

CONTENTS

	<i>PAGE</i>
CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3
THE INVESTMENT MANAGER'S REPORT	6
FINANCIAL HIGHLIGHTS	15
DIRECTORS' REPORT	16
AUDITORS' REPORT	26
CONSOLIDATED INCOME STATEMENT	27
CONSOLIDATED BALANCE SHEET	28
BALANCE SHEET	29
CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES	30
CONSOLIDATED CASH FLOW STATEMENT	31
NOTES TO THE FINANCIAL STATEMENTS	32
FINANCIAL SUMMARY	56
NOTICE OF ANNUAL GENERAL MEETING	57



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 Mr. 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

Thomas Anthony, EVANS

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



Dr. Fu Yuning
Chairman

The Group will adopt a more proactive approach towards high-tech projects with the aim of achieving higher returns for its shareholders.

CHAIRMAN'S STATEMENT

The Directors announce that the audited consolidated profit before provision of China Merchants China Direct Investments Limited and its subsidiaries (the "Group") for the year ended 31 December 1999 totalled US\$8,019,224. The audited consolidated profit after taxation was US\$2,448,100 (approximately HK\$19,095,180), a 74.58% decline from that of 1998. The net asset value per share as at 31 December 1999 was US\$0.869 (approximately HK\$6.78), compared with US\$0.865, adjusted for bonus issues, in 1998, an increase of 0.46%.

The Board of Directors has proposed a final dividend of US¢0.8, or HK¢6.23 per share. Total cash dividends for the year will be US¢1.3, or HK¢10.11.

In 1999 the economies of Hong Kong and other Asian countries showed signs of recovery. Although the PRC's economy achieved steady growth, this was dampened by continued deflation and weak consumption. Furthermore, changes in the investment environment in certain areas of the Mainland caused difficulty in procuring returns from several of the Group's investments. In particular, the Tangshan ceramic project suffered significant losses as a result of the Mainland's continuing sluggish property market. In addition, the Chinese parties of the Weifang airport and Weifang real estate projects defaulted in their payments of scheduled returns to the Group. The Board of Directors has therefore decided to make a provision of US\$5.27 million against the value of these three investments.

The Group's investments in the PRC encompass projects in the infrastructure, financial services, manufacturing and real estate sectors. As at the end of 1999, the Group had investments in 12 unlisted projects, valued at approximately US\$76.82 million, representing 64.42% of its net asset value. Listed shares and debt securities were valued at US\$5.90 million, 4.95% of its net asset value, and cash at US\$33.54 million, 28.12% of its net asset value.

The Directors recognise the important roles that new and high technology are playing in the development of the global economy in the new millennium. New and high-tech projects offer the greatest potential for profit growth in the coming years. The investment manager has put great effort in pursuing investment opportunities in this sector. During the year, tens of hi-tech projects were reviewed. Negotiations on some of these projects are close to being finalised, with the investment manager expecting several investment agreements to be signed in 2000.

Looking to 2000, the most difficult period in the Asian economic crisis has passed and Hong Kong has begun to recover from the financial turmoil. The Mainland's expected entry into the World Trade Organization in 2000, together with the continuing improvement in its investment environment, will help the PRC maintain its steady economic growth. This in turn will create new opportunities for the Group. With a strong cash position, the Group will continue to look for investment projects with good returns while continuing to enhance the monitoring process of existing projects. In the meantime, the Group will adopt a more proactive approach towards high-tech projects with the aim of achieving higher returns for its shareholders.

Finally, on behalf of the Board, I wish to express our sincere thanks to the members of the investment committee, as well as the staff of the investment manager, for their dedicated contribution and support. I will also do my utmost to lead the Group to achieve better results in the new millennium.

Fu Yuning

Chairman

Hong Kong, 26 May 2000

*T*HE INVESTMENT MANAGER'S REPORT



Mr. Zhang Yun Kun

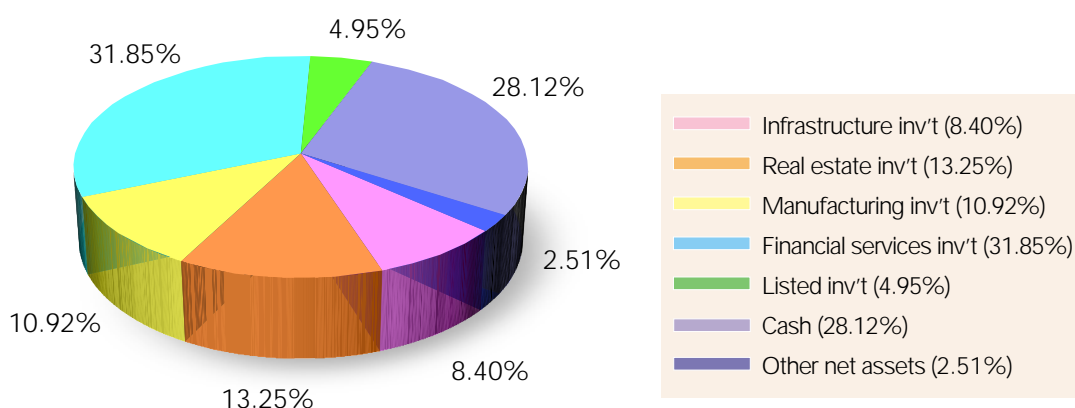
Managing Director of China Merchants China Investment Management Limited, the Company's Investment Manager

THE INVESTMENT MANAGER'S REPORT

As at 31 December 1999, China Merchants China Direct Investments Limited and its subsidiaries (the "Group") had invested approximately US\$76.82 million in twelve unlisted investments and US\$5.90 million in listed investments. The unlisted investment projects are diversified, in the sectors of infrastructure (accounting for 8.40% of the Group's net assets); real estate (13.25%); manufacturing (10.92%); and financial services (31.85%).

NET ASSET DISTRIBUTION

As at 31 December 1999



REVIEW OF UNLISTED INVESTMENTS

The following table shows the unlisted investment projects held by the Group in 1999:

Name of Projects	Location	Business Nature	Net Book Value US\$ million	Percentage of Net Assets
Financial Services:				
1. China Merchants Bank	Shenzhen, Guangdong	Banking	23.21	19.47
2. Fujian Industrial Bank	Fuzhou, Fujian	Banking	13.74	11.52
3. Industrial Securities Co. Ltd.	Fuzhou, Fujian	Securities	1.03	0.86
Sub-total			37.98	31.85

T HE INVESTMENT MANAGER'S REPORT

Name of Projects	Location	Business Nature	Net Book Value US\$ million	Percentage of Net Assets
Manufacturing:				
4. Zhaoyuan Jinbao Electronics Co. Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	8.85	7.42
5. Chengde Wanli Steel Tubes Co. Ltd.	Chengde, Hebei	Steel tubes	3.96	3.32
6. Tangshan Kintil Ceramics Ltd.	Tangshan, Hebei	Ceramic tiles	0.21	0.18
		Sub-total	<u>13.02</u>	<u>10.92</u>
Infrastructure:				
7. Maoming Tongfa Highway Co. Ltd.	Maoming, Guangdong	Toll road	10.02	8.40
8. Weifang Yin Yuan Aviation Industry Co. Ltd.	Weifang, Shandong	Airport terminal	—*	—
		Sub-total	<u>10.02</u>	<u>8.40</u>
Real Estate:				
9. China Merchants Plaza (Shanghai) Property Co. Ltd.	Shanghai	Office & commercial	5.77	4.84
10. Beijing Longbao Mansion	Beijing	Office & apartments	4.98	4.18
11. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retail shops	3.12	2.61
12. Weifang Zhaoyin Real Estate Development Ltd.	Weifang, Shandong	Low-cost housing	1.93	1.62
		Sub-total	<u>15.80</u>	<u>13.25</u>
		Total	<u>76.82</u>	<u>64.42</u>

* The Group made a full provision in 1999. Net book value before provision was US\$998,384.



Chairman Dr. Fu Yuning is joined by other members of the board of China Merchants China Investment Management Limited, the Company's Investment Manager, from left, Ms. Elizabeth Ka Yee Kan, Mr. Zhang Yun Kun, Dr. Huang Dazhan, and Dr. Lu Wenying

*In the new millennium we shall try hard,
as before, to create better returns for the
Company.*

China Merchants Bank ("CMB")

China Merchants Bank was the second largest joint-stock commercial bank in China, next to the Bank of Communications, with 230 offices distributed throughout the Mainland. The opening of the Hong Kong branch has also been recently approved. China Merchants Bank's All-in-One Card (ATM card) and All-in-One Net (Internet banking service) are pioneering services in China's electronic banking industry and received popular support in the market.

In 1999, China Merchants Bank completed its third capital expansion program and raised its registered capital to RMB4.2 billion. The Group invested US\$13.77 million in stages, to own a 1.62% stake in the bank. However, China Merchants Bank has been affected by the weak economy and aggressive loan provisions. In 1999, net profit dropped 30%, to RMB975 million. At the end of 1999, the bank's total assets reached RMB180.2 billion, representing a 20% increase over 1998. But because the operating environment is still not favourable it is expected that the profit for 2000 will remain at the same level as that of 1999.

The Board of Directors of China Merchants Bank is actively studying proposals to list the bank's shares on domestic or overseas stock exchanges. When realized, the Group will enjoy great benefits. Based on the net asset value of CMB as at the end of 1999, the Group's investment in the bank had appreciated more than 60%.

Fujian Industrial Bank ("FIB")

Headquartered in Fuzhou, FIB is a regional small to medium joint-stock commercial bank, with total assets of RMB49.2 billion at the end of 1999. In July 1998, the Group subscribed to new shares in the bank, investing US\$12.75 million, and owned 3.2% of the enlarged capital.

In 1999, as a result of the lagged effect of repeated interest rate reductions by the central bank, FIB recorded a 16% decline in net profit, to RMB313 million. But during the year under review, the bank's deposit and loan growth were significantly higher than that of national averages. The capital adequacy ratio at the year-end was strong at 13.9%.

Based on the net asset value of FIB as at the end of 1999, the Group's investment in the bank had appreciated 7%.

Industrial Securities Co. Ltd. ("ISCL")

ISCL was formerly the securities department of FIB but was restructured in 1994 to form the Fujian Industrial Securities Corporation, a wholly owned subsidiary of FIB. In December 1999, when ISCL completed its separation from the bank and the issue of new capital, its current name was adopted. ISCL has 122 shareholders, among which the Fujian Finance Bureau is the single largest shareholder, with an interest of 11.8%. As a shareholder of FIB, the Group had subscribed for 6.72 million shares (0.74% of the total issued capital) at a preferential price of USD1.03 million. The China Securities Regulatory Commission recently granted ISCL comprehensive securities company status, enabling it to engage in businesses including securities underwriting, broking, house trading and investment advice.

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

Jinbao was set up in 1993, to be principally engaged in the manufacture and sale of copper foils and copper-clad laminates. In recent years, as information technology has become more prevalent, markets of telecommunication products have grown rapidly, resulting in a sharp rise in demand for electronic parts. Jinbao recorded excellent results in 1999, with sales and net profit reaching Rmb269.57 million and Rmb18.11 million, representing an increase of 4% and 35% respectively. In order to further enhance product quality and increase market share, Jinbao has been studying plans to expand its production of high value-added products. This will further increase the investment return for the shareholders of Jinbao.

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

Wanli was established in 1996. The Group, along with Chengde Iron & Steel Group, invested USD14.29 million, holding equity stakes of 35% and 65% respectively. Although the project was still undergoing trial production, the joint venture company paid the Group contracted returns for the first two years. However, 50% of the third return payment due in March 1999 has not yet been paid. The management believes that with the support and guarantee provided by Chengde Iron & Steel Group, the overdue portion of 1999's return will be settled in 2000. Full operation is expected in the second half of the year.

Tangshan Kintil Ceramics Ltd. ("Kintil")

Kintil was engaged in the production and sale of glazed mosaics and homogenous tiles. The Group invested US\$2.21 million for a 15% stake in the company. As the property market in China declined and a fierce price war over the cost of construction materials continued, Kintil recorded huge losses in 1999. Constrained by lack of working capital, production lines were stopped. In view of the uncertainty and depressed outlook for this market, the Group is negotiating with the Chinese party for the disposal of its total shareholding. A final agreement is expected in 2000. The Group made a provision of US\$2 million, representing 90% of its investment in the project.

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

The overall weak economy in the PRC affected Tongfa, which recorded a toll income of RMB15.89 million in 1999, representing a slight increase of 1.3% over the previous year. In September 1999, Tongfa failed to pay its annual return on time. The full amount was ultimately settled in February 2000, as a result of unrelenting negotiations by the investment manager. In March 2000 the Chinese party formally proposed that the cooperation should be terminated and that the full investment principal be returned to the Group. Negotiations are under way to determine a compensation package.

In May 1997 the Group invested US\$10 million in this project, representing a 34.7% interest in the Tongfa. The contracted cooperation period was due to last 24 years.

Weifang Yin Yuan Aviation Industry Co. Ltd. ("Yin Yuan")

In 1994, the Group invested US\$2.875 million in Yin Yuan, representing a 31.3% stake in the project. Since 1995, the Chinese party has remitted four return payments to the Group as scheduled, enabling the Group to fully recover its investment principal. However, because the Weifang Government ceased collection of the Transportation Construction Fund, the Chinese party has, since last year, been unable to pay foreign parties the annual guaranteed returns agreed in the joint venture contract. The Chinese party therefore proposed that it would pay the fifth payment due in 1999 if the foreign parties agreed to waive their claim on the balance of the returns payable, totalling US\$1.38 million. In order to achieve a return of not less than 7% for the project, the investment manager held several meetings with the Chinese party, demanding that the Chinese party increase the amount of the last payment. With full payment unlikely, a provision of 0.998 million was made in 1999.

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

The primary business of Property Co. was to develop China Merchants Plaza in the centre of Shanghai City. The company was set up in 1994 by five investors, including the China Merchants Group. To date, the Group has injected cash totalling US\$5.68 million and owns a 20% interest. The joint venture period is 50 years.

At the end of 1999, 17,600 square metres of China Merchants Plaza had been sold or let, representing 30% of the total gross floor area. As the northern block was opened for retail sale and the podium was successfully turned into a motor vehicle parts centre, sales are expected to improve in 2000. In 1999, Property Co. recorded a loss of RMB20.83 million.

Beijing Longbao Mansion

The Group paid US\$4.98 million in July 1997 to invest in a service apartment and office complex in Longbao Mansion project. The total gross floor area amounted to 5,016 square metres. The Chinese party has been responsible for the management of the property and paying the Group a fixed return periodically. At the end of 1999, only about 26.5% of the property had been let and the Chinese party has been unable to pay returns since February 1999. The Group has been planning to dispose of the property that it is entitled to and to send a delegate to take part in the daily sales and lease work, with the aim of recovering the Group's investment costs and returns. According to an independent surveyor's report, the market value of the property as at the end of 1999 was considerably higher than its book cost.

Shenzhen Man Kam Square

Litigation with the developer of Man Kam Square has dragged on for three years. The Guangdong Provincial Court had made its concluding judgement in December 1997 but the developer rejected the judgement and requested for suspension of execution and a re-trial. The re-trial officially started in July 1999 but no verdict has as yet been reached. The Group, with joint venture partner City Chiu Chow (Holdings) Ltd, had demanded, through various channels, a final verdict from the court.

In 1994 the Group invested in the 5,262 square metre-shopping arcade in Shenzhen Man Kam Square, through a 35% holding in Hansen Enterprises Ltd. To date, according to an independent valuer's report, the property's value has decreased 25%. Together with the legal expenses, the book value of the investment has been reduced by US\$1.4 million.

Weifang Zhaoyin Real Estate Development Ltd. ("Zhaoyin")

Zhaoyin was set up in 1994, with the aim of developing the "Comfort Housing Program" in the High And New Technology Industrial Development Zone in Weifang, Shandong Province. The Group invested US\$4 million in the project, representing an 18% stake, with a cooperation period of 20 years. Under the joint venture contract, the Group is entitled to yearly guaranteed returns for the first 15 years of the cooperation period. However, income from the project has declined in the last few years as the demand for houses in the Development Zone diminished. As a result, Zhaoyin has, since 1997, failed to comply with the contract to pay returns to foreign parties. The investment manager has put pressure through various channels on the Chinese party to settle the entire overdue returns and to conclude a scheme for the redistribution of the investment. In view of the default of the Chinese party, provision of US\$2.27 million was made in 1999.

REVIEW OF LISTED INVESTMENTS

Asian stock markets showed a general recovery in 1999. During the period under review, the H-share and red-chip indexes rose by 14.1% and 40.7% respectively. Meanwhile, the Shenzhen and Shanghai B-share indexes also gained 58% and 32% respectively. During the year, the Group increased its investment activities in listed stocks. For the whole year, listed stock investments generated a profit after unrealised revaluation losses totalling US\$1.08 million. As at the end of 1999, the Group had listed shares and debt securities valued at US\$5.90 million, representing 4.95% of the net asset value of the Group. The stock portfolio consisted mainly of B shares, H shares and China concept shares.

Zhang Yun Kun

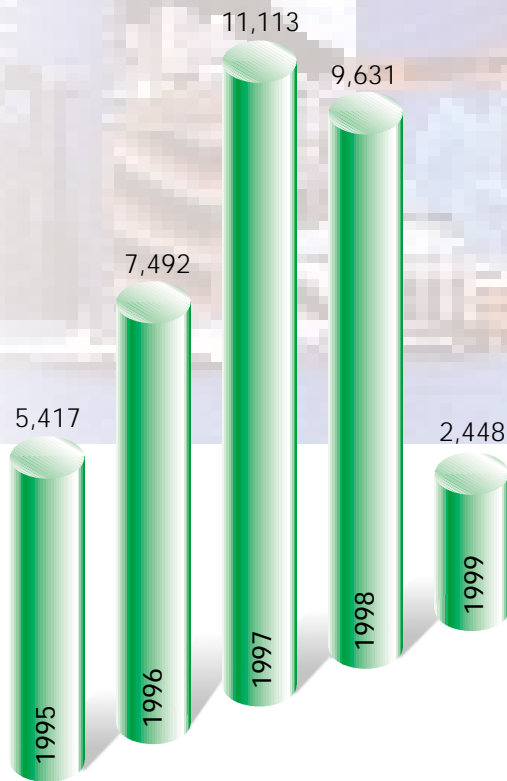
Managing Director

China Merchants China

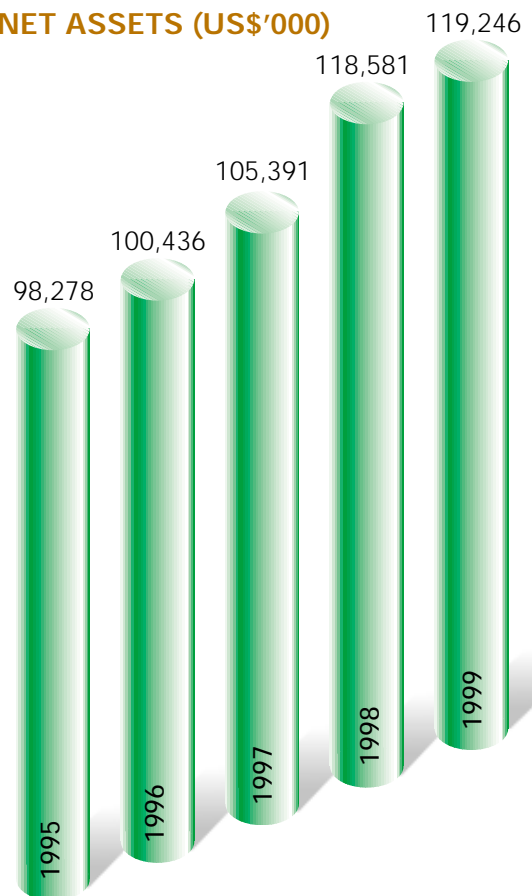
Investment Management Limited

Hong Kong, 26 May 2000

NET PROFIT (US\$'000)



NET ASSETS (US\$'000)



Year	Net profit US\$'000	Net Assets US\$'000
1995	5,417	98,278
1996	7,492	100,436
1997	11,113	105,391
1998	9,631	118,581
1999	2,448	119,246

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 29 and 16 respectively to the financial statements.

SEGMENTAL INFORMATION

The Group's turnover and contribution to operating profit for the year ended 31 December 1999, analysed by principal activity, were as follows:

	Turnover US\$	Contribution to profit from operations US\$
By principal activity:		
Income from contractual joint ventures	2,957,433	2,957,433
Interest income	2,700,908	2,700,908
Dividend income from listed other investments	115,032	115,032
Dividend income from unlisted other investments	2,212,495	2,212,495
	<u>7,985,868</u>	<u>7,985,868</u>
Other revenue		2,930,134
Administrative expenses		(2,236,348)
Provision/loss on investments		(6,429,504)
Profit from operations		<u>2,250,150</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 ASSOCIATES

Details of the Company's principal subsidiaries and associates at 31 December 1999 are set out in notes 29 and 16 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 1999 are set out in the consolidated income statement on page 27.

An interim dividend of US¢0.5 per share amounting to US\$685,728 was paid to shareholders during the year. The Directors now recommend the payment of a final dividend of US¢0.8 or HK¢6.23 per share to the shareholders on the register of members on 29 June 2000, amounting to US\$1,097,165, and the retention of the remaining profit for the year of US\$665,207.

RESERVES

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 56.

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 23 June 1999. The new shares rank *pari passu* with the existing shares in all respects.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

DIRECTORS

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

Executive Directors

Dr. FU Yuning (<i>Chairman</i>)	(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	(appointed on 20 May 1999)
<i>(alternate to Mr. CHU Lap Lik, Victor)</i>	
Mr. SUN Yin (<i>Chairman</i>)	(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	
Mr. HOW Peck Huat	
Mr. SUN Junjian	(appointed on 20 May 1999)
Mr. LI Kai Cheong, Samson*	
<i>(alternate to The Hon. LI Kwok Po, David)*</i>	(appointed on 15 May 1999)
Mr. JIA Jianping	(resigned on 20 May 1999)

In accordance with the provisions of the Company's Articles of Association, Mr. Zhang Zheng Ming retires and, being eligible, offers himself for re-election.

* *Independent non-executive directors*

Biographical details of Directors are as follows:



Dr. FU Yuning, aged 43, is the chairman of the Company and has been an executive director of the Company since January 1999. He is also the chairman of China Merchants China Investment Management Limited ("CMCIM"). Dr. Fu is an executive director and the president of China Merchants Holdings Company Limited, chairmen and directors of two listed companies in Hong Kong, namely, China Merchants Holdings (International) Company Limited and Union Bank of Hong Kong Limited, which are controlled by the China Merchants Group. Dr. Fu is also a director of two listed companies in Shenzhen Stock Exchange: chairman of Shenzhen Chiwan Wharf Holdings Limited and Shenzhen Chiwan Petroleum Supply Base Company Limited. Dr. Fu obtained his Ph.D. degree in offshore engineering from Brunel University, UK, in which he also worked as a post-doctorate research fellow in the university.



Mr. CHU Lap Lik, Victor, aged 42, 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 has served on the Central Policy Unit of the Hong Kong Government, the Council of the Hong Kong Stock Exchange, the Takeover and Mergers Panel and the Advisory Committee of the Securities and Futures Commission. Outside of Hong Kong, Mr. Chu is a council member of the World Economic Forum and vice chairman of the ICC Commission on Financial Services and Insurance. Mr. Chu took his law degree at University College, London.



Mr. ZHANG Yun Kun, aged 43, has been an executive director of the Company since January 1996. He is also the managing director of 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. 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 was appointed as the managing director of China Merchants Finance Holdings Company Limited and the senior adviser of finance of China Merchants Holdings Company Limited. He also holds a number of directorships in the China Merchants Group, including China Merchants Financial Services Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers (Far East) Limited, China Merchants Finance Investment Holdings Company Limited, China Communication Securities Company Limited, China Merchants Holdings (UK) Limited, Union Bank of Hong Kong Limited, Union Finance Limited, UB Holdings Limited. Before joining the China Merchants Group in December 1998, he was the general manager in financial department of China Nanshan Development (Group) Inc. and the 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.



Mr. ZHANG Zheng Ming, aged 51, 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 42, 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.



Dr. The Hon. LI Kwok Po, David, aged 61, has been an independent non-executive director of the Company since June 1993. Dr. Li is the chairman and chief executive of The Bank of East Asia, Limited. He is also a member of the Legislative Council of Hong Kong. Dr. Li is the chairman of the Chinese Bank's Association and also a member of the Exchange Fund Advisory Committee, Banking Advisory Committee, the Land Fund Advisory Committee and a non-executive director of the Mandatory Provident Fund Schemes Authority. Dr. Li serves on the international advisory boards of the Carlos P. Romulo Foundation for Peace and Development, DaimlerChrysler, the Federal Reserve Bank of New York International Capital Markets Advisory Committee, IBM, Lafarge, PowerGen Plc., and Rolls-Royce Plc. His directorships include Cable & Wireless HKT Limited (deputy chairman), Campbell Soup Company, Chelsfield plc, COSCO Pacific Limited, Dow Jones & Company, Inc., The Hong Kong and China Gas Company Limited, The Hong Kong and Shanghai Hotels, Limited, The Hong Kong Mortgage Corporation Limited, Jones Lang LaSalle Incorporated, PowerGen Plc., San Miguel Brewery Hong Kong Limited, Sime Darby Berhad, Sime Darby (Hong Kong) Limited, South China Morning Post (Holdings) Limited and Vitasoy International Holdings Limited.



Mr. KUT Ying Hay, aged 45, 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 56, 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 53, has been a non-executive director of the Company since August 1998. He is the managing director of ONFEM Holdings Limited ("ONFEM"), the president of China Nonferrous Metals Group (HK) Limited and 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 executive managing director of Zhuhai Zhu Kuan Metallurgical Nonferrous Metals Corporation, 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 51, 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 more than 20 years of extensive international business development experience, working with leading multi-national corporations and Asian companies on their investment plans for the Asia Pacific Region.



Mr. SUN Junjian, aged 45, 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.



Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. LI Kwok Po, David), aged 40, was appointed alternate director of the Company in May 1999. He is the 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.

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).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 1999, 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	49,050,960
HSBC (Nominees) Limited	31,296,240
China Merchants Holdings Company Limited (Note)	33,989,760
China Merchants Steam Navigation Company Limited (Note)	33,989,760
China Merchants Holdings (Hong Kong) Company Limited (Note)	33,758,630
China Merchants Finance Holdings Company Limited (Note)	33,989,760
China Merchants Financial Services Limited (Note)	33,989,760
Good Image Limited	33,989,760

Note: The company is deemed to have interests in the shares opposite to its name by virtue of its controlling shareholding in the company whose name is set out immediately under it.

YEAR 2000 ISSUE

The Directors of the Company are fully aware of the importance of Year 2000 issue. The Company is reliant on the computer systems of its investment manager. The investment manager confirmed that all their computer systems functioned properly during the transition to the millennium and related critical dates without experiencing any Year 2000 related disruptions. The costs associated with the Year 2000 compliance program are borne by the investment manager.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 1999 with those paragraphs of the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that non-executive directors are not appointed for specific term(s), and except that the guidelines as set out in paragraph 14 of the Code were not complied with prior to the formation of the Audit Committee on 17 March 1999.

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, Dr. Huang Dazhan and Ms. Kan Ka Yee, Elizabeth 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.

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 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

Fu Yuning

Chairman

Hong Kong, 26 May 2000

**Deloitte Touche
Tohmatsu**



Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

德勤·關黃陳方會計師行
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 27 to 55 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 circumstances of the Company and the Group, 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 1999 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, 26 May 2000

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 1999

	<i>NOTES</i>	1999 US\$	1998 US\$
Turnover	4	7,985,868	8,949,687
Other revenue	5	2,930,134	5,427,750
Administrative expenses		(2,236,348)	(2,404,303)
Provision/loss on investments	6	(6,429,504)	(2,695,647)
Profit from operations		2,250,150	9,277,487
Finance costs		(14,323)	(11,974)
Share of results of associates		318,360	450,972
Profit before taxation	7	2,554,187	9,716,485
Taxation	10	(106,087)	(85,422)
Profit attributable to shareholders	11	2,448,100	9,631,063
Dividends	12	(1,782,893)	(2,971,488)
Profit for the year, retained		665,207	6,659,575
Earnings per share	13	0.018	0.070

CONSOLIDATED BALANCE SHEET

As at 31 December 1999

	NOTES	1999 US\$	1998 US\$
Non-current assets			
Goodwill	14	1,092	1,183
Interests in associates	16	17,738,293	17,892,996
Contractual joint ventures	17	20,888,299	23,521,164
Investments in securities	18	44,088,870	40,781,497
		82,716,554	82,196,840
Current assets			
Cash and bank balances		33,535,162	33,663,233
Pledged bank deposits		–	1,000,000
Accounts receivable		5,071,797	4,591,448
Prepayments		26,929	18,763
Taxation recoverable		28,401	18,817
		38,662,289	39,292,261
Current liabilities			
Accounts payable, other payables and accrued charges		1,003,916	787,476
Short term bank loans, secured		–	603,996
Proposed dividend		1,097,165	1,485,744
Taxation payable		31,346	30,798
		2,132,427	2,908,014
Net current assets		36,529,862	36,384,247
NET ASSETS		119,246,416	118,581,087
CAPITAL AND RESERVES			
Share capital	19	13,714,560	11,428,800
Reserves	20	105,531,856	107,152,287
		119,246,416	118,581,087
NET ASSET VALUE PER SHARE	21	0.869	0.865

The financial statements on pages 27 to 55 were approved by the Board of Directors on 26 May 2000 and are signed on its behalf by:

FU Yuning
Chairman

ZHANG Yun Kun
Director

BALANCE SHEET

As at 31 December 1999

		1999	1998
	NOTES	US\$	US\$
<hr/>			
Non-current assets			
Investments in subsidiaries	15	75,713,949	78,329,511
Investments in securities	18	11,000	9,600
		<hr/>	<hr/>
		75,724,949	78,339,111
<hr/>			
Current assets			
Cash and bank balances		30,493,396	31,574,997
Accounts receivable		791,610	594,978
Prepayments		26,800	18,763
Taxation recoverable		28,401	18,817
		<hr/>	<hr/>
		31,340,207	32,207,555
<hr/>			
Current liabilities			
Accounts payable, other payables and accrued charges		637,139	761,787
Amounts due to subsidiaries		60,225	61,232
Proposed dividend		1,097,165	1,485,744
		<hr/>	<hr/>
		1,794,529	2,308,763
<hr/>			
Net current assets		29,545,678	29,898,792
<hr/>			
NET ASSETS		105,270,627	108,237,903
<hr/>			
CAPITAL AND RESERVES			
Share capital	19	13,714,560	11,428,800
Reserves	20	91,556,067	96,809,103
		<hr/>	<hr/>
		105,270,627	108,237,903
<hr/>			

The financial statements on pages 27 to 55 were approved by the Board of Directors on 26 May 2000 and are signed on its behalf by:

FU Yuning
Chairman

ZHANG Yun Kun
Director

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 December 1999

	1999 US\$	1998 US\$
Exchange differences arising on translation of financial statements denominated in currencies other than United States dollars	122	(37,084)
Net gains (losses) not recognised in the income statement	122	(37,084)
Profit for the year	2,448,100	9,631,063
Total recognised gains	2,448,222	9,593,979
Effects of changes in accounting policy on adoption of SSAP 24 (see Note 2) – Increase in retained profits at 1 January 1998		6,567,366

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 1999

	<i>NOTES</i>	1999	1998
		US\$	US\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	3,145,246	8,504,306
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(2,171,472)	(5,771,544)
Dividend received from an associate		412,891	335,566
Interest paid		(14,323)	(10,319)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(1,772,904)	(5,446,297)
TAXATION			
Hong Kong Profits Tax paid		(5,631)	(60,529)
PRC income tax paid		(19,871)	(33,334)
TAX PAID		(25,502)	(93,863)
INVESTING ACTIVITIES			
Acquisition of listed other investments		(16,169,233)	(2,711,326)
Advance to associates		(29,325)	(965,822)
Proceeds from disposal of listed other investments		13,102,235	1,440,623
Decrease (increase) in pledged deposits		1,000,000	(1,000,000)
Proceeds from disposal of debt securities		760,000	3,187,139
Repayment of capital from contractual joint ventures		465,408	964,176
Proceeds from disposal of a contractual joint venture		–	11,029,000
Acquisition of unlisted other investments		–	(5,124,501)
Acquisition of debt securities		–	(4,195,778)
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		(870,915)	2,623,511
NET CASH INFLOW BEFORE FINANCING		475,925	5,587,657
FINANCING	23		
Repayment of secured bank loan		(603,996)	–
Secured bank loan raised		–	603,996
NET CASH (OUTFLOW) INFLOW FROM FINANCING		(603,996)	603,996
(DECREASE) INCREASE IN CASH AND BANK BALANCES		(128,071)	6,191,653
CASH AND BANK BALANCES AS AT 1 JANUARY		33,663,233	27,471,580
CASH AND BANK BALANCES AS AT 31 DECEMBER		33,535,162	33,663,233

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

1. GENERAL

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

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 29 and 16 respectively to the financial statements.

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted, for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 2 (Revised)	Net profit or loss for the period, fundamental errors and changes in accounting policies
SSAP 10 (Revised)	Accounting for investments in associates
SSAP 24	Accounting for investments in securities

SSAP 1 (Revised) and 2 (Revised) are concerned with the presentation and disclosure of financial information. The presentation in the current year's financial statements has been modified in order to conform with the requirements of those Standards. Comparative amounts have been restated in order to achieve a consistent presentation.

In particular:

- additional analyses of income and expenditure have been presented; and
- items of income and expense that were separately identified on the face of the income statement as 'exceptional items' in the prior year have been reclassified within an appropriate income or cost classification.

In addition, the description of various components in the financial statements and the terminology used has been updated to reflect the terminology of the new Standards.

None of the amendments outlined above has affected the results for the current or prior periods.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

(continued)

SSAP 10 (Revised) has not resulted in any significant changes to the accounting treatment adopted for investments in associates and, accordingly, no prior period adjustment has been required. Disclosures presented have been modified to meet the requirements of the new Standard.

SSAP 24 has introduced a new framework for the classification of investments in securities and the adoption of the Standard has had a significant effect on the treatment adopted by the Group for its investments in securities. In adopting SSAP 24, the Group has selected the benchmark treatment for securities other than held-to-maturity securities.

Under SSAP 24, investments in securities are now classified as held-to-maturity debt securities (carried at amortised cost less provision for irrecoverable amounts), investment securities (carried at cost less impairment) and other investments (carried at fair value, with valuation movements dealt with in the income statement). In prior years, the Group's investments in securities were classified as long-term unlisted investments (carried at cost less provision for permanent diminution in value), long-term listed investments (carried at the market value) and debt securities (carried at amortised cost). The accounting treatment specified by SSAP 24 has been applied retrospectively – resulting in an increase in retained profits at 1 January 1999 of US\$9,293,684 (1998: US\$6,567,366) and an increase in profit in the current year of US\$1,138,117 (1998: increase of US\$2,726,518). Comparative amounts have been restated in line with the revised accounting policy.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

The 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 income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

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

Interests in subsidiaries

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

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

Interests in associates

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

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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

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 Group's rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in currencies other than United States dollars are translated into United States dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollars are re-translated into United States dollars at the approximate rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

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

Taxation

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

4. TURNOVER

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

	THE GROUP	
	1999 US\$	1998 US\$
Interest income	2,700,908	3,105,059
Income from contractual joint ventures	2,957,433	3,967,678
Dividend income from listed other investments	115,032	62,877
Dividend income from unlisted other investments	2,212,495	1,814,073
	<hr/>	<hr/>
	7,985,868	8,949,687

5. OTHER REVENUE

	THE GROUP	
	1999 US\$	1998 US\$
Exchange gain	–	467,704
Gain on disposal of debt securities	–	404,465
Gain (loss) on disposal of listed other investments	1,788,893	(278)
Sundry income	3,124	26,855
Gain on disposal of a contractual joint venture	–	1,802,686
Unrealised holding gain on unlisted other investments	1,138,117	2,726,318
	<hr/>	<hr/>
	2,930,134	5,427,750

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

6. PROVISION/LOSS ON INVESTMENTS

	THE GROUP	
	1999	1998
	US\$	US\$
Unrealised holding loss on listed other investments	821,105	1,095,647
Provision for diminution in value of associates	–	1,600,000
Loss on disposal of debt securities	37,275	–
Provision for diminution in value of unlisted other investments	2,000,000	–
Provision for diminution in value of contractual joint ventures	3,271,124	–
Provision for diminution in value of debt securities	300,000	–
	6,429,504	2,695,647

7. PROFIT BEFORE TAXATION

	THE GROUP	
	1999	1998
	US\$	US\$
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of goodwill	91	91
Auditors' remuneration	43,216	38,876
Net foreign exchange losses (gains)	22,756	(467,704)
Investment manager's fee	1,954,681	1,946,603
Interest expense on bank loans wholly repayable within five years	14,323	11,974
Directors' fee	30,770	37,185

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

8. DIRECTORS' EMOLUMENTS

	THE GROUP	
	1999 US\$	1998 US\$
Directors' fees		
– Executive	15,385	18,593
– Non-executive	15,385	18,592
	<hr/>	<hr/>
	30,770	37,185
Other emoluments		
– Salaries and other benefits	–	–
– Contribution to retirement benefits schemes	–	–
– Performance related incentive payment	–	–
– Incentive payment on joining	–	–
	<hr/>	<hr/>
	–	–

Emoluments paid to each director in 1999 and 1998 were less than US\$125,000.

The amounts disclosed above include directors' fees of US\$7,693 (1998: US\$9,295) payable to independent non-executive directors.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 1999 and 1998 were all directors of the Company and details of their emoluments are included in note 8 above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

10. TAXATION

	THE GROUP	
	1999	1998
	US\$	US\$
The charge comprises:		
Profits tax for the year		
Hong Kong	(3,953)	(8,670)
Other regions in the People's Republic of China (" PRC")	20,419	28,322
Taxation attributable to the Company and its subsidiaries	16,466	19,652
Share of taxation on results of associates		
Other regions in the PRC	89,621	65,770
	106,087	85,422

Hong Kong Profits Tax is calculated at 16% (1998: 16%) 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.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit for the year of US\$2,448,100 (1998: US\$9,631,063), a loss of US\$1,184,383 (1998: profit of US\$5,178,250) has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

12. DIVIDENDS

	THE GROUP	
	1999 US\$	1998 US\$
Ordinary shares:		
Interim, paid – US\$0.005 per share (1998: US\$0.013)	685,728	1,485,744
Final, proposed – US\$0.008 per share (1998: US\$0.013)	1,097,165	1,485,744
	<hr/> 1,782,893	<hr/> 2,971,488

13. EARNINGS PER SHARE

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

	THE GROUP	
	1999	1998
Earnings for the purpose of basic earnings per share	US\$2,448,100	US\$9,631,063
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600

The number of ordinary shares for the purpose of basic earnings per share has been adjusted for the effects of the bonus issue on 23 June 1999. The comparative earnings per share for the corresponding year has been adjusted retrospectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

14. GOODWILL

	THE GROUP	
	1999 US\$	1998 US\$
AT COST		
Balance as at 1 January and 31 December	1,637	1,637
ACCUMULATED AMORTISATION		
Balance as at 1 January	454	363
Provided for the year	91	91
Balance as at 31 December	545	454
NET BOOK VALUE		
Balance as at 31 December	1,092	1,183

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	1999 US\$	1998 US\$
Unlisted shares, at cost less provision	10,066,348	10,066,349
Amounts due from subsidiaries	65,647,601	68,263,162
	75,713,949	78,329,511

Particulars of the principal subsidiaries at 31 December 1999 are set out in note 29.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

16. INTERESTS IN ASSOCIATES

	THE GROUP	
	1999 US\$	1998 US\$
Share of net assets	3,475,188	3,659,216
Amounts due from associates	17,863,105	17,833,780
	<u>21,338,293</u>	<u>21,492,996</u>
Less: Provision for diminution in value of investments	(3,600,000)	(3,600,000)
	<u>17,738,293</u>	<u>17,892,996</u>

As at 31 December 1999, the Group had investments in the following associates:

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

17. CONTRACTUAL JOINT VENTURES

	THE GROUP	
	1999	1998
	US\$	US\$
Unlisted investments		
Contributions to contractual joint ventures less capital recovered	20,888,299	23,521,164

Particulars of contractual joint ventures at 31 December 1999 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 1999

18. INVESTMENTS IN SECURITIES

	THE GROUP					
	Held to		Other		Total	
	maturity securities		investments			
	1999	1998	1999	1998	1999	1998
	US\$	US\$	US\$	US\$	US\$	US\$
Equity securities:						
Listed	-	-	5,199,710	1,164,926	5,199,710	1,164,926
Unlisted	-	-	38,189,160	38,022,981	38,189,160	38,022,981
	-	-	43,388,870	39,187,907	43,388,870	39,187,907
Debt securities:						
Listed	700,000	1,593,590	-	-	700,000	1,593,590
Unlisted	-	-	-	-	-	-
	700,000	1,593,590	-	-	700,000	1,593,590
Total:						
Listed						
Hong Kong	-	-	3,533,809	856,951	3,533,809	856,951
Elsewhere	700,000	1,593,590	1,665,901	307,975	2,365,901	1,901,565
Unlisted	-	-	38,189,160	38,022,981	38,189,160	38,022,981
	700,000	1,593,590	43,388,870	39,187,907	44,088,870	40,781,497
Market value						
of listed securities	266,643	1,489,415	5,199,710	1,164,926	5,466,353	2,654,341

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

18. INVESTMENTS IN SECURITIES (continued)

	THE COMPANY	
	Other Investments	
	1999	1998
	US\$	US\$
Equity securities		
Listed	11,000	9,600
Market value of listed securities	11,000	9,600

Note (a):

Particulars of the Group's listed investment portfolio at 31 December 1999 are as follows:

Name of securities	Principal activities	Cost US\$	Market value US\$	% of net asset value of the Group
China International Marine Containers Co., Ltd. "B" share	Manufacturing and sales of marine containers	304,524	301,100	0.25
Shandong Chenming Paper Holdings Ltd. "B" share	Manufacturing of paper	278,578	185,936	0.16
Shanghai Dazhong Transportation (Group) Co., Ltd. "B" share	Taxi operation	245,264	151,159	0.13
Shanghai Haixin Group Co., Ltd. "B" share	Plush & fannel manufacturing	272,471	177,875	0.15

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

18. INVESTMENTS IN SECURITIES *(continued)*

Name of securities	Principal activities	Cost US\$	Market value US\$	% of net asset value of the Group
Shenzhen Chiwan Wharf Holdings Ltd. "B" share	Port operations	151,037	155,028	0.13
Shenzhen China Merchants Shekou Port Co., Ltd. "B" share	Port operations	487,770	483,031	0.40
Chongqing Changan Automobile Co., Ltd. "B" share	Manufacturing of mini-vehicles	271,094	92,775	0.08
Shenzhen SEZ Real Estate & Properties (Group) Co., Ltd. "B" share	Real estate development	350,121	107,997	0.09
Beijing Yanhua Petrochemical Co., Ltd.* "H" share	Manufacturing of resin and plastics	492,498	231,615	0.19
Guangshen Railway Co. Ltd.* "H" share	Operation of railroad between Guangzhou and Shenzhen	769,791	335,843	0.28
Harbin Power Equipment Co., Ltd.* "H" share	Manufacturing of power equipment	357,709	162,131	0.14
Shanghai Petrochemical Co., Ltd.* "H" share	Manufacturing of petrochemical products	420,037	329,666	0.28
Shenyang Public Utility Holdings Ltd.* "H" share	Public utility development and operations	293,623	192,755	0.16
Zhejiang Expressway Co., Ltd.* "H" share	Toll road development and operations	93,327	45,551	0.04

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

18. INVESTMENTS IN SECURITIES (continued)

Name of securities	Principal activities	Cost US\$	Market value US\$	% of net asset value of the Group
Zhenhai Refining & Chemical Co. Ltd.* "H" share	Oil refinery	168,915	88,786	0.07
China Merchants Holdings (International) Co. Ltd.*	Ports and infrastructure	426,242	411,761	0.35
Cosco Pacific Ltd.*	Shipping	246,242	248,987	0.21
Dao Heng Bank Group Ltd.*	Banking	214,874	206,395	0.17
Guangdong Development Fund Ltd.	China direct investments	24,256	11,000	0.01
New World Cyberbase Ltd.*	High-tech investment	162,537	212,314	0.18
Shum Yip Investment Ltd.*	Property development and investment	252,709	193,013	0.16
Stone Electronics Technology Ltd.*	Manufacturing and distribution of computer and electronic products	345,393	353,857	0.30
Sun Hung Kai Properties Ltd.*	Property development	546,970	521,135	0.43
		7,175,982	5,199,710	4.36

* Securities listed in Hong Kong

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

18. INVESTMENTS IN SECURITIES *(continued)*

Note (b):

Particulars of the Group's unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 1999 disclosed pursuant to section 129(2) of the Companies Ordinance are as follows:

Name	Place of incorporation	Class of share capital	% of Equity held by Group
China Merchants Bank	PRC	equity	1.62%
Fujian Industrial Bank	PRC	equity	3.20%

19. SHARE CAPITAL

	1999 US\$	1998 US\$
Authorised:		
150,000,000 ordinary shares of US\$0.10 each	15,000,000	15,000,000
Issued and fully paid:		
114,288,000 (1998: 95,240,000) ordinary shares of US\$0.10 each	11,428,800	9,524,000
Issued by capitalisation of the share premium account (<i>Note 24</i>)	2,285,760	1,904,800
137,145,600 (1998: 114,288,000) ordinary shares of US\$0.10 each	13,714,560	11,428,800

Pursuant to the resolution passed at the annual general meeting of the Company held on 23 June 1999:

- (a) 22,857,600 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 23 June 1999 by way of capitalisation of the sum of US\$2,285,760 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 1999

20. RESERVES

	Share premium US\$	Exchange reserve US\$	Retained profits US\$	Total US\$
THE GROUP				
At 1 January 1998				
– as originally stated	85,716,544	161,350	9,989,336	95,867,230
– prior period adjustment on adoption of SSAP 24 (Note 2)	–	–	6,567,366	6,567,366
As at 1 January 1998	85,716,544	161,350	16,556,702	102,434,596
Exchange differences on translation of financial statements of associates	–	(37,084)	–	(37,084)
Issue of bonus shares	(1,904,800)	–	–	(1,904,800)
Profit for the year, retained	–	–	6,659,575	6,659,575
As at 1 January 1999	83,811,744	124,266	23,216,277	107,152,287
Exchange differences on translation of financial statements of associates	–	122	–	122
Issue of bonus shares	(2,285,760)	–	–	(2,285,760)
Profit for the year, retained	–	–	665,207	665,207
As at 31 December 1999	81,525,984	124,388	23,881,484	105,531,856
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	–	–	5,178,250	5,178,250
Dividends	–	–	(2,971,488)	(2,971,488)
As at 1 January 1999	83,811,744	–	12,997,359	96,809,103
Issue of bonus shares	(2,285,760)	–	–	(2,285,760)
Loss for the year	–	–	(1,184,383)	(1,184,383)
Dividends	–	–	(1,782,893)	(1,782,893)
As at 31 December 1999	81,525,984	–	10,030,083	91,556,067

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

20. RESERVES *(continued)*

The retained profits of the Group as at 31 December 1999 include US\$329,532 (1998: US\$513,682) retained by associates of the Group.

The Company's reserves available for distribution to shareholders as at 31 December 1999 comprised the retained profit of US\$10,030,083 (1998: US\$12,997,359).

21. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$119,246,416 (1998: US\$118,581,087) and 137,145,600 ordinary shares (1998: 137,145,600 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 effects of the bonus issue on 23 June 1999.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

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

	1999 US\$	1998 US\$
Profit before taxation	2,554,187	9,716,485
Non-cash dividend income (<i>Note 24</i>)	(1,028,062)	–
Interest expense on bank loans	14,323	11,974
Share of results of associates	(318,360)	(450,972)
Unrealised holding gain on unlisted other investments	(1,138,117)	(2,726,318)
Gain on disposal of a contractual joint venture	–	(1,802,686)
(Gain) loss on disposal of listed other investments	(1,788,893)	278
Unrealised holding loss on listed other investments	821,105	1,095,647
Discount recognised on debt securities	(203,685)	(180,486)
Loss (gain) on disposal of debt securities	37,275	(404,465)
Amortisation of goodwill	91	91
Provision for diminution in value of associates	–	1,600,000
Provision for diminution in value of contractual joint ventures	3,271,124	–
Provision for diminution in value of unlisted other investments	2,000,000	–
Provision for diminution in value of debt securities	300,000	–
(Increase) decrease in accounts receivable and prepayments	(1,592,182)	1,593,911
Increase in accounts payable, other payables and accrued charges	216,440	50,847
Net cash inflow from operating activities	3,145,246	8,504,306

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

23. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	THE GROUP	
	Bank Loan	
	1999	1998
	US\$	US\$
Balance at 1 January	603,996	-
Addition during the year	-	603,996
Repayment during the year	(603,996)	-
Balance at 31 December	-	603,996

24. MAJOR NON-CASH TRANSACTIONS

During the year, 22,857,600 (1998: 19,048,000) bonus shares were issued, by the capitalisation of US\$2,285,760 (1998: US\$1,904,800) of share premium account.

The subscription cost of US\$1,028,062 for shares in an unlisted other investment was settled by Fujian Industrial Bank's 1998 dividend payment.

25. LEASE COMMITMENTS

At 31 December 1999, the Group and the Company had no commitment under non-cancellable operating leases (1998: Nil).

26. COMMITMENTS

At 31 December 1999, the Group and the Company had no capital commitment not provided for in the financial statements (1998: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

27. PLEDGE OF ASSETS

At 31 December 1999, the Group had no assets pledged (1998: pledged bank deposit of US\$1,000,000) to a bank for securing bank loan granted to the Group.

28. RELATED PARTY TRANSACTION

The Company has appointed China Merchants China Investment Management Limited ("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\$1,954,681 (1998: US\$1,946,603) 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 31 December 1999 were US\$550,299 (1998: US\$524,262).

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 1999, which are all wholly-owned and directly held by the Company, 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
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

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

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at 31 December 1999 or at any time during the year.

* *Company not audited by Deloitte Touche Tohmatsu.*

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	1995 US\$	1996 US\$	1997 US\$	1998 US\$	1999 US\$
Turnover	7,269,831	6,912,927	7,294,666	8,949,687	7,985,868
Profit from operations					
after finance costs	5,128,266	7,342,343	10,903,902	9,265,513	2,235,827
Share of results of associates	320,119	212,578	365,306	450,972	318,360
Taxation	(31,286)	(63,105)	(155,977)	(85,422)	(106,087)
Profit attributable to shareholders	5,417,099	7,491,816	11,113,231	9,631,063	2,448,100

ASSETS AND LIABILITIES

	As at 31 December				
	1995 US\$	1996 US\$	1997 US\$	1998 US\$	1999 US\$
Total assets	102,776,407	105,893,087	110,498,195	121,489,101	121,378,843
Total liabilities	(4,498,459)	(5,456,748)	(5,106,965)	(2,908,014)	(2,132,427)
Shareholders' funds	98,277,948	100,436,339	105,391,230	118,581,087	119,246,416

The above financial summary prior to 1998 has not been adjusted to take into account the effect on the adoption of SSAP 24 as the directors considered that it is not practicable to do so.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Tang Room 1-3, 4th Floor, Hotel Furama Kempinski Hong Kong, 1 Connaught Road Central, Hong Kong on Thursday, 29 June 2000 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 1999.
2. To declare a final dividend for the year ended 31 December 1999.
3. To re-elect retiring Directors and authorise the Board of Directors to fix Directors' remuneration.
4. To re-appoint Auditors and authorise the Directors to fix their remuneration.
5. As special business to consider and, if thought fit, to pass with or without modifications the following resolutions as Ordinary Resolutions:

A. **"THAT:**

- (a) subject to paragraph (c) and pursuant to section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of rights of subscription under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iv) any scrip dividend or similar arrangement

NOTICE OF ANNUAL GENERAL MEETING

providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

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

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

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

B. **“THAT:**

- (a) subject to paragraph (b) the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to repurchase its own shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

(b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this Resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution:

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

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

C. “**THAT** conditional upon Resolutions 5.A. and 5.B. being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in Resolution 5.B. shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to Resolution 5.A., provided that the amount of share capital repurchased by the Company shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this Resolution.”

By Order of the Board

Zhang Yun Kun

Executive Director

Hong Kong, 26 May 2000

NOTICE OF ANNUAL GENERAL MEETING

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 26 June 2000 to 28 June 2000, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend to be approved at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's registrars, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 23 June 2000.
- (4) At the Annual General Meeting of the Company held on 23 June 1999, 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 2000, unless renewed at that meeting. The Ordinary Resolutions sought in items 5.A. and 5.B. of this notice renew these mandates.
- (5) With reference to the Ordinary Resolutions sought in terms 5.A. and 5.B. of this notice, the Directors wish to state that they have no immediate plans to issue any new shares or repurchase any existing shares of the Company. Approval is being sought from members as a general mandate pursuant to the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. The Circular required by the Rules Governing the Listing of Securities on the Stock Exchange in connection with the proposed new issue and repurchase mandates will be despatched to shareholders together with the Annual Report of the Company.



CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED
招商局中國基金有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

FORM OF PROXY FOR ANNUAL GENERAL MEETING TO BE HELD ON
THURSDAY, 29 JUNE 2000

No. of shares to which this Proxy relates (Note 1)	
--	--

I/We (Note 2) _____

of _____

being shareholder(s) of CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED (the "Company") hereby appoint (Note 3) the Chairman of the Meeting or _____ of _____

as my/our proxy to attend, act and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at Tang Room 1-3, 4th Floor, Hotel Furama Kempinski Hong Kong, 1 Connaught Road Central, Hong Kong on Thursday, 29 June 2000 at 4:00 p.m. and at any adjournment thereof as hereunder indicated in respect of the Resolutions set out in the Notice of Annual General Meeting, and, if no such indication is given, as my/our proxy thinks fit.

Resolutions	For (Note 4)	Against (Note 4)
1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 1999.		
2. To declare a final dividend for the year ended 31 December 1999.		
3. (i) To re-elect Mr Zhang Zheng Ming as a Director of the Company. (ii) To authorise the Board of Directors to fix Directors' remuneration.		
4. To re-appoint Messrs. Deloitte Touche Tohmatsu as Auditors and to authorise the Directors to fix their remuneration.		
5. A. To grant a general mandate to the Directors to allot shares. B. To grant a general mandate to the Directors for the repurchase of shares. C. To add the nominal amount of the shares repurchased under resolution no. 5.B. to the mandate granted to the Directors under resolution no. 5.A.		

Dated this _____ day of _____, 2000.

Signature(s) (Note 5) _____

NOTES:

- Please insert the number of shares registered in your name(s) to which the proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
- Please insert the full name(s) and address(es) in BLOCK CAPITALS.
- If any proxy other than the Chairman of the Meeting is preferred, delete the words "the Chairman of the Meeting or" and insert the name and address of the proxy desired in the space provided. A member may appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE DULY INITIALLED.
- IMPORTANT: IF YOU WISH TO VOTE FOR ANY RESOLUTION, PLEASE TICK IN THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST ANY RESOLUTION, TICK IN THE BOX MARKED "AGAINST". If you do not indicate how you wish your proxy to vote your proxy will be entitled to exercise his discretion. Your proxy will also be entitled to vote at his discretion on any resolutions properly put to the Meeting other than those referred to in the Notice convening the Meeting.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must either be executed under its common seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
- Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the Meeting, personally or by proxy, then one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
- To be valid, this form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or other authority, must be deposited at the registered office of the Company at Room 1101, Shun Tak Center, West Tower, 200 Connaught Road Central, Hong Kong, not less than 48 hours before the time appointed for the Meeting or any adjournment thereof.



CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

招商局中國基金有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

Dividend Election Form

股息選擇表格

DO NOT COMPLETE AND RETURN THIS ELECTION FORM IF (I) YOU WISH TO CONTINUE TO RECEIVE THE FINAL DIVIDEND FOR THE PERIOD ENDED 31 DECEMBER 1999 IN US DOLLARS; OR (II) YOU HAD PREVIOUSLY COMPLETED AND RETURNED A DIVIDEND ELECTION FORM.

如閣下(i)擬繼續以美元收取所釐訂一九九九年末期之現金股息；或(ii)曾填妥及交回股息選擇表格，則閣下毋須填寫及交回本選擇表格。

IF YOU WISH TO ELECT TO RECEIVE THIS DIVIDEND AND ALL FUTURE DIVIDENDS IN HONG KONG DOLLARS, COMPLETE AND RETURN THIS FORM IN ACCORDANCE WITH THE INSTRUCTION BELOW NO LATER THAN 5:00 P.M. ON [•] JULY 2000.

如閣下擬以港元收取所有未來之股息，則須填妥以下表格，並最遲須於二零零零年七月●日下午五時正前根據下列指示交回本表格。

To China Merchants China Direct Investments Limited

致 招商局中國基金有限公司

Until further notice to the contrary, I/we _____ hereby authorise and request you to pay in Hong Kong Dollars all dividends that may from time to time become due and payable in cash on any shares in the Company which are now registered or which may hereafter registered in my/our name(s).

本人／吾等 _____ 茲授權及要求以港元支付現時或今後以本人／吾等名義登記之任何股份享有以現金支付一切股息，直至另行通知終止授權為止。

Compliance by the Company with this authorisation will discharge it from all liability in respect of dividends so paid.

貴公司遵照本授權行事將毋須就因此支付之股息承擔任何責任。

	Signature of Shareholder(s)* 股東簽署*
	1. _____
	2. _____
	3. _____
	4. _____
	Tel. No. of shareholder(s) 股東電話 _____

* In the case of joint holders ALL must sign. In the case of a corporation, this form should be executed under its common seal or by a duly authorised representative.

* 如為聯名持有人，則所有聯名持有人必須簽署。如為公司，本表格應蓋上公司印鑑或由正式授權代表簽署。

Completed forms must be returned to the Shares Registrars at the address shown below. Any instructions received after [包 July 2000 will not apply for the 1999 final dividend but only to subsequent dividends. All enquires regarding this form should be addressed to : Central Registration Hong Kong Limited, Room 1901-1905, 19/F., Hopewell Centre, 183 Queen Road East, Hong Kong (Telephone: 2862 8628).

填妥之表格交回下列地址之股份過戶登記處。於二零零零年七月●日後接獲之任何指示將不適用於一九九九年年度末期股息，僅適用於其後之股息。如對本表格有任何疑問，可向香港中央證券登記有限公司查詢，地址為香港皇后大道東183號合和中心19樓1901-1905室(電話：2862 8628)