

**CHINA MERCHANTS CHINA DIRECT
INVESTMENTS LIMITED**

Annual Report 1998

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Corporate Information

BOARD OF DIRECTORS

FU Yuning (Chairman)
CHU Lap Lik, Victor
ZHANG Yun Kun
HUANG Dazhan
ZHANG Zheng Ming
KAN Ka Yee, Elizabeth
(alternate to CHU Lap Lik, Victor)
The Hon. LI Kwok Po, David**
KUT Ying Hay**
POON Kwok Lim, Steven**
CUI Guisheng*
HOW Peck Huat*
SUN Junjian*
LI Kai Cheong, Samson**
(alternate to The Hon. LI Kwok Po, David)

* *non-executive directors*

** *independent non-executive directors*

COMPANY SECRETARY

Kan Ka Yee, Elizabeth, AICPA, FHKSA

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,
People's 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, 19th Floor,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

Chairman's Statement



Dr. Fu Yuning
Chairman

I will do my utmost to lead the Group towards the new century with excellent results.

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 31 December 1998 totaled US\$6,904,545 (approximately HK\$53,855,451), a 38% decrease over that of 1997; the net asset value per share before the final dividend was US\$0.969 (approximately HK\$7.56), an increase of 5% against US\$0.922 (after adjustment for 5 for 1 bonus issue in 1998) in 1997.

The Board of Directors has proposed a final dividend of US\$0.013, or HK\$0.10 per share and 1 bonus share for every 5 shares held. The total cash dividend per share for 1998 will be US\$0.026, or HK\$0.20.

Hong Kong and other Asian economies experienced a volatile year in 1998, suffering a deep recession in the wake of the Asian financial crisis. The impact of the financial turmoil, combined with a prolonged period of severe flooding over massive areas of China, posed considerable challenge on the Mainland economy.

The Group's investments encompass infrastructure, financial services, manufacturing and real estate sectors in the Mainland. With the exception of infrastructure, all other sectors were adversely affected by the crisis to some extent. Nevertheless, some investee companies still generated fair results in 1998, due to the Group's efforts in strengthening its management control in these companies, helping them upgrade their management quality and enhancing the competitiveness of their products.

As at the end of 1998, the Group had 11 unlisted investment projects, valued at approximately US\$70 million, representing 64% of its total net asset value. The Group also held listed shares and debt securities valued at US\$2.76 million by the end of 1998. In 1998, the Group successfully disposed of one unlisted investment for a gain of US\$1.8 million. Since 1995, the Group has disposed of 5 investment projects, all of which generated satisfactory returns.

The Board of Directors accepted the resignation of Mr. Sun Yin as the Chairman of the Board on 26 January 1999, as well as the resignations of Mr. Jia Yuan, Mr. Teo Eu Seng, Mr. Kwok Fai and Mr. Jia Jianping as Directors during 1998 and 1999. On behalf of the Board, I wish to thank Mr. Sun Yin and the other resigned Directors for their contributions to the Group.

Chairman's Statement

Looking to 1999, I believe that the most difficult period for the Asian economies will soon be over and that Hong Kong will see a recovery in the second half of 1999. The Mainland's entry into the World Trade Organization will most likely be realized in 1999. This will help the Mainland maintain its steady economic growth, which in turn will bring new opportunities to the Group. With a strong cash position, the Group will continue to look for investment projects with low risk and stable returns. In the meantime, the Group will actively explore investment opportunities in the high-tech sector, with the aim of delivering a better return to shareholders.

Finally, on behalf of the Board, I wish to express our heartfelt thanks to the members of the investment committee as well as the staff of the investment manager, for their dedicated contribution and support. I will also do my utmost to lead the Group towards the new century with excellent results.

Fu Yuning
Chairman
Hong Kong, 20 May 1999

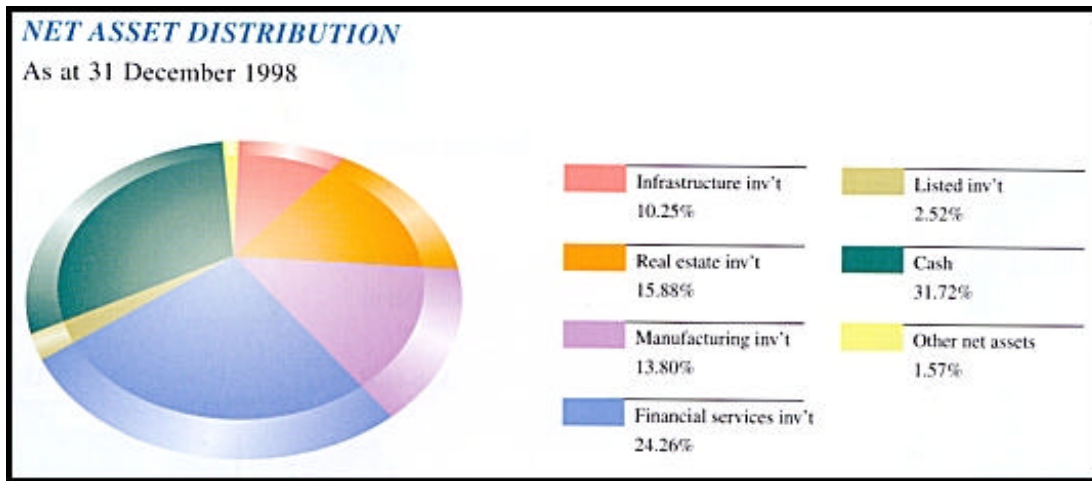
The Investment Manager's Report



Managing Director & Deputy Managing Director of the Investment Manager:
Mr. Zhang Yun Kun & Ms. Kan Ka Yee, Elizabeth

The Investment Manager's Report

As at 31 December 1998, China Merchants China Direct Investments Limited and its subsidiaries (the "Group") had invested approximately US\$70 million in eleven unlisted investments and US\$2.76 million in listed investments. The unlisted investment projects are diversified, in the sectors of infrastructure (accounting for 10.25% of the Group's net assets); real estate (15.88%); manufacturing (13.80%); and financial services (24.26%). In 1998, the Group disposed of one unlisted investment project, reaping a satisfactory return.



REVIEW OF UNLISTED INVESTMENTS

The following table shows the unlisted investment projects held by the Group in 1998:

Name of Projects	Business Location	Investment Nature	Percentage Amount * of Net Assets	
Infrastructure:				
1. Weifang Yin Yuan Aviation Industry Co. Ltd.	Weifang, Shandong	Airport terminal	1.16	1.06
2. Yantai Huashang Power Co. Ltd.	Yantai, Shandong	Power plant	(Disposed of in mid 1998)	
3. Maoming Tongfa Highway Co. Ltd.	Maoming, Guangdong	Toll road	<u>10.04</u>	<u>9.19</u>
		Sub-total	<u>11.20</u>	<u>10.25</u>

The Investment Manager's Report

Name of Projects	Business Location	Investment Nature	Percentage Amount *	of Net Assets
Real Estate:				
4. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retail shops	3.49	3.19
5. China Merchants Plaza (Shanghai) Property Co. Ltd.	Shanghai	Office & commercial	5.78	5.29
6. Weifang Zhaoyin Real Estate Development Ltd.	Weifang, Shandong	Low-cost housing	3.10	2.84
7. Beijing Longbao Mansion	Beijing	Office & apartments	4.98	4.56
		Sub-total	<u>17.35</u>	<u>15.88</u>
Manufacturing:				
8. Tangshan Kintil Ceramics Ltd.	Tangshan, Hebei	Ceramic tiles	2.21	2.02
9. Zhaoyuan Jinbao Electronics Co. Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	18.63	7.90
10. Chengde Wanli Steel Tubes Co. Ltd.	Chengde, Hebei	Steel tubes	4.24	3.88
		Sub-total	<u>15.08</u>	<u>13.80</u>
Financial Services:				
11. China Merchants Bank	Shenzhen, Guangdong	Banking	13.77	12.60
12. Fujian Industrial Bank	Fuzhou, Fujian	Banking	12.74	11.66
		Sub-total	<u>26.51</u>	<u>24.26</u>
		Total	<u>70.14</u>	<u>64.19</u>

* Net Book Value at 31 December 1998 (US\$ million).

The Investment Manager's Report



**Locations of
Projects**

The Investment Manager's Report



Weifang Yin Yuan Aviation Industry Co. Ltd. (“Yin Yuan”)

Yin Yuan, established in April 1994, owns the rights to operate the Weifang City Airport for a period of 15 years. The Group invested US\$2.875 million for a 31.265% interest in the company. The Group received its fourth return payment in May 1998 as scheduled. To date, the Group has obtained return payments of US\$2.98 million in total. As illustrated by the figures, the investment principal has already been fully recovered.

Maoming Tongfa Highway Co. Ltd. (“Tongfa”)

The Group invested US\$10 million in May 1997 to set up Tongfa in Maoming City, Guangdong Province, and owns a 34.7% interest. Tongfa is engaged in the reconstruction and operation of the 40 km long Provincial Highway No. 1987. The first phase of the construction work was completed in early 1998. Due to a slowdown in economic activity, and an increase in the use of monthly passes, Tongfa's toll income decreased by 4% compared to that of 1997. The Group is in discussions with the Chinese party to improve Tongfa's control over the use of monthly passes and internal management, particularly in enhancing toll collection and financial management, in order to achieve better returns in 1999.



Shenzhen Man Kam Square

Through a 35% holding in Hansen Enterprises Limited (“Hansen”), the Group invested in a 5,262 sq.m. shopping arcade in Man Kam Square, Shenzhen, in 1994. The Group paid a total deposit of US\$4.29 million. Due to the developer's inability to deliver the property on time, in accordance with the contractual pre-sale agreement, Hansen took legal action in early 1997 to terminate the contract and secure refunds and compensation. Judgements in two trials were in Hansen's favour. However, in the course of enforcing the judgements, the developer complained to the Beijing Supreme Court. In mid-1998, the Supreme Court ordered the Guangdong Provincial High Court to suspend the enforcement and re-examine the case. Up until now, no decision has yet been made. Hansen has protested through various channels to have the original judgement upheld and carried out as soon as possible.



China Merchants Plaza (Shanghai) Property Co. Ltd. (“Property Co.”)

Property Co. was set up in 1994 for the development of China Merchants Plaza in the center of Shanghai City. The plaza was completed in late 1998. The Completion Certificate and Property Title Certificate have been obtained. About 9,812 sq.m, representing 16% of the total gross floor area, were sold or let by the end of 1998.

The Investment Manager's Report

Progress in leasing and sales has been accelerated since the plaza's completion. Unfortunately, Shanghai still has an oversupply of office space. It is expected to take some time for the market to digest all the vacant units.

The Group owns a 19.8% stake in the project, for an investment of US\$7.68 million. To counteract the sluggish property market in Shanghai, the Group made a further provision of US\$1.6 million in 1998. This was in addition to the US\$1.2 million provision made in 1997.

Weifang Zhaoyin Real Estate Development Limited (“Zhaoyin”)

Zhaoyin was established in 1994, with the aim of developing the “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 over a 20-year cooperation period. Due to China's tightening policy on land use, income from the Development Zone, which depends mainly on land development, was adversely affected. Since 1997, the Group has received only part of the scheduled return from the project. The management is coordinating closely with all parties concerned to seek a satisfactory solution.

Beijing Longbao Mansion

Longbao Mansion is situated near the Third East Ring Road of Chaoyang District of Beijing. It comprises two blocks of 17-storey apartments and a podium, which is earmarked for office use. In July 1997, the Group signed an agreement with the developer to jointly manage the rental space of the building. The Group owns a 35% interest, having invested US\$4.98 million. Due to fierce competition, about 65% of the 5,016 sq.m. floor area owned by the Group was unoccupied by the end of 1998. The developer has requested for a grace period in paying the investment return to the Group in 1999. The Group is currently engaged in discussions with the counterparty to work out a solution.



Tangshan Kintil Ceramics Ltd. (“Kintil”)

Kintil is a Sino-foreign equity joint venture engaged in the production and sale of glazed mosaics and homogeneous tiles. The Group invested US\$2.21 million in Kintil for a 15% interest. In recent years, the price of construction materials has dropped substantially, due to keen competition brought on by a weak property market in China. Kintil recorded an operating loss of US\$1.7 million in 1998. Kintil's management is adjusting the company's product mix according to the market situation and strengthening its control over inventory, in an effort to turn the losses around in 1999.

The Investment Manager's Report



Zhaoyuan Jinbao Electronics Co. Ltd. ("Jinbao")

Jinbao was established at the end of 1993 to manufacture and market copper foils, copper-clad laminates and printed circuit boards. The Group has invested US\$7 million in the company and holds a 30% equity interest. Other investors are Shandong Zhaoyuan Electronic Materials and BOC China Fund Limited. In 1998, Jinbao strengthened its cost controls and achieved good results. During the period under review, although sales dropped by 1%, net profit grew 23%. The Group reaped a total return of US\$0.92 million from the project in 1998.



Chengde Wanli Steel Tubes Co. Ltd. ("Wanli")

Wanli, a Sino-foreign cooperative joint venture, was founded in 1996 for the production of seamless-like steel tubes, with a stretch reducing mill imported from Germany. The Group, along with Chengde Iron & Steel Group, invested US\$14.29 million, and the two parties hold equity stakes of 35% and 65% respectively. The project's construction was substantially completed in early 1999 and is currently undergoing trial production. Wanli is expected to commence full production soon and enjoy a profit contribution in 1999.



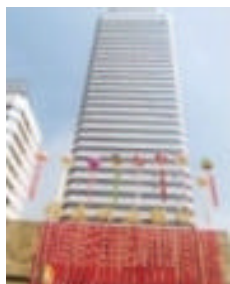
China Merchants Bank ("CMB")

CMB's 1998 net profit decreased by 34.3%, to RMB1.4 billion over the 1997 figure, as a result of the margin squeeze in the deposit and lending rate caused by interest rate cuts. Furthermore, a change in the accounting treatment of non-performing loans and the spin-off of the securities subsidiary also weakened the bank's performance. Up to the end of 1998, deposits and loans grew by 27% and 20% respectively. With total assets of RMB150.9 billion at the end of 1998, CMB continued to be the second largest non-state-owned commercial bank in the Mainland. In terms of return on average capital, the bank has received top ranking among all commercial banks in China for three consecutive years.

In order to further enhance its capital base for an expansion of its branch network, CMB launched its third share issue program in August 1998. The bank's issued capital was enlarged from RMB2.8 billion to RMB4.2 billion. The Group subscribed to 12.12 million shares at a cost of US\$5.12 million, maintaining the shareholding at a level of about 1.7%.

The Investment Manager's Report

Fujian Industrial Bank (“FIB”)



In July 1998, in cooperation with the China Merchants Group, the Group invested US\$12.72 million to acquire 48 million new shares in FIB, representing a 3.2% interest in the bank.

At the end of 1998, FIB's total assets stood at RMB35.58 billion. Total deposits and total loans amounted to RMB24.67 billion and RMB16.73 billion respectively.

The bank reported a net profit of RMB371 million in 1998, an increase of 7.2% over 1997. Nevertheless, this figure was lower than forecast due to an overall unfavourable operating environment and the impact of policy issues in the Mainland.

To fulfill requirements set by the People's Bank of China, to separate banking from other businesses, the bank resolved, in November 1998, to sell its entire interest in its wholly-owned Fujian Industrial Securities Corporation. The bank's existing shareholders were entitled to subscribe to 70% of the shares in the securities company at a price matching its net asset value. Accordingly, the Group subscribed to a 2.24% interest at an investment cost of US\$1.03 million. The subscription money will be settled by the bank's dividend distribution for 1998. This investment is subject to final approval by the People's Bank of China.

DISPOSAL OF UNLISTED INVESTMENT DURING THE YEAR

Yantai Huashang Power Co. Ltd. (“Huashang”)

Huashang was a Sino-foreign cooperative joint venture, established in January 1995 to take up a 27% interest in Phase II of Shandong Longkou Power Plant. The Group invested US\$10 million in Huashang, representing a 33.47% holding in the joint venture.

Owing to the surplus supply of electricity in the Mainland, the power plant recorded losses of RMB11.71 million and RMB7.59 million in 1996 and 1997 respectively. In light of the difficulties encountered by Huashang in paying the investment return on schedule, the Group had ongoing negotiations with the Chinese party, Yantai Electric Power Development Corporation, on share transfer in 1998. In June 1998, an agreement was reached under which the Chinese party agreed to buy back the Group's entire interest in the joint venture at a consideration of US\$11.87 million. The above mentioned proceeds were received in full.

The Group achieved a profit of US\$1.8 million from this transaction, representing an IRR of 13% p.a.

The Investment Manager's Report

REVIEW OF LISTED INVESTMENTS

The China and Hong Kong stock markets were very volatile in 1998. Despite a mild 6.3% decline on the Hang Seng Index over the whole year, the margin between the peak and the bottom was about 5,000 points. Shares of red chips and H-share companies were dumped wholesale on the market on a number of occasions. The corresponding indices fell by 48% and 45% respectively. B-shares indices in Shanghai and Shenzhen also ended the year close to their yearly lows. As a result, the Group considerably reduced its stock trading activities last year. At the end of 1998, the Group had a stock portfolio valued at US\$1.17 million, suffering a book loss of US\$1.1 million.

In times of poorly gloomy stock markets, high interest rates and low inflation, debt securities become a preferred investment choice. In the second half of 1998, the Group began to invest in convertible bonds and floating rate notes of quality red-chip companies. The Group held a total of US\$1.59 million in such debt securities at the end of 1998.

Zhang Yun Kun

Managing Director

China Merchants China Investment
Management Limited

Hong Kong, 20 May 1999

Financial Highlights



Year	Net profit US\$'000	Net Assets US\$'000
1994	3,548	97,591
1995	5,417	98,278
1996	7,492	100,436
1997	11,113	105,391
1998	9,905	109,287

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries and associated companies are set out in notes 32 and 15 respectively to the financial statements.

The Group's turnover and contribution to operating profit for the year ended 31 December 1998, analysed by principal activity, were as follows:

	Turnover US\$	Operating profit US\$
By principal activity:		
Income from contractual joint ventures	3,967,678	3,967,678
Interest income	2,924,573	2,924,573
Dividend income from listed investments	62,877	62,877
Dividend income from other investments	<u>1,814,073</u>	<u>1,814,073</u>
	<u>8,769,201</u>	8,769,201
Contribution from associated companies		450,972
Exceptional items		(892,961)
Other income		1,079,232
Indirect overheads		<u>(2,416,477)</u>
Profit from ordinary activities before taxation		<u>6,989,967</u>

All of the activities of the Group are based in the People's Republic of China (the "PRC") and more than 90% of the Group's turnover and operating profit are derived from the PRC.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the Company's subsidiaries and associated companies at 31 December 1998 are set out in notes 32 and 15 respectively to the financial statements.

Directors' Report

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 1998 are set out in the consolidated profit and loss account on page 28.

An interim dividend of US\$0.013 per share, amounting to US\$1,485,744, was paid to shareholders during the year. The Directors now recommend the payment of a final dividend of US\$0.013 or HK\$0.10 per share to the shareholders on the register of members on 23 June 1999, amounting to US\$1,485,744, and the retention of the remaining profit for the year is US\$3,933,057.

The Directors propose a bonus issue of shares on the basis of one fully paid ordinary share for every five ordinary shares held on 23 June 1999.

RESERVES

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 53.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 19 to the financial statements.

A bonus issue of shares was made during the year on the basis of one fully paid ordinary share for every five ordinary shares held on 29 June 1998. The new shares rank *pari passu* with the existing shares in all respects.

BORROWINGS

Bank loan repayable within one year is classified as current liabilities, details of which are set out in note 18 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

Directors' Report

DIRECTORS

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

Executive Directors

Dr. FU Yuning (Chairman)	(appointed on 26 January 1999)
Mr. CHU Lap Lik, Victor	
Mr. ZHANG Yun Kun	
Mr. ZHANG Zheng Ming	
Dr. HUANG Dazhan	(appointed on 17 March 1999)
Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor)	(appointed on 20 May 1999)
Mr. SUN Yin (Chairman)	(resigned on 26 January 1999)
Mr. KWOK Fai	(resigned on 17 March 1999)

Non-executive Directors

The Hon. LI Kwok Po, David*	
Mr. KUT Ying Hay*	
Mr. POON Kwok Lim, Steven*	
Mr. CUI Guisheng	(appointed on 18 August 1998)
Mr. HOW Peck Huat	(appointed on 2 September 1998)
Mr. SUN Junjian	(appointed on 20 May 1999)
Mr. LI Kai Cheong, Samson* (alternate to The Hon. LI Kwok Po, David*)	(appointed on 15 May 1999)
Mr. SATO Haruo	(resigned on 14 May 1998)
Mr. JIA Yuan	(resigned on 18 August 1998)
Mr. TEO Eu Seng	(resigned on 2 September 1998)
Mr. JIA Jianping	(resigned on 20 May 1999)

In accordance with the provisions of the Company's Articles of Association, Dr. Fu Yuning, Dr. Huang Dazhan, Mr. Hbw Peck Huat, Mr. Cui Guisheng, Mr. Sun Junjian and Mr. Zhang Yun Kun 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.

* *Independent non-executive directors*

Directors' Report

Biographical details of Directors are as follows:



Dr. FU Yuning, aged 42, is the chairman of the Company and has been an executive director of the Company since January 1999. He is also a director of China Merchants China Investment Management Limited (“CMCIM”). Dr. Fu is an executive director and vice president of China Merchants Holdings Company Limited. He also holds directorships in a number of companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest. Before joining the China Merchants Group in 1998, Dr. Fu was the president of China Nanshan Development (Group) Inc., and the managing director and the chairman of Shenzhen Chiwan Wharf Holdings Limited (whose “B” shares have been listed on the Shenzhen Stock Exchange since 1993). Dr. Fu obtained his Ph.D. degree in offshore engineering from Brunel University, UK, in 1986 and had been a post-doctorate research fellow in the university.



Mr. CHU Lap Lik, Victor, aged 41, 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. Outside of Hong Kong, Mr. Chu is a council member of the World Economic Forum and vice chairman of the ICC Commission on Financial Services and Insurance. Mr. Chu took his law degree at University College, London.



Mr. ZHANG Yun Kun, aged 42, 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 a deputy general manager of the banking and 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.

Directors' Report



Dr. HUANG Dazhan, aged 41, has been an executive director of the Company since March 1999. He is also a director of CMCIM. Dr. Huang is the senior financial adviser of China Merchants Holdings Company Limited and was appointed as the leader of the steering group which is responsible for the establishment of China Merchants Financial Holdings Limited. He also holds directorships in a number of companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest. Before joining the China Merchants Group in December 1998, he was the general manager in financial department of China Nanshan Development (Group) Inc. and a senior financial adviser of Shenzhen Chiwan Petroleum Supply Base Company Limited and Shenzhen Chiwan Wharf Holdings Limited. Dr. Huang obtained his master and Ph.D. degrees in economics from the University of Manchester, UK, and was a post-doctorate research fellow in the Financial Centre of Manchester.



Mr. ZHANG Zheng Ming, aged 50, has been an executive director of the Company since March 1997. He was also a director of CMCIM from December 1996 to February 1999. Mr. Zhang graduated from the Faculty of Accountancy, China Shanxi Financial and Economics University in 1982 and was awarded a bachelor of economics degree. Mr. Zhang joined the China Merchants Group in 1984 and was later appointed deputy general manager of China Merchants Shekou Trading Company Limited.



Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 41, was appointed alternate director of the Company in May 1999. She is also a director of CMCIM. Ms. Kan is the managing director of First Eastern Investment Group and was formerly Director-Administration of the Hong Kong office of an international public accounting firm in the area of audit and business advisory services. She is a Certified Public Accountant (USA) and a fellow member of the Hong Kong Society of Accountants. Ms. Kan received her Bachelor of Science degree in Business and Bachelor of Arts degree from the University of Minnesota, USA.

Directors' Report



Dr. The Hon. LI Kwok Po, David, aged 60, has been an independent non-executive director of the Company since June 1993. Dr. Li is the chairman and chief executive of The Bank of East Asia, Limited. He is also the chairman of The Chinese Banks' Association, Limited, the Hong Kong Management Association and the Committee of Corporate Economists' Advisory Group of International Chamber of Commerce - Hong Kong, China Business Council. He is a member of the Banking Advisory Committee, the Exchange Fund Advisory Committee and the Land Fund Advisory Committee, a director of Mandatory Provident Fund Schemes Authority and a member of the Legislative Council of Hong Kong. Dr. Li is the deputy chairman of Hong Kong Telecommunications Limited and a director of Campbell Soup Company, CATIC Shenzhen Holdings Limited, Chelsfield Plc., China Overseas Land & Investment Limited, COSCO Pacific Limited, Dow Jones & Company, Inc., Guangdong Investment Limited, Guangnan (Holdings) Limited, The Hong Kong and China Gas Company Limited, The Hong Kong and Shanghai Hotels, Limited, Hong Kong Interbank Clearing Limited, The Hong Kong Mortgage Corporation Limited, Jones Lang LaSalle Incorporated, KTP Holdings Limited, New World Infrastructure Limited, PowerGen Plc., 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. Dr. Li also serves on the international advisory boards of Carlos P. Romulo Foundation for Peace and Development, Daimler-Chrysler AG, Edelman, Federal Reserve Bank of New York's International Capital Markets Advisory Committee, Gulfstream Aerospace, IBM, Jardine Fleming Asian Property Company, Lafarge, NASDAQ, PowerGen and Rolls-Royce Plc.



Mr. KUT Ying Hay, aged 44, has been an independent non-executive director of the Company since June 1993. He is a non-executive director of China Merchants Holdings (International) Company Limited. Mr. Kut is a practising solicitor and notary public and the proprietor of Messrs. Kut & Co., a firm of solicitors. He is an attesting officer appointed by the Ministry of Justice of the PRC. He is also a solicitor of the Supreme Courts of England, Victoria of Australia, Singapore and is an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators & Mediators, Australia. For the period from 1995 to 1998, he was a member of the Board of Review established by the Hong Kong government pursuant to the Inland Revenue Ordinance.

Directors' Report



Mr. POON Kwok Lim, Steven, aged 55, 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. CUI Guisheng, aged 52, has been a non-executive director of the Company since August 1998. He is the managing director of ONFEM Holdings Limited ("ONFEM") and the president of China Nonferrous Metals Group (HK) Limited, an executive director and vice chairman of Oriental Metals (Holdings) Company Limited. Mr. Cui is a qualified senior economist in the PRC and is a tutor of the master degree research candidates in the Central South China University of Technology. Prior to joining ONFEM, he was the executive managing director of Zhuhai Shining Metals Group, Inc., a company listed on the Shenzhen Stock Exchange, the president of China National Nonferrous Metals Import & Export Corporation (Zhuhai branch) and China National Nonferrous Metals Industry Supply Marketing and Transportation Corporation (Zhuhai branch). Mr. Cui has over 30 years experience in import and export trading, distribution and transportation, real estate, industrial investments and listed company operations.



Mr. HOW Peck Huat, aged 50, has been a non-executive director of the Company since September 1998. He is the senior vice president of Temasek Holdings (HK) Limited. Mr. How was awarded a bachelor and a master degree of business administration from University of Hawaii, USA. He has 20 years of extensive international business development experience, working with leading multi-national corporations and Asian companies on their investment plans for the Asia Pacific Region.



Mr. SUN Junjian, aged 44, has been a non-executive director of the Company since May 1999. Mr. Sun has extensive experience in banking and investment. Currently, he is a director and a deputy general manager of Bank of China Group Investment Limited ("BOCGI") and director of a number of companies controlled by BOCGI or in which BOCGI has an interest.

Directors' Report



Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. LI Kwok Po, David), aged 39, was appointed alternate director of the Company in May 1999. He is the senior general manager of The Bank of East Asia, Limited. Mr. Li has about ten years of experience specialising in fund management and securities dealing. He is also the managing director of East Asia Securities Company Limited, a member of the Stock Exchange of Hong Kong, as well as a director in a number of asset management companies.

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

Mr. SUN Yin, aged 61, was the chairman of the Company from March 1997 to January 1999 and an executive director of the Company from June 1993 to March 1997. He was also a director of CMCIM from April 1996 to January 1999. Mr. Sun was an executive director and the 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.

Mr. KWOK Fai, aged 41, was an executive director of the Company from March 1997 to March 1999. He joined the China Merchants Group for more than 20 years. Currently, Mr. Kwok is the deputy general manager of China Merchants Industry Holdings Company Limited. He also holds a number of other directorships within the China Merchants Group including Union Bank of Hong Kong Limited. Mr. Kwok holds a master degree in business administration.

Mr. JIA Yuan, aged 57, was a non-executive director of the Company from June 1995 to August 1998. He was formerly 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 27 years of experience in marketing and business administration.

Mr. TEO Eu Seng, aged 42, was a non-executive director of the Company from August 1997 to September 1998. He was formerly 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 business.

Directors' Report

Mr. JIA Jianping, aged 49, was a non-executive director of the Company from March 1997 to May 1999. Currently, he is a director of 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.

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 or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 1998, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company.

Name	Number of ordinary shares
HKSCC Nominees Limited	39,988,400
HSBC (Nominees) Limited	26,080,200
China Merchants Holdings Company Limited (Note)	28,982,400
China Merchants Steam Navigation Company Limited (Note)	28,982,400
China Merchants Holdings (Hong Kong) Company Limited	18,422,400

Note: China Merchants Holdings Company Limited deemed to have interests in these shares by virtue of its controlling shareholding in China Merchants Steam Navigation Company Limited. China Merchants Steam Navigation Company Limited's interests in the Company include those shares held by China Merchants Holdings (Hong Kong) Company Limited by virtue of its controlling shareholding in China Merchants Holdings (Hong Kong) Company Limited.

YEAR 2000 ISSUE

The Year 2000 problem arises from the inability of some computer systems to make a proper transition from the year 1999 to the year 2000 resulting in inaccurate data processing and information recording. To be Year 2000 compliant, systems must be able to properly recognize date information and should not produce erroneous data when the year changes to 2000 and beyond.

In common with most other similar entities, the Company is reliant on the systems of its investment manager. According to the investment manager, it has carried out an in-depth study into this issue and program enhancements covering all of its computer systems and applications were completed in May 1998. The investment manager's computer systems are now Year 2000 compliant. The investment manager has indicated to the Company that it will not re-charge to the Company for any costs incurred or might be incurred in the future in respect of the Year 2000 program enhancements.

The investment manager has prepared contingency plans to deal with the impact of any potential disruptions to business and operations of the Company in the unlikely event that any of the critical systems should fail.

Directors' Report

In the opinion of the Directors, as a result of the completion of the program enhancements by the investment manager, the degree of exposure to the Year 2000 issue is insignificant.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 1998 with those paragraphs of the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with which it is required to report compliance. On 17 March 1999, the Company established an Audit Committee comprised The Hon. Li Kwok Po, David, Mr. Kut Ying Hay and Mr. Cui Guisheng. In establishing the terms of reference for this Committee, the Directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

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. Dr. Fu Yuning, Mr. Chu Lap Lik, Victor, Mr. Zhang Yun Kun and Dr. Huang Dazhan are directors of both the Company and CMCIM, and Mr. Sun Yin and Mr. Zhang Zheng Ming were directors of both the Company and CMCIM. Ms Kan Ka Yee, Elizabeth is an alternate director of the Company and a director of CMCIM.

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

AUDITORS

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

On behalf of the Board

Fu Yuning

Chairman

Hong Kong, 20 May 1999

**Deloitte Touche
Tohmatsu**



**德勤·關黃陳方
會計師行**

Certified Public Accountants

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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 28 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 20 May 1999

Consolidated Profit and Loss Account

For the year ended 31 December 1998

	Notes	1998 US\$	1997 US\$
TURNOVER	4	<u>8,769,201</u>	<u>7,294,666</u>
OPERATING PROFIT EXCLUDING EXCEPTIONAL ITEMS	5	7,431,956	4,939,845
EXCEPTIONAL ITEMS	6	<u>(892,961)</u>	<u>5,964,057</u>
OPERATING PROFIT AFTER EXCEPTIONAL ITEMS		6,538,995	10,903,902
SHARE OF RESULTS OF ASSOCIATED COMPANIES		<u>450,972</u>	<u>365,306</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		6,989,967	11,269,208
TAXATION	9	<u>(85,422)</u>	<u>(155,977)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	10	6,904,545	11,113,231
DIVIDENDS	11	<u>(2,971,488)</u>	<u>(5,714,400)</u>
PROFIT FOR THE YEAR, RETAINED		<u>3,933,057</u>	<u>5,398,831</u>
EARNINGS PER SHARE	12	0.060	0.097

Consolidated Balance Sheet

As at 31 December 1998

	Notes	1998 US\$	1997 US\$
GOODWILL	13	1,183	1,274
INTERESTS IN ASSOCIATED COMPANIES	15	17,892,996	18,514,621
CONTRACTUAL JOINT VENTURES	16	23,521,164	33,711,654
OTHER INVESTMENTS	17	31,487,813	11,849,343
NET CURRENT ASSETS	18	<u>36,384,247</u>	<u>41,314,338</u>
NET ASSETS		<u>109,287,403</u>	<u>105,391,230</u>
Financed by:			
SHARE CAPITAL	19	11,428,800	9,524,000
RESERVES	20	<u>97,858,603</u>	<u>95,867,230</u>
SHAREHOLDERS' FUNDS		<u>109,287,403</u>	<u>105,391,230</u>
NET ASSET VALUE PER SHARE	21	0.956	0.922

The financial statements on pages 28 to 52 were approved by the Board of Directors on 20 May 1999 and are signed on its behalf by:

FU Yuning
Chairman

ZHANG Yun Kun
Director

Balance Sheet

As at 31 December 1998

	Notes	1998 US\$	1997 US\$
INTERESTS IN SUBSIDIARIES	14	78,268,279	87,051,985
OTHER INVESTMENTS	17	9,600	163,160
NET CURRENT ASSETS	18	<u>29,960,024</u>	<u>18,815,996</u>
NET ASSETS		<u>108,237,903</u>	<u>106,031,141</u>
Financed by:			
SHARE CAPITAL	19	11,428,800	9,524,000
RESERVES	20	<u>96,809,103</u>	<u>96,507,141</u>
SHAREHOLDERS' FUNDS		108,237,903	106,031,141

FU Yuning
Chairman

ZHANG Yun Kun
Director

Consolidated Cash Flow Statement

For the year ended 31 December 1998

		1998	1997
	Notes	US\$	US\$
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	22	8,504,106	(3,402,672)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(5,771,544)	(6,190,600)
Dividend received from an associated company		335,566	156,868
Interest paid		(10,319)	-
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(5,446,297)	(6,033,732)
TAXATION			
Hong Kong profits tax paid		(60,529)	(10,808)
PRC income tax paid		(33,334)	(31,832)
TAX PAID		(93,863)	(42,640)
INVESTING ACTIVITIES			
Advance to associated companies		(965,822)	(892,009)
Acquisition of contractual joint ventures		-	(15,055,096)
Repayment of capital from contractual joint ventures		964,176	2,141,711
Proceeds from disposal of a contractual joint venture		11,029,000	-
Acquisition of listed investments		(2,711,326)	(21,292,644)
Proceeds from disposal of listed investments		1,440,823	23,986,388
Net cash inflow on disposal of subsidiaries	23	-	21,118,665
Acquisition of debt securities		(4,195,778)	-
Proceeds from disposal of debt securities		3,187,139	-
Acquisition of other unlisted investments		(5,124,501)	-
Increase in pledged deposits	29	(1,000,000)	-
NET CASH INFLOW FROM INVESTING ACTIVITIES		2,623,711	10,007,015
NET CASH INFLOW BEFORE FINANCING		5,587,657	527,971
FINANCING			
New secured bank loan repayable in 1999	24	603,996	-
NET CASH INFLOW FROM FINANCING		603,996	-
INCREASE IN CASH AND CASH EQUIVALENTS		6,191,653	527,971
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		27,471,580	26,943,609
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		33,663,233	27,471,580
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS	25	33,663,233	27,471,580

Notes to the Financial Statements

For the year ended 31 December 1998

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The financial statements are expressed in United States dollars, the currency in which most of the Group's transactions are carried out.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants.

SSAP 5 (Revised)	Earnings Per Share
SSAP 20	Related Party Disclosures
SSAP 21	Accounting for Interests in Joint Ventures

The adoption of SSAP 5 (Revised) has resulted in some modifications to the basis of calculation of earnings per share amounts and to the disclosures presented for earnings per share (see note 12). Amounts presented for prior year have been restated to reflect the requirement of SSAP 5 (Revised).

SSAP 20 requires the disclosure of details of transactions with specified related parties (See note 30).

SSAP 21 specifies the accounting treatment to be adopted for joint ventures. Since the Group's joint venture arrangements are classified as associated companies or long term investments under the criteria specified in SSAP 21, the accounting treatment adopted has not been affected by SSAP 21. Accordingly, the adoption of the new standard has no effect in the financial statements.

Notes to the Financial Statements

For the year ended 31 December 1998

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

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

Interests in subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associated companies

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

The consolidated 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, interests in associated companies are stated at the Group's share of the net assets of the associated companies.

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

The Group's contractual joint venture arrangements are investments in joint ventures in which the Group receives predetermined annual returns over the terms of the joint ventures but is not entitled to share any distribution on termination of the joint ventures. Accordingly, contractual joint ventures are initially recorded at cost and reduced by subsequent capital repayment. Payments receivable each year under the joint venture agreements are apportioned between income and reduction of the carrying value of the investments so as to give a constant periodic rate of return on the investments.

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 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.

Debt securities held for long term purposes are stated at cost less premium or plus discount recognised. Premium/discount on purchase of debt securities is recognised as expense/income on a straight line basis over the period from the date of purchase to maturity.

Notes to the Financial Statements

For the year ended 31 December 1998

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Income from contractual joint ventures is recognised by reference to the predetermined returns so as to give a constant periodic rate of return on the net investments.

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. Profits and 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 ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with as movements in the exchange equalisation reserve.

Taxation

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

Notes to the Financial Statements

For the year ended 31 December 1998

4. TURNOVER

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

	THE GROUP	
	1998 US\$	1997 US\$
Interest income	2,924,573	2,913,363
Income from contractual joint ventures	3,967,678	4,282,351
Dividend income from listed investments	62,877	98,952
Dividend income from other investments	1,814,073	-
	8,769,201	7,294,666

5. OPERATING PROFIT EXCLUDING EXCEPTIONAL ITEMS

Operating profit excluding exceptional items has been arrived at after charging/(crediting):

	THE GROUP	
	1998 US\$	1997 US\$
Amortisation of goodwill	91	91
Auditors' remuneration	38,876	36,647
Net foreign exchange (gains)/losses	(467,704)	3,743
Investment manager's fee	1,946,603	1,922,540
Interest expense on bank loan repayable within five years	11,974	-

Notes to the Financial Statements
For the year ended 31 December 1998

6. EXCEPTIONAL ITEMS

The following exceptional items have been (charged)/credited in arriving at operating profit:

	THE GROUP	
	1998	1997
	US\$	US\$
Gain on disposal of subsidiaries	-	6,601,565
Gain on disposal of listed investments	-	2,623,886
Gain on disposal of a contractual joint venture	1,802,686	-
Loss on revaluation of listed investments	(1,095,647)	(1,261,394)
Provision for diminution in value of associated companies	(1,600,000)	(2,000,000)
	<u>(892,961)</u>	<u>5,964,057</u>

7. DIRECTORS' EMOLUMENTS

	THE GROUP	
	1998	1997
	US\$	US\$
Directors' fees		
- Executive	18,593	18,605
- Non-executive	18,592	21,705
	<u>37,185</u>	<u>40,310</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 paid to each director in 1998 and 1997 were less than US\$100,000.

The amounts disclosed above include directors' fees of US\$9,295 payable to independent non-executive directors.

Notes to the Financial Statements

For the year ended 31 December 1998

8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 1998 and 1997 were all directors of the Company and details of their emoluments are included in note 7 above.

9. TAXATION

The charge comprises:

	THE GROUP	
	1998	1997
	US\$	US\$
Profits tax for the year		
Hong Kong	(8,670)	61,843
Other regions in the PRC	28,322	40,307
Share of tax on results of associated companies	<u>65,770</u>	<u>53,827</u>
	85,422	155,977

Hong Kong profits tax is calculated at 16% (1997: 16.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit for the year of US\$6,904,545 (1997: US\$11,113,231), a profit of US\$5,178,250 (1997: US\$12,191,882) has been dealt with in the financial statements of the Company, and a profit after dividend of US\$49,636 (1997: US\$154,611) is retained by the associated companies.

Notes to the Financial Statements

For the year ended 31 December 1998

11. DIVIDENDS

	1998	1997
	US\$	US\$
Ordinary shares:		
Interim, paid - US\$0.013 per share (1997: US\$0.015)	1,485,744	1,428,600
Final, proposed - US\$0.013 per share (1997: US\$0.045)	<u>1,485,744</u>	<u>4,285,800</u>
	2,971,488	5,714,400

12. EARNINGS PER SHARE

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

	THE GROUP	
	1998	1997
Earnings for the purpose of basic earnings per share (US\$)	<u>6,904,545</u>	<u>11,113,231</u>
Number of ordinary shares for the purpose of basic earnings per share	114,288,000	114,288,000

The number of ordinary shares for the purpose of basic earnings per share has been adjusted for the bonus issue on 29 June 1998. The comparative earnings per share for the corresponding year has been adjusted retrospectively.

Notes to the Financial Statements

For the year ended 31 December 1998

13. GOODWILL

	THE GROUP	
	1998 US\$	1997 US\$
AT COST		
Balance as at 1 January and 31 December	<u>1,637</u>	<u>1,637</u>
ACCUMULATED AMORTISATION		
Balance as at 1 January	363	272
Provided for the year	<u>91</u>	<u>91</u>
Balance as at 31 December	<u>454</u>	<u>363</u>
NET BOOK VALUE		
Balance as at 31 December	<u>1,183</u>	<u>1,274</u>

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	1998 US\$	1997 US\$
Investment at cost (less amounts written off):		
Unlisted shares	10,066,349	10,066,349
Amounts due from subsidiaries	68,263,162	77,047,159
Amounts due to subsidiaries	<u>(61,232)</u>	<u>(61,523)</u>
	<u>78,268,279</u>	<u>87,051,985</u>

Details of all principal subsidiaries are set out in note 32.

Notes to the Financial Statements

For the year ended 31 December 1998

15. INTERESTS IN ASSOCIATED COMPANIES

	THE GROUP	
	1998	1997
	US\$	US\$
Share of net assets	3,659,216	3,646,663
Amounts due from associated companies	17,833,780	16,867,958
	21,492,996	20,514,621
Less: Provision for diminution in value	(3,600,000)	(2,000,000)
	17,892,996	18,514,621

As at 31 December 1998, the Group had interests in the following associated companies:

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

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

Notes to the Financial Statements

For the year ended 31 December 1998

16. CONTRACTUAL JOINT VENTURES

	THE GROUP	
	1998 US\$	1997 US\$
Unlisted investments:		
Contributions to contractual joint ventures less capital recovered	23,521,164	33,711,654

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

Notes to the Financial Statements

For the year ended 31 December 1998

17. OTHER INVESTMENTS

	THE GROUP		THE COMPANY	
	1998 US\$	1997 US\$	1998 US\$	1997 US\$
At cost less provision:				
Listed shares in Hong Kong	856,951	643,906	-	141,000
Listed shares overseas	307,975	346,242	9,600	22,160
Debt securities	1,593,590	-	-	-
Unlisted investments in the other regions of the PRC	28,729,297	10,859,195	-	-
	<u>31,487,813</u>	<u>11,849,343</u>	<u>9,600</u>	<u>163,160</u>
Market value of listed shares	<u>1,164,926</u>	<u>990,148</u>	<u>9,600</u>	<u>163,160</u>
Market value of debt securities	1,489,415	-	-	-

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

Name of securities	Principal activities	Cost US\$	Market value US\$	% of net asset value of the Group
Chongqing Changan Automobile Co., Ltd. "B" share	Manufacturing of mini-vehicles	271,094	62,300	0.06
Shenzhen SEZ Real Estate & Properties (Group) Co., Ltd. "B" share	Real estate development	350,121	64,092	0.06
Shanghai Haixin Co., Ltd. "B" share	Plush & fannel manufacturing	382,915	171,983	0.16
Zhenhai Refining & Chemical Co. Ltd. * "H" share	Oil refinery	168,915	77,000	0.07

Notes to the Financial Statements

For the year ended 31 December 1998

17. OTHER INVESTMENTS (continued)

Name of securities	Principal activities	Cost US\$	Market value US\$	% of net asset value of the Group
Guangshen Railway Co. Ltd. * "H" share	Operation of railroad between Guangzhou and Shenzhen	487,253	116,000	0.11
China Southern Airlines Co. Ltd. * "H" share	Airlines operations	129,941	52,500	0.05
Zhejiang Expressway Co., Ltd. * "H" share	Toll road development and operations	93,327	60,900	0.05
Guangdong Development Fund Ltd.	China direct investments	24,256	9,600	0.01
GITIC Enterprise Ltd. *	Importing and selling of marble and granite products	232,161	25,351	0.02
GITIC Enterprise Ltd. W9912 *	Importing and selling of marble and granite products	-	200	0.00
Yanzhou Coal Mining * "H" share	Coal mining	787,748	525,000	0.48
		2,927,731	1,164,926	1.07

* Securities listed in Hong Kong

Notes to the Financial Statements

For the year ended 31 December 1998

18. NET CURRENT ASSETS

	THE GROUP		THE COMPANY	
	1998 US\$	1997 US\$	1998 US\$	1997 US\$
CURRENT ASSETS				
Cash and bank balances	34,663,233	27,471,580	31,574,997	22,484,328
Accounts receivable	4,591,448	6,185,359	594,978	1,380,410
Prepayments	18,763	12,764,364	18,763	18,763
Tax recoverable	-	-	18,817	-
	<u>39,273,444</u>	<u>46,421,303</u>	<u>32,207,555</u>	<u>23,883,501</u>
CURRENT LIABILITIES				
Accounts payable, other payables and accrued charges	787,476	734,974	761,787	731,323
Short term bank loan, secured	603,996	-	-	-
Dividend payable	1,485,744	4,285,800	1,485,744	4,285,800
Taxation	11,981	86,191	-	50,382
	<u>2,889,197</u>	<u>5,106,965</u>	<u>2,247,531</u>	<u>5,067,505</u>
NET CURRENT ASSETS	36,384,247	41,314,338	29,960,024	18,815,996

Notes to the Financial Statements

For the year ended 31 December 1998

19. SHARE CAPITAL

	1998	1997
	US\$	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	9,524,000	9,524,000
Issued by capitalisation of the share premium account	<u>1,904,800</u>	-
114,288,000 ordinary shares of US\$0.10 each	<u>11,428,800</u>	<u>9,524,000</u>

Pursuant to the resolution passed at the annual general meeting of the Company held on 29 June 1998:

- (a) 19,048,000 shares of US\$0.10 each were issued as bonus shares and were credited as fully paid at par to the holders of shares on the register of members at the close of business on 29 June 1998 by way of capitalisation of the sum of US\$1,904,800 standing to the credit of the share premium account of the Company.
- (b) These bonus shares issued rank pari passu with the existing shares in all respects.

Notes to the Financial Statements

For the year ended 31 December 1998

20. RESERVES

	Share premium US\$	Investment revaluation US\$	Exchange equalisation US\$	Retained profits US\$	Total US\$
THE GROUP					
As at 1 January 1998	85,716,544	-	161,350	9,989,336	95,867,230
Revaluation gains less losses on listed investments	-	200	-	-	200
Exchange differences on translation of financial statements of associated companies	-	-	(37,084)	-	(37,084)
Issue of bonus shares	(1,904,800)	-	-	-	(1,904,800)
Profit for the year, retained	-	-	-	3,933,057	3,933,057
As at 31 December 1998	83,811,744	200	124,266	13,922,393	97,858,603
THE COMPANY					
As at 1 January 1998	85,716,544	-	-	10,790,597	96,507,141
Issue of bonus shares	(1,904,800)	-	-	-	(1,904,800)
Profit for the year, retained	-	-	-	2,206,762	2,206,762
As at 31 December 1998	83,811,744	-	-	12,997,359	96,809,103

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 1998	464,046
Profit for the year, retained	<u>49,636</u>
As at 31 December 1998	513,682

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\$12,997,359 (1997: US\$10,790,597).

Notes to the Financial Statements

For the year ended 31 December 1998

21. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$109,287,403 (1997:US\$105,391,230) and 114,288,000 ordinary shares (1997: 114,288,000 ordinary shares) of US\$0.10 each in issue. The comparative net asset value per share for the corresponding year has been adjusted retrospectively for the bonus issue on 29 June 1998.

22. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	1998 US\$	1997 US\$
Profit from ordinary activities before taxation	6,989,967	11,269,208
Interest expense on bank loan	11,974	-
Gain on disposal of subsidiaries	-	(6,601,565)
Gain on disposal of a contractual joint venture	(1,802,686)	-
Loss/(gain) on disposal of listed investments	278	(2,623,886)
Unrealised loss on revaluation of listed investments	1,095,647	1,261,394
Gain on disposal of debt securities	(584,951)	-
Amortisation of goodwill	91	91
Share of results of associated companies	(450,972)	(365,306)
Provision for diminution in value of associated companies	1,600,000	2,000,000
Decrease/(increase) in accounts receivable and prepayments	1,593,911	(8,409,515)
Increase in accounts payable, other payables and accrued charges	50,847	66,907
Net cash inflow/(outflow) from operating activities	8,504,106	(3,402,672)

Notes to the Financial Statements

For the year ended 31 December 1998

23. SALE OF SUBSIDIARIES

	1998 US\$	1997 US\$
Net assets disposed of:		
Interest in contractual joint ventures	-	14,492,175
Accounts receivable, prepayments and deposits	-	<u>24,925</u>
	-	14,517,100
Gain on disposal included in exceptional items	-	<u>6,601,565</u>
Proceeds on disposal	-	<u>21,118,665</u>
Satisfied by:		
Cash	-	<u>21,118,665</u>

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loan US\$
The GROUP	
Balance at 1 January 1998	-
Addition during the year	<u>603,996</u>
Balance at 31 December 1998	<u>603,996</u>

25. ANALYSIS OF CASH AND CASH EQUIVALENTS

	THE GROUP	
	1998 US\$	1997 US\$
Cash and bank balances	34,663,233	27,471,580
Less: pledged deposits	<u>(1,000,000)</u>	-
	33,663,233	27,471,580

Notes to the Financial Statements

For the year ended 31 December 1998

26. MAJOR NON-CASH TRANSACTIONS

During the year, 19,048,000 bonus shares were issued, by the capitalisation of US\$1,904,800 of share premium account.

During the year, an unlisted other investment of US\$12,745,601 was transferred from the prepayment account under current assets.

27. LEASE COMMITMENTS

At 31 December 1998, the Group had no commitment under non-cancellable operating leases (1997: Nil).

28. COMMITMENTS

At 31 December 1998, the Group had no capital commitment not provided for in the financial statements (1997: Nil).

29. PLEDGE OF ASSETS

At 31 December 1998, the Group's bank deposit of US\$1,000,000 (1997: Nil) was pledged to a bank for securing a bank loan granted to the Group.

30. RELATED PARTY TRANSACTION

The Company has appointed CMCIM as the investment manager for both listed and unlisted investments. The party concerned is related to the Company since the enterprise has directors in common with the Company.

During the year, management fees totalling US\$1,946,603 (1997: US\$1,922,540) were paid or payable to CMCIM, which is calculated based on a fixed percentage on the value of the Group's assets as stipulated in the Agreement. The amounts owing to CMCIM at the year end were US\$524,262 (1997: US\$583,678).

31. COMPARATIVE FIGURES

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

Notes to the Financial Statements

For the year ended 31 December 1998

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of all wholly-owned subsidiaries are as follows:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
CMCDI Zhaoyuan Limited	BVI	Investment holding	1 ordinary share of US\$1 each
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 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

Notes to the Financial Statements

For the year ended 31 December 1998

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
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.

* *Company not audited by Deloitte Touche Tohmatsu.*

Financial Summary

RESULTS

	For the year ended 31 December				
	1994 US\$	1995 US\$	1996 US\$	1997 US\$	1998 US\$
Turnover	4,956,482	7,269,831	6,912,927	7,294,666	8,769,201
Profits excluding exceptional items	3,582,764	5,539,275	4,736,002	4,939,845	7,431,956
Exceptional items	(452,625)	(411,009)	2,606,341	5,964,057	(892,961)
Profit from ordinary activities before taxation	3,130,139	5,128,266	7,342,343	10,903,902	6,538,995
Share of results of associated companies	418,332	320,119	212,578	365,306	450,972
Taxation	-	(31,286)	(63,105)	(155,977)	(85,422)
Profit for the year	3,548,471	5,417,099	7,491,816	11,113,231	6,904,545

ASSETS AND LIABILITIES

	As at 31 December				
	1994 US\$	1995 US\$	1996 US\$	1997 US\$	1998 US\$
Total assets	101,094,687	102,776,407	105,893,087	110,498,195	112,176,600
Total liabilities	3,504,118	4,498,459	5,456,748	5,106,965	2,889,197
Shareholders' funds	97,590,569	98,277,948	100,436,339	105,391,230	109,287,403

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Coral Room 1, 3rd Floor, Hotel Furama Kempinski Hong Kong, 1 Connaught Road Central, Hong Kong on Wednesday, 23 June 1999 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 1998.
2. To declare a final dividend for the year ended 31 December 1998.
3. To re-elect retiring Directors and authorise the Board of Directors to fix Directors' remuneration.
4. To re-appoint Auditors and authorise the Directors to fix their remuneration.
5. 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\$2,285,760 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 22,857,600 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 23 June 1999, 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 1998;
 - (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;

Notice of Annual General Meeting

- (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.”

Notice of Annual General Meeting

- C. "THAT conditional upon Resolutions 6.A. and 6.B. being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in Resolution 6.B. shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to Resolution 6.A., provided that the amount of share capital repurchased by the Company shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this Resolution 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, 20 May 1999

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 17 June 1999 to 23 June 1999, 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 registrars, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 16 June 1999.
- (4) At the Annual General Meeting of the Company held on 29 June 1998, Ordinary Resolutions were passed giving general mandates to Directors to repurchase shares of the Company on the Stock Exchange and to allot, issue and otherwise deal with additional shares in the capital of the Company. Under the terms of the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange these general mandates lapse at the conclusion of the Annual General Meeting for 1999, unless renewed at that meeting. The Ordinary Resolutions sought in items 6.A. and 6.B. of this notice renew these mandates.
- (5) With reference to the Ordinary Resolutions sought in terms 6.A. and 6.B. of this notice, the Directors wish to state that they have no immediate plans to issue any new shares or repurchase any existing shares of the Company. Approval is being sought from members as a general mandate pursuant to the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. The Circular required by the Rules Governing the Listing of Securities on the Stock Exchange in connection with the proposed new issue and repurchase mandates will be despatched to shareholders together with the Annual Report of the Company.