148</u>	<u>2,778,017</u>	<u>163,160</u>	<u>41,340</u>

15. OTHER INVESTMENTS (CONT'D)

Details of the Group's listed investment portfolio were as follows:

Name of securities	Principal activities	Historical cost US\$	Market value US\$	% of net asset value of the Group
China Elegance International Fashion Limited*	Manufacturing of leather garments	529,379	141,000	0.13
GITIC Enterprise Ltd.*	Importing and selling of marble and granite products	199,017	86,506	0.08
Guangdong Development Fund Ltd.	China direct investment	24,256	22,160	0.02
Guangshen Railway Co., Ltd.* "H" share	Operation of railroad between Guangzhou and Shenzhen	487,253	265,000	0.25
Shenzhen Chongqing Changan Automobile Co. Ltd. "B" share	Manufacturing of mini-vehicles	238,889	160,800	0.15
Shenzhen SEZ Real Estate & Properties (Group) Co., Ltd. "B" share	Real estate development	350,121	163,282	0.15

15. OTHER INVESTMENTS (CONT'D)

Name of securities	Principal activities	Historical cost US\$	Market value US\$	% of net asset value of the Group
Yizheng Chemical Fibre Co., Ltd.* "H" share	Production and distribution of polyester chip and polyester stamp fibres	296,413	90,500	0.09
Zhejiang Expressway Co., Ltd.* "H" share	Toll road development and operations	93,327	60,900	0.06
		2,218,655	990,148	0.93

* Securities listed in Hong Kong

16. NET CURRENT ASSETS

	Group		Company	
	1997 US\$	1996 US\$	1997 US\$	1996 US\$
CURRENT ASSETS				
Cash and bank balances	27,471,580	26,943,609	22,484,328	23,339,807
Accounts receivable and prepayments	18,949,723	10,565,133	1,399,173	6,263,910
Tax recovery	-	-	-	652
	46,421,303	37,508,742	23,883,501	29,604,369
CURRENT LIABILITIES				
Accounts payable, other payables and accrued charges	734,974	668,067	731,323	661,854
Dividend payable	4,285,800	4,762,000	4,285,800	4,762,000
Taxation	86,191	26,681	50,382	-
	5,106,965	5,456,748	5,067,505	5,423,854
NET CURRENT ASSETS	41,314,338	32,051,994	18,815,996	24,180,515

17. SHARE CAPITAL

	1997 US\$	1996 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>

18. RESERVES

	Share premium US\$	Investment revaluation US\$	Exchange equalisation US\$	Retained profits US\$	Total US\$
THE GROUP					
As at 1 January, 1997	85,716,544	456,617	148,673	4,590,505	90,912,339
Revaluation gains less losses on listed investments	-	(456,617)	-	-	(456,617)
Exchange differences on translation of financial statements of associated companies	-	-	12,677	-	12,677
Profit for the year, retained	-	-	-	5,398,831	5,398,831
As at 31 December, 1997	<u>85,716,544</u>	<u>-</u>	<u>161,350</u>	<u>9,989,336</u>	<u>95,867,230</u>
THE COMPANY					
As at 1 January, 1997	85,716,544	2,540	-	4,313,115	90,032,199
Revaluation gains less losses on listed investments	-	(2,540)	-	-	(2,540)
Profit for the year, retained	-	-	-	6,477,482	6,477,482
As at 31 December, 1997	<u>85,716,544</u>	<u>-</u>	<u>-</u>	<u>10,790,597</u>	<u>96,507,141</u>

18. RESERVES (CONT'D)

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

	Retained profits US\$
As at 1 January, 1997	309,435
Profit for the year, retained	<u>154,611</u>
As at 31 December, 1997	<u><u>464,046</u></u>

The amount of the Company's reserves available for distribution to shareholders, calculated in accordance with generally accepted accounting principles in Hong Kong, was US\$10,790,597 (1996 : US\$4,313,115).

19. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH OUTFLOWS FROM OPERATING ACTIVITIES

	1997 US\$	1996 US\$
Profit from ordinary activities before taxation	11,269,208	7,554,921
Gain on disposal of subsidiaries	(6,601,565)	(1,328,230)
Gain on disposal of listed investments	(2,623,886)	(1,490,089)
Unrealised loss on revaluation of listed investments	1,261,394	211,978
Amortisation of goodwill	91	91
Share of results of associated companies	(365,306)	(212,578)
Provision for diminution in value of unlisted investments	2,000,000	-
Increase in accounts receivable and prepayments	(8,409,515)	(7,474,968)
Increase/(decrease) in accounts payable, other payables and accrued charges	<u>66,907</u>	<u>(20,792)</u>
Net cash outflow from operating activities	<u><u>(3,402,672)</u></u>	<u><u>(2,759,667)</u></u>

20. SALE OF SUBSIDIARIES

	1997 US\$	1996 US\$
NET ASSETS DISPOSED OF		
Interest in an associated company	-	1,399,306
Interests in contractual joint ventures	14,492,175	3,810,780
Accounts receivable, prepayments and deposits	24,925	88,557
Goodwill	-	975,000
	<u>14,517,100</u>	<u>6,273,643</u>
Gain on disposal included in exceptional items	6,601,565	1,328,230
Proceeds on disposal	<u>21,118,665</u>	<u>7,601,873</u>
Satisfied by:		
Cash	<u>21,118,665</u>	<u>7,601,873</u>

21. COMMITMENTS

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

	Group 1997 US\$	1996 US\$
Capital expenditure in respect of outstanding capital contribution to an associated company –contracted for but not provided for in the financial statements	<u>-</u>	<u>490,000</u>

22. COMPARATIVES

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

23. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
CMCDI Zhaoyuan Limited	BVI	Investment holding	1 ordinary share of US\$1 each
CMCDI Power Development Limited	BVI	Investment holding	1 ordinary share of US\$1 each
China Merchants Industry Development (Shenzhen) Limited*	PRC	Investment holding	Paid up capital of US\$10,000,000
Convoy Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Foster Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Head Union Development Limited	HK	Investment holding	2 ordinary shares of HK\$1 each
Ryan Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Star Group Limited	HK	Investment holding	2 ordinary share 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

23. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
Weaver International Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Wheaton International Limited	BVI	Investment holding	1 ordinary share of US\$1 each
Woodford Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group.

* Companies not audited by Deloitte Touche Tohmatsu International.

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 31 December, 1997.

COMBINED ASSETS AND LIABILITIES AS AT 31 DECEMBER, 1997

	1997 US\$	1996 US\$
Fixed assets	23,175,077	23,251,814
Investment in a joint venture	25,363,500	25,413,421
Intangible assets	544,941	535,346
Formation and other deferred expenses	41,131	3,259
Net current assets	9,215,841	5,465,687
Loans and advances	(46,032,369)	(42,937,907)
	<hr/>	<hr/>
Net assets	12,308,121	11,731,620
Amount attributable to the Group	<u>3,646,663</u>	<u>3,479,375</u>

COMBINED RESULTS FOR THE YEAR ENDED 31 DECEMBER, 1997

	1997 US\$	1996 US\$
Turnover	<u>31,683,522</u>	<u>22,081,002</u>
Depreciation	1,614,290	675,654
Profit before taxation	1,277,122	755,949
Profit before taxation attributable to the Group	<u>365,306</u>	<u>212,578</u>

FINANCIAL SUMMARY

	For the year ended 31 December			
	1994	1995	1996	1997
RESULTS	US\$	US\$	US\$	US\$
Turnover	4,956,482	7,269,831	6,912,927	7,294,666
Profits excluding exceptional items	3,582,764	5,539,275	4,736,002	4,939,845
Exceptional items	(452,625)	(411,009)	2,606,341	5,964,057
Profit from ordinary activities before taxation	3,130,139	5,128,266	7,342,343	10,903,902
Share of results of associated companies	418,332	320,119	212,578	365,306
Taxation	-	(31,286)	(63,105)	(155,977)
Profit for the year	3,548,471	5,417,099	7,491,816	11,113,231
Per share basis				
Earning per share	0.037	0.057	0.079	0.117
Dividend per share	0.03	0.05	0.06	0.06
Net asset value per share	1.025	1.032	1.055	1.107
ASSETS AND LIABILITIES				
Total assets	101,094,687	102,776,407	105,893,087	110,498,195
Total liabilities	3,504,118	4,498,459	5,456,748	5,106,965
Shareholders' funds	97,590,569	98,277,948	100,436,339	105,391,230

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Jade Room, 3rd Floor, Hotel Furama Kempinski Hong Kong, 1 Connaught Road Central, Hong Kong on Monday, 29 June, 1998 at 4:00 p.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December, 1997.
2. To declare a final dividend for the year ended 31 December, 1997.
3. To re-elect retiring Directors and authorise the Board of Directors to fix Directors' remuneration.
4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.
5. To consider as special business and, if thought fit, pass with or without modifications, the following resolutions as Ordinary Resolutions:

"THAT:

- (a) a sum of approximately US\$1,904,800 being part of the amount standing to the credit of the share premium account of the Company be capitalised and that the same be applied in making payment in full at par for 19,048,000 shares of US\$0.10 each in the capital of the Company, such shares to be distributed as fully paid shares among the shareholders of the Company on the Register of Members on 29 June, 1998, at the rate of one fully paid share for every five shares of the Company held by such shareholders respectively, provided that fractional entitlements shall be disregarded, such fully paid shares to rank pari passu in all respects with the existing issued shares of the Company save that they shall not be entitled to the final dividend in respect of the year ended 31 December, 1997;
- (b) the bonus issue of shares is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in these bonus shares; and

- (c) the Directors be and are hereby authorised generally to do all acts and things required to give effect to the bonus issue of shares in the Company."
6. 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 as enlarged by the bonus issue of shares pursuant to Resolution 5 and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

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

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

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

B. **"THAT:**

- (a) subject to paragraph (b), 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 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 as enlarged by the bonus issue of shares pursuant to Resolution 5 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 6A and 6B 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 6B 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 6A, 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 as enlarged by the bonus issue of shares pursuant to Resolution 5."

By Order of the Board

Elizabeth Ka-Yee Kan

Company Secretary

Hong Kong, 14 May, 1998

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 23 June, 1998 to 29 June, 1998, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend and the bonus issue of shares to be approved at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's registrar, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 22 June, 1998.
- (4) At the Annual General Meeting of the Company held on 18 June, 1997, Ordinary Resolutions were passed giving general mandates to Directors to allot, issue and otherwise deal with additional shares in the capital of the Company and to repurchase shares of the Company on the Stock Exchange. 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 1998, unless renewed at that meeting. The Ordinary Resolutions sought in items 6A and 6B of this notice renew these mandates.
- (5) With reference to the Ordinary Resolutions sought in items 6A and 6B of this notice, the Directors wish to state that they have no immediate plans to issue any new shares or to repurchase any existing shares of the Company. Approval is being sought from members as general mandates pursuant to the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. The Circular required by the Rules Governing the Listing of Securities on the Stock Exchange in connection with the proposed new issue and repurchase mandates will be despatched to shareholders together with the Annual Report of the Company.