



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

2003

Annual Report



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Corporate Information

BOARD OF DIRECTORS

FU Yuning (*Chairman*)
HUANG Dazhan
CHU Lap Lik, Victor
ZHOU Linda L.
TSE Yue Kit
KAN Ka Yee, Elizabeth
(alternate to Mr. CHU Lap Lik, Victor)
The Hon. LI Kwok Po, David**
KUT Ying Hay**
POON Kwok Lim, Steven**
WANG Xingdong*
GONG Jianzhong*
HIEW Yoon Khong *
LI Kai Cheong, Samson**
*(alternate to The Hon. LI Kwok Po, David**)*
TAN Cheong Hin*
(alternate to Mr. HIEW Yoon Khong)*

* non-executive directors

** independent non-executive directors

COMPANY SECRETARY

Peter Y. W. Lee

INVESTMENT MANAGER

China Merchants China Investment
Management Limited
1803 China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

AUDITORS

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
(Asia) Limited
122-126 Queen's Road Central,
Hong Kong

China Merchants Bank Company, Limited
China Merchants Bank Tower,
No. 7088, Shennan Boulevard,
Shenzhen,
People's Republic of China

Bank of China (Hong Kong) Limited
Bank of China Tower,
1 Garden Road,
Hong Kong

Dah Sing Bank, Limited
36th Floor, Dah Sing Financial Centre,
108 Gloucester Road,
Hong Kong

LEGAL ADVISERS

Victor Chu & Co
77th Floor, Two International Finance Centre,
8 Finance Street, Central,
Hong Kong

SHARE REGISTRAR

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1803 China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Chairman's Statement



Dr. Fu Yuning Chairman

Chairman's Statement (continued)

The Board of Directors is pleased to present this annual report of China Merchants China Direct Investments Limited for the year ended 31 December 2003. The audited consolidated profit after tax of China Merchants China Direct Investments Limited and its subsidiaries (the "Group") for the year ended 31 December 2003 totalled US\$12.09 million, an increase of 163.5% over 2002. The Group's net asset value ("NAV") as of 31 December 2003 amounted to US\$138.9 million. The NAV per share was US\$1.012, compared to US\$0.935 in 2002, an increase of 8.2%.

The Board of Directors has proposed a final dividend of US\$0.8, or HK\$6.23 per share. Taking this proposed final dividend into account, the total cash dividends paid during the year would be US\$1.3, or HK\$10.13 per share.

The first half of 2003 was troubled by the incidents of Middle-east war and the outbreak of SARS (Severe Acute Respiratory Syndrome). However, China's economy experienced robust growth, driven by strong increases in both external demand and foreign direct investment. China's GDP growth rate reached 9.1% for 2003, a record high for recent years. Against the backdrop of China's impressive economic growth, the Group achieved excellent financial results for 2003. The Group continued to concentrate its holdings in financial services, and 2003 profit growth derived primarily from the successful investments in this sector. Although the sector has experienced ever increasing competition, resulting from the continued opening of the market after China's entry into the World Trade Organisation ("WTO"), many excellent opportunities are still available to companies with solid business strategies. In 2003, two of the Group's holdings, in particular, performed notably. First, in 2002, China Merchants Bank ("CMB") successfully listed its shares and increased its capital considerably, allowing the bank to prepare for operational expansion. In 2003, CMB recorded a substantial increase in deposit and loan businesses, which led to remarkable financial results. Second, at the end of 2003, Industrial Bank ("IB") formed a strategic alliance with three overseas institutions, including Hang Seng Bank of Hong Kong. The new investors will contribute not only much-needed capital for IB's business growth, but also their expertise in the banking business. IB's competitive position, as well as its profitability, will no doubt be enhanced. The alliance will further improve IB's ability to raise capital in the future. These two banks were the largest investments of the Group and they were the main profit contributors for 2003.

The Group's other investments in financial services included securities brokerage companies, which have not yet experienced a full recovery, in spite of a slightly improved securities market in 2003. Although the major securities companies in which the Group has an interest recorded better results for 2003 than 2002, they still ended the year in negative territory, and consequently the value of the Group's investments in these companies dropped slightly in 2003. One holding, Jutian Fund Management Limited, formed in early 2003, was still in a developmental stage, engaged in product design and marketing planning. Its core products are infrastructure funds, which received approval from the regulatory authorities in the beginning of 2004. We are optimistic about its marketing of the funds.

Chairman's Statement (continued)

In response to the recovery of the high-tech sector, both in China and overseas, the demand for electronics products continued to increase. This helped boost the sales and gross profit of one of the Group's holdings in the manufacturing sector, a laminate company in Zhaoyuan, Shandong Province. Nonetheless, the company's profit after taxation was slightly lower than in 2002 due to substantial increases both in general and administrative expenses and in financing costs, due to an increase in borrowings to fund the addition of new production lines.

The student dormitory project in the University City of Langfang recorded a slightly lower occupancy rate than target in the first school year. However, the Group received a 2002 dividend and the first phase capital repayment through depreciation distribution for the 2002-2003 school year.

The Group successfully completed the disposal of two non-performing projects — Beijing Longbao Mansion and Weifang Real Estate. The disposals enabled the Group to redirect the non-performing assets to income generating investments. In 2003, the Group committed an investment of US\$2.54 million to construct and operate a landfill for domestic waste in Chenzhou, Hunan Province. The project is expected to generate stable cash income for the Group.

In light of low deposit rates in recent years, the Group acquired some corporate bonds and bank notes, with the goal of improving returns. As of 31 December 2003, the Group held bonds/notes of US\$4.35 million.

As of 31 December 2003, the Group had unlisted investments valued at US\$102.79 million, representing 74.0% of its net asset value. Its listed investments were valued at US\$1.43 million, or 1.0% of net asset value. Bonds and notes totalled US\$4.35 million, representing 3.1% of the Group's net assets. Cash on hand amounted to US\$37.62 million, or 27.1% of net asset value.

Looking ahead to 2004, China will continue its drive toward a market economy by increasing the pace of reform in the banking sector and capital markets, in order to adapt to changes in the economic environment after its entry into the WTO. At the same time, China has implemented a series of relevant policies to curb certain overheating industries. As China's economy is expected to grow at a stable and rapid rate this year, the Group's investments in China continue to benefit from the growth. With its strong financials, the Group will continue to pursue secure and profitable investment projects.

Finally, on behalf of the Board, I wish to express my sincere thanks to the members of the Audit Committee, the Investment Committee and to the staff of the Investment Manager for their dedication and hard work, and to all our shareholders for their support and confidence in the Group.

Fu Yuning

Chairman

Hong Kong, 22 April 2004

Investment Manager's Discussion and Analysis



Dr. Huang Dazhan
Chairman of the Board of the Investment Manager

Investment Manager's Discussion and Analysis (continued)

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") recorded a profit attributable to shareholders of US\$12.09 million for the year 2003, representing an increase of 163.5% over year 2002. This stronger performance was attributable to a substantial decrease in the provision for investments, coupled with an increase in dividend income from and unrealised holding gain on unlisted investments in financial services. As of 31 December 2003, the net assets of the Fund were US\$138.9 million, with a net asset value per share of US\$1.012, representing an 8.2% increase over year 2002.

Total turnover for the year increased by 19.3% to US\$2.91 million (2002: US\$2.44 million). Turnover included dividend income from unlisted investments, which increased 39.7% to US\$2.11 million (2002: US\$1.51 million). Another component of turnover was interest income, which decreased 23.0% to US\$0.67 million (2002: US\$0.87 million) due to interest rate declined throughout the year. The average 90-day US Treasury Bill rate declined from 1.6% in 2002 to 1.02% in 2003.

The net unrealised holding gain on unlisted investments for the year was US\$11.89 million (2002: US\$9.93 million), representing an increase of 19.7% over 2002. The increase came from the strong growth in Industrial Bank's profit for 2003, as well as from the improved results of investments in major securities companies over 2002.

In 2003, no impairment loss was required to provide for the Fund's investment in contractual joint ventures (2002: US\$2.4 million). The disposal of Weifang Real Estate project contributed a gain of US\$0.77 million (2002: Nil) to the Fund in 2003. The realised and unrealised gains from listed stocks totalled US\$0.76 million (2002: Loss of US\$1.27 million).

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

In February 2003, the Fund disposed of its entire interest in a wholly-owned subsidiary, Convoy Overseas Limited, which owned Beijing Longbao Mansion, through sale to an independent third party for a consideration of US\$3.00 million, which was received in full during the year. Since the carrying value of the investment was written down to the net proceeds of disposal at the end of 2002, there was no impact to financial results in the year.

In July 2003, the Fund disposed of its entire interest in Weifang Zhaoyin Real Estate Development Limited to a Chinese partner for a consideration of US\$0.80 million. The net proceeds of US\$0.77 million, equal to the sale price net of disposal expenses, was recognised as a gain on disposal in the year since this investment had been fully provided for in a prior year.

In November 2003, the Fund entered into an agreement with Shenzhen Harvest Environment Development Company Limited to jointly operate Chenzhou Heshang Environmental Protection Company Limited ("Heshang"), a Sino-foreign cooperative joint venture, for a total investment of RMB70 million. Heshang is formed to construct

Investment Manager's Discussion and Analysis (continued)

and operate a landfill for domestic waste in Chenzhou, Hunan Province. Heshang owns the operation right of the landfill for 10 years. The Fund committed to invest US\$2.54 million for an equity stake of 30% of Heshang. The Fund injected US\$1.27 million as registered capital into Heshang in January 2004, and the remaining US\$1.27 million will be injected as a shareholder's loan according to construction progress. The designed capacity of the landfill is 3.2 million cubic metres, with a daily waste handling capacity of 500 tons. Construction work on the landfill has commenced and will be completed by the end of 2004. The project is expected to provide steady cash flow and a satisfactory investment return to the Fund after it comes into operation.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

Net cash increased by 10.5%, from US\$34.06 million as of 31 December 2002 to US\$37.62 million as of 31 December 2003, due to cash received from the disposal of the two unlisted investment projects.

As of 31 December 2003, the Fund had no outstanding bank loans (2002: Nil).

As of 31 December 2003, the Fund had capital commitments of US\$2.54 million (2002: US\$1.20 million), earmarked for an investment that has been committed to, but not yet provided for in the financial statements.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Fund's investments are located in China, where the official currency is the Yuan. The Yuan remained stable during the reporting period, and is expected to remain so.

Investment Manager's Discussion and Analysis (continued)

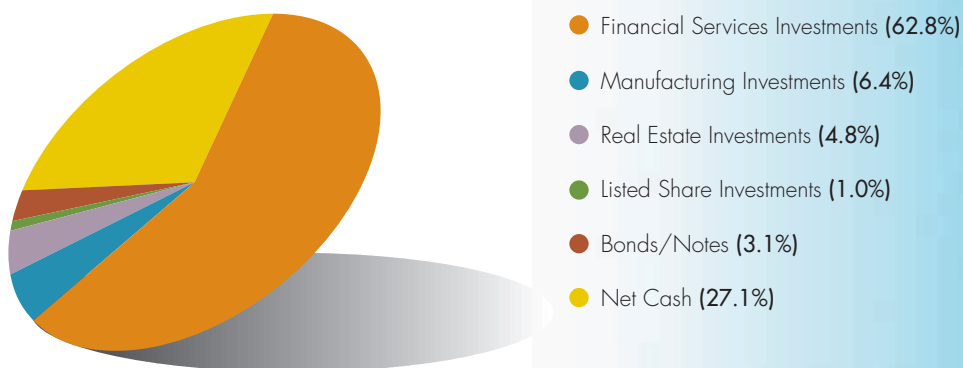
EMPLOYEES

The Fund had no employees during the year, because its portfolio and operations are administered by the Investment Manager.

THE PORTFOLIO

As of 31 December 2003, the Fund had total investments of US\$108.57 million – US\$102.79 million in unlisted investments, US\$1.43 million in listed share investments, and US\$4.35 million in bonds/notes. The major unlisted investment projects were in financial services (62.8% of net assets), manufacturing (6.4%), and real estate (4.8%). In addition, the Fund had net cash of US\$37.62 million as of 31 December 2003.

NET ASSET DISTRIBUTION (As at 31 December 2003)



Investment Manager's Discussion and Analysis (continued)



Ms. Zhou Linda L.
Managing Director of the Investment Manager

Investment Manager's Discussion and Analysis (continued)

REVIEW OF UNLISTED INVESTMENTS

The following table shows the major unlisted investment projects held by the Fund as at 31 December 2003:

Name of Projects	Location	Business Nature	Net Book Value US\$ million	Percentage of Net Assets
Financial Services:				
1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	57.06	41.1
2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	23.69	17.1
3. Industrial Securities Co., Ltd.	Fuzhou, Fujian	Securities	0.60	0.4
4. China Merchants Securities Co., Ltd.	Shenzhen, Guangdong	Securities	1.40	1.0
5. Jutian Securities Co., Ltd.	Shenzhen, Guangdong	Securities	2.77	2.0
6. Houlder China Insurance Brokers Ltd.	Shenzhen, Guangdong	Insurance brokerage	0.61	0.4
7. Jutian Fund Management Co., Ltd.	Shenzhen, Guangdong	Fund management	1.10	0.8
Sub-total			87.23	62.8
Manufacturing:				
8. Zhaoyuan Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	8.82	6.4
Sub-total			8.82	6.4
Real Estate:				
9. Langfang Oriental Education Facilities Development Co., Ltd.	Langfang, Hebei	Student dormitory	4.57	3.3
10. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retails shops	2.12	1.5
Sub-total			6.69	4.8
Total			102.74	74.0

Investment Manager's Discussion and Analysis (continued)

Financial Services Investments

Financial Services is one of the core investment sectors of the Fund, and has generated significant capital appreciation for the Fund in recent years. The Fund's financial services investments include the banking, securities, fund management and insurance brokerage industries. In addition to China Merchants Bank's successful A-share listing on the Shanghai Stock Exchange in 2002, Industrial Bank committed to issue new shares to foreign investors in 2003. Faced with an increasingly competitive market brought about by the entry of foreign banks, the issuance will improve Industrial Bank's financial strength, further enhance its competitiveness, and therefore position the bank to benefit from the inherent potential of the market.

China Merchants Bank Company, Limited ("CMB"), a registered commercial bank in China, is the first joint-stock commercial bank established by mainland enterprises. CMB has around 350 branches and offices across the country. The Fund invested US\$14.06 million and holds a 1.19% stake in CMB. CMB recorded remarkable business growth in the year, with deposits and loans increasing by 34% and 49% respectively. Net profit jumped by 28.6% to RMB2.23 billion. CMB's Shareholder Meeting of 19 March 2004 resolved to declare a cash dividend of RMB0.92 per 10 shares and to issue 2 bonus shares for every 10 shares by capitalising the capital reserves. In addition, the meeting resolved to issue RMB6.5 billion of convertible bonds and RMB3.5 billion of subordinated bonds. All proceeds are to be used to support quality enterprise financing and to invest in government bonds and other financial products. In a move toward further globalisation, CMB opened a representative office in the United States in order to gain access to more international business opportunities. According to the adopted valuation method, CMB's shares were valued at RMB6.93 per share as of 31 December 2003, and the value of the Fund's investment in CMB increased US\$10.35 million over 2002. The Fund received 2002 dividends of RMB8.17 million in the year.

Industrial Bank Company, Limited ("IBCL") is a registered commercial bank in China with over 252 branches and offices throughout the country. Since 1998, the Fund has cumulatively invested RMB146 million (equivalent to US\$17.62 million) in IBCL and currently holds a 2.8% stake. In January 2004, the shareholders' meeting of IBCL resolved to form a strategic alliance with overseas investors and to issue 999 million new shares at RMB2.7 per share to the new investors, representing a 24.98% stake after the new issuance. Pending the approval of the regulatory authority, of the newly issued shares, 639 million shares will go to Hang Seng Bank Limited, with the rest to GIC Special Investments Pte Limited (200 million shares) and International Finance Corporation (160 million shares). The issuance of new shares will improve IBCL's capital adequacy ratio, and raise the bank's managerial and operational standards. The Fund's holding in IBCL will be diluted to 2.1% upon the issuance.

IBCL recorded tremendous growth in 2003, and net profit increased by 106.6% to RMB985 million. Consequently, as of 31 December 2003, the value of the Fund's investment in IBCL increased to US\$23.69 million, creating an unrealised gain of US\$2.20 million. The Fund received 2002 dividends of RMB9.24 million in the year.

Investment Manager's Discussion and Analysis (continued)

Industrial Securities Company, Limited ("ISCL") is a comprehensive securities company registered in China, with a presence in securities underwriting, brokerage, proprietary trading and investment consulting. It has over 23 offices in major cities throughout the country, including Beijing, Shanghai, Shenzhen, Wuhan, Fuzhou and Xiamen. The Fund invested RMB8.51 million (equivalent to US\$1.03 million) to acquire a 0.74% stake in ISCL.

Benefiting from an increase in underwriting, ISCL recorded a net profit of RMB38.86 million in 2003, compared to a loss of RMB402 million in 2002. However, ISCL's net asset value declined by 3.6% to RMB668 million due to adjustments to reflect a loss from its 2002 asset management business. As a result, the fair value of the Fund's investment in ISCL declined by US\$66,000 in 2003. Due to this drop in net asset value, ISCL is preparing for the issuance of new shares in 2004 to strengthen its financial position.

China Merchants Securities Company, Limited ("CMSC"), CMSC is a comprehensive securities company registered in China with over RMB2.4 billion in capital. Its businesses include securities underwriting, brokerage, proprietary trading and investment consulting. In 2001, the Fund invested RMB13.05 million (equivalent to US\$1.58 million) to acquire a 0.52% stake in CMSC.

The turnover of CMSC was RMB419 million in 2003, representing a 18% decrease over 2002. The investment bank division completed three underwriting projects during the year. Due to a significant provision that was made for operating losses at some branches, CMSC recorded a loss of RMB203 million. As of 31 December 2003, the value of this investment was US\$1.40 million, representing a reduction of US\$0.135 million from 2002. In 2002, CMSC invested RMB40 million and worked with several companies (including ING Group) to set up China Merchants Fund Company, Limited, with registered capital of RMB100 million. The establishment of the joint venture was approved by the China Securities Regulatory Commission ("CSRC") at the end of 2002, making it the first Sino-foreign fund management joint venture. The first lot of funds was launched in March 2003 and was well received by the market.

Jutian Securities Company Limited ("Jutian Securities") is the first comprehensive securities company registered in China, with a presence in securities underwriting, brokerage, proprietary trading and investment consulting. It has 16 offices throughout the country. In 2001, the Fund invested RMB35.36 million (equivalent to US\$4.27 million) in Jutian Securities, representing an interest of 4.66%. Although the performance of the PRC equity markets improved in 2003, most securities companies did not return to profitability. Jutian Securities recorded a loss of RMB39.17 million in 2003, an improvement of 78% when compared to the loss of RMB179 million in 2002. The value of this investment was reduced by US\$0.356 million over the year. During the first half of 2003, Jutian Securities successfully launched two new investment products and is continuing to actively explore new products.

Investment Manager's Discussion and Analysis (continued)

Houlder China Insurance Brokers Limited ("Houlder") was founded in 2001. Its core businesses include insurance risk assessments, risk management consultation, preparing insurance proposals and handling insurance policy issuance. Houlder has registered capital of RMB50 million, and the Fund invested RMB5 million (equivalent to US\$0.6 million) to acquire a stake of 10%. After a series of moves to restructure the business, Houlder recorded a net profit of RMB2.65 million, compared to a loss for 2002.

Jutian Fund Management Company Limited ("JFM") has received approval from the CSRC to form as a fund management company registered in China. JFM's businesses include fund management and promotion of equity funds. In February 2003, the Fund invested RMB10 million (equivalent to US\$1.21 million) in JFM, representing an interest of 10%. Since operations commenced in March 2003, JFM has focused on refining operating and management systems, designing financial products and applying for regulatory approval of new funds.

In February 2004, the CSRC granted approval to JFM to form the Jutian Infrastructure Equity Investment Fund, and the fund is now being marketed via sales channels throughout the country. During the reporting year, JFM showed no income, aside from interest income, due to the developmental stage of the business. JFM recorded a loss of RMB8.75 million in 2003. Following the launch of several funds, the performance of JFM is expected to improve.

Manufacturing Investments

Although the proportion of manufacturing investments represented only 6.4% of the net asset value of the Fund, the Fund has not overlooked industrial development in China and has studied a number of industrial projects, searching for good opportunities with competitive returns.

Zhaoyuan Jinbao Electronics Company Limited ("Jinbao") was established in 1993 to manufacture and market copper foil and copper-clad laminates. The Fund cumulatively invested US\$7.0 million, representing an interest of 30% in Jinbao. Although affected by the outbreak of SARS and the rise of copper prices during the first half of 2003, Jinbao achieved a record turnover of a 25% increase to RMB350 million in 2003, as electronics markets rebounded during the second half of 2003. However, due to an increase in finance expenses, resulting from investments in production line capacity, and a rise in management expenses, Jinbao recorded a net profit of RMB8.62 million – a decrease of 8.8% from 2002. In order to raise product standards and profitability, Jinbao plans to invest RMB120 million in Phase II of its high-grade copper foil plant, with annual capacity of 2,500 tons. Construction is expected to be completed before the end of 2004. Dividend income from Jinbao amounted to US\$0.29 million in the year.

Investment Manager's Discussion and Analysis (continued)

Real Estate Investments

Due to sustained high economic growth, the PRC real estate market remained strong and property prices held steady during 2003. As such, the Fund will continue to look for investment opportunities in this sector.

Langfang Oriental Education Facilities Development Company Limited ("Oriental") is a Sino-foreign cooperative joint venture in Langfang, Hebei Province. The total project cost is US\$20 million, with a 20-year contractual period. In June 2002, the Fund invested US\$5 million for an equity stake of 25%. Oriental is engaged in the operation and management of the Phase I dormitories of Oriental University City in Langfang. After the completion of certain modifications, the capacity of Phase I dormitories increased from 15,000 to 17,000 students. Phase I currently accommodates 13,700 students, a 17% increase over 2002-2003 school year. For 2003, Oriental recorded a profit after taxation of RMB7.52 million, which contributed about US\$0.22 million to the Fund's net profit. The Fund received 2002 dividends of US\$57,000 and repayment of capital through a depreciation distribution of US\$0.67 million.

Shenzhen Mankam Square ("Mankam") is a 33-storey commercial complex on North Wen Jin Road, Shenzhen. In 1994, the Fund invested US\$4.3 million through a 35% holding of Hansen Enterprises Limited ("Hansen") to purchase 5,262 square metres of retail space on the third floor of Mankam. Hansen has had difficulty in selling or leasing the third floor because the first two floors of Mankam have not yet been brought into use. In 2003, the Fund recorded a loss of US\$0.31 million in this investment. The Fund has learned that title to the first two floors has changed hands from a financially distressed developer to a third party, and Hansen is in contact with the new owner in order to explore opportunities for cooperation, as well as exit strategies.

REVIEW OF LISTED INVESTMENTS

The Hong Kong economy went through a sharp gyration in response to the spread of SARS during the first half of 2003. The labour market weakened distinctly in response to the abrupt fall-off in economic activity, and the Hang Seng Index recorded a new low for the period since 2000. Yet, local sentiment rose after the Central Government launched the Individual Visit Scheme and signed the Closer Economic Partnership Arrangement ("CEPA") with Hong Kong. The remarkable turnaround of the Hong Kong economy was further driven by a strong pick-up in the tourism and retail sectors. In 2003, the Hang Seng Index, the Hang Seng China-Affiliated Corporations Index and the Hang Seng China Enterprises Index rose by 35%, 41% and 152%, respectively. Given the upbeat market sentiment, the Fund increased the proportion of its portfolio in listed stock investments, which contributed to the Fund's profit US\$0.877 million for the year. At the end of 2003, the Fund held listed shares valued at US\$1.43 million.

Investment Manager's Discussion and Analysis (continued)

Bank interest rates remained consistently low, and in order to increase the rate of return on cash, the Fund expanded its holdings of bank notes and corporate bonds to US\$4.35 million. Details are listed below:

Issuer	Business Nature	Investment Amount (US\$ million)	Net Book Value (US\$ million)	Coupon	Yield to Maturity	Date of Maturity
Corporate Bonds:						
China Mobile (HK) Limited	Mobile communications and related service in PRC	1.090	1.040	7.875%	2.902%	2 November 2004
China Insurance International Holdings (BVI) Limited	Insurance Business	0.695	0.695	5.800%	5.887%	12 November 2013
Hutchison Whampoa International Limited	Property development and investment, ports and related service, telecommunication and hospitality business	1.004	1.004	6.250%	6.193%	24 January 2014
Bank Notes:						
Hang Seng Bank Certificates of Deposit		0.644	0.644	3.750%	3.750%	20 December 2004
Lloyds TSB Bank LIBOR Structured Note		1.000	0.969	13.700%	Note	–
				whole period		
		4.433	4.352			

Note: Coupon rate for the first year : 10.5%
 Subsequent coupon rate : 10% – (2 x 6-month LIBOR)
 The Note will automatically be redeemed at par when accumulated coupon rates reach 13.7%, or on 20 August 2013, whichever is the earlier.

PROSPECTS

After experiencing several years of economic adjustment, the global economy moved towards recovery in 2003. The continuous growth of China's economy has drawn the attention of the world, and China's economy will likely continue to grow at a stable and fast pace of about 7% this year. In light of the favorable conditions brought about by CEPA and China's entry into the WTO, the Fund will continue to increase the value of its existing investments, and to search for the best new investment opportunities in a growing market.

Zhou Linda L.

Managing Director

China Merchants China Investment Management Limited

Hong Kong, 22 April 2004

Investment Manager's Discussion and Analysis (continued)

Directors of the Investment Manager

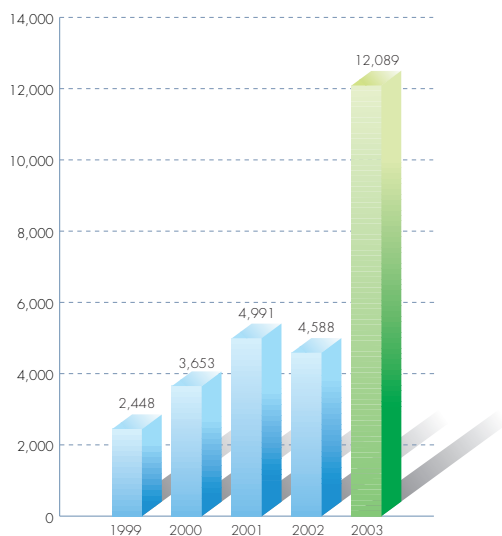


*front row from left: Dr. Huang Dazhan, Ms. Kan Ka Yee, Elizabeth and Ms. Zhou Linda L.;
rear row from left: Mr. Wu Hui Feng, Mr. Lee York Wo and Mr. Tse Yue Kit*

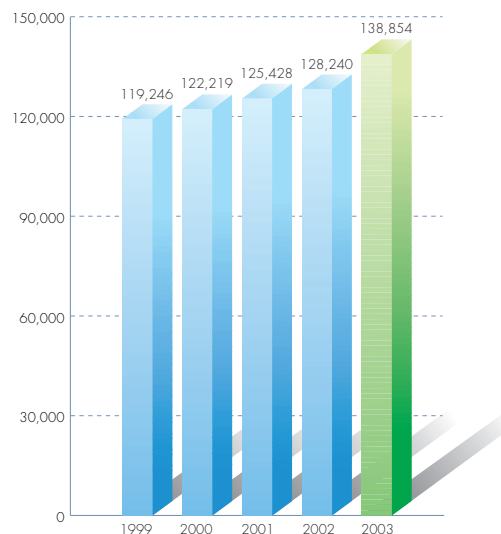
Financial Highlights

YEAR	NET PROFIT	NET ASSETS
	US\$'000	US\$'000
1999	2,448	119,246
2000	3,653	122,219
2001	4,991	125,428
2002	4,588	128,240
2003	12,089	138,854

NET PROFIT (US\$'000)



NET ASSETS (US\$'000)



The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 25 and 13 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 30.

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 28 May 2004, amounting to US\$1,097,165, and the retention of the remaining profit for the year of US\$10,305,931.

RESERVES

Movements in the reserves of the Company during the year are set out in note 19 to the financial statements.

SHARE CAPITAL

Details of the issued share capital of the Company 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 (continued)

DIRECTORS

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

Executive Directors

Dr. FU Yuning (*Chairman*)

Dr. HUANG Dazhan

Mr. CHU Lap Lik, Victor

Ms. ZHOU Linda L.

Mr. TSE Yue Kit

Ms. KAN Ka Yee, Elizabeth

(alternate to Mr. CHU Lap Lik, Victor)

Dr. MA Hung

(appointed and resigned on 10 December 2003)

(alternate to Dr. FU Yuning)

Non-executive Directors

The Hon. LI Kwok Po, David*

Mr. KUT Ying Hay*

Mr. POON Kwok Lim, Steven*

Mr. WANG Xingdong

Mr. GONG Jianzhong

Mr. HIEW Yoon Khong

(appointed on 24 September 2003)

Mr. LI Kai Cheong, Samson*

(alternate to The Hon. LI Kwok Po, David)*

Mr. TAN Cheong Hin

(appointed on 22 April 2004)

(alternate to Mr. HIEW Yoon Khong)

Mr. TAN Wee Peng, Kelvin

(resigned on 24 September 2003)

Dr. HUANG Dazhan

(appointed and resigned on 10 December 2003)

(alternate to Mr. KUT Ying Hay)

In accordance with the provisions of the Company's Articles of Association, Mr. Chu Lap Lik, Victor and Mr. Hiew Yoon Khong, retire and, being eligible, offer themselves for re-election.

* *Independent non-executive directors*

Directors' Report (continued)

Biographical details of Directors are as follows:



Dr. FU Yuning, aged 47, is the chairman of the Company and has been an executive director of the Company since January 1999. He concurrently acts as a director and the president of China Merchants Group Limited, the chairman of China Merchants Finance Holdings Company Limited and the chairman of China Merchants Holdings (International) Company Limited, which is a publicly listed company on the Hong Kong Stock Exchange. He is also the chairman of the executive committee for board of directors of China Merchants Bank Company Limited, the chairman of China Merchants Shekou Industrial Zone Company Limited, China Merchants Zhangzhou Development Zone Company Limited and China Nanshan Development (Group) Inc.. Besides, Dr. Fu serves as the vice chairman of the Hong Kong Chinese Enterprises Association, an executive director of the Chinese General Chamber of Commerce and a director of Hong Kong Port Development Council. He had previously held the posts of the managing director of Shenzhen Chiwan Petroleum Supply Base Company Limited, the president and managing director of Shenzhen Chiwan Wharf Holdings Limited and China Nanshan Development (Group) Inc. and the chairman of Union Bank of Hong Kong Limited. Dr. Fu graduated from Dalian Institute of Technology of China with a degree in Port and Waterway Engineering. He obtained a doctorate degree in Offshore Engineering at the Brunel University of the United Kingdom where he also worked as a post-doctorate research fellow.



Dr. HUANG Dazhan, aged 46, has been an executive director of the Company since March 1999. He is also the chairman of China Merchants China Investment Management Limited (the "Investment Manager"). Dr. Huang is the financial adviser of China Merchants Group Limited, the managing director of China Merchants Finance Holdings Company Limited, a director of China Merchants Holdings (Hong Kong) Company Limited, China Merchants Bank Company Limited, Industrial Bank Company Limited, China Merchants Securities Company Limited and Hua Tai Insurance Company of China, Limited. Concurrently, he also holds a number of chairmanships in various other companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest including China Merchants Holdings (UK) Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers Far East Limited and China Merchants Finance Investment Holdings Company Limited. Dr. Huang graduated from Dalian Institute of Technology of China in 1982. In 1988, he was selected by the State Education Commission of China to go to the UK for further studies and was conferred by the University of Manchester a master degree in Economics and followed by a doctorate degree in the same field, and worked as a post-doctorate research fellow.

Directors' Report (continued)



Mr. CHU Lap Lik, Victor, aged 46, has been an executive director of the Company since June 1993. He is also a director of the Investment Manager. 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 chairman of the ICC Commission on Financial Services and Insurance. Mr. Chu took his law degree at University College, London.



Ms. ZHOU Linda L., aged 35, was appointed as an executive director of the Company in March 2002. She is also the managing director of the Investment Manager, a director of Houlder Insurance Services Limited and Houlder China Insurance Brokers Limited. Before joining the Investment Manager in April 2001, Ms. Zhou worked with ASI as a director of Business Development – Asia Pacific Region for three years and thereafter acted as a Senior Financial Analyst & an Advisor of Board of Advisory in iLink Global. Ms. Zhou obtained her Bachelor degree in Financial Accountancy in People's (Renmin) University of China in 1989 and Master of Business Administration degree from California State University in Sonoma in 1993. Ms. Zhou has extensive experience in positioning foreign companies in China market and has actively involved with direct investments in China.



Mr. TSE Yue Kit, aged 42, has been an executive director of the Company since November 2000. He is also a director of the Investment Manager. Mr. Tse is the general manager in Investment & Development Division of China Merchants Finance Holdings Company Limited. Mr. Tse has more than 16 years of extensive experience in accounting, auditing, corporate finance as well as investment. Mr. Tse obtained his bachelor degree with honours in Accountancy from the University of Exeter, UK.

Directors' Report (continued)



Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 46, has been an alternate director of the Company since May 1999. She is also a director of the Investment Manager. 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 U.S. Certified Public Accountant 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 65, 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, Daimler Chrysler, the Federal Reserve Bank of New York International Advisory Committee and Lafarge. His directorships include AviChina Industry & Technology Company Limited, PCCW Limited, 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, San Miguel Brewery Hong Kong Limited, Sime Darby Berhad, SCMP Group Ltd. and Vitasoy International Holdings Limited.



Mr. KUT Ying Hay, aged 49, 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 (continued)



Mr. POON Kwok Lim, Steven, aged 60, has been an independent non-executive director of the Company since June 1993. He is the chairman of Vortex Communications & Technology Group Limited. 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 Election Committee of the Hong Kong Special Administrative Region. He holds a master degree in electrical engineering and is a chartered engineer.



Mr. WANG Xingdong, aged 43, has been a non-executive director of the Company since April 2001. He is an Executive Director and the Managing Director of ONFEM Holdings Limited ("ONFEM") and a director of China Minmetals H.K. (Holdings) Limited. Mr. Wang graduated from the Xiamen University, P.R.C. in 1982 with a Bachelor of Arts degree. He then further his studies in business management between 1987 and 1989 in the Faculty of Management of Business Administration of Long Island University in New York, USA. Prior to joining ONFEM, he was the President of Chimei Metals in the USA. Mr. Wang has extensive experience in international metals trading, investment strategies and corporate management.



Mr. GONG Jianzhong, aged 41, has been a non-executive director of the Company since September 2001. Mr. Gong has extensive experience in banking and investment. He has worked in Bank of China, Hunan Branch and currently he is the Managing Director of BOC Investment Management Limited, the Deputy CEO 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 (continued)



Mr. HIEW Yoon Khong, aged 43, was appointed as a non-executive director of the Company in September 2003. He is currently Chief Executive Officer of Mapletree Investments Pte Ltd. and Managing Director, Private Equity Funds Investments of Temasek Holdings (Pte) Ltd.. Prior to that, Mr Hiew held various senior positions in the Capitaland Group. He joined Pidemco as CFO in 1996 and was CFO of Capitaland following the merger of Pidemco and DBS Land in 2000. In February 2002, he was made the CEO of Capitaland Commercial Limited and Capitaland Financial Limited. Before joining Capitaland, Mr Hiew held various positions in the areas of corporate finance, management consultancy and project financing over a ten-year period. He holds a Master of Arts degree in Economics from the University of Warwick as well as a Bachelor of Arts degree in Economics from the University of Portsmouth.



Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. LI Kwok Po, David), aged 43, has been appointed alternate director of the Company since May 1999. He is the general manager and head of Investment Banking Division 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.



Mr. TAN Cheong Hin (alternate to Mr. HIEW Yoon Khong), aged 40, was appointed alternate director of the Company in April 2004. He is a Director in the Private Equity Funds Investments of Temasek Holdings (Pte) Ltd.. Mr. Tan obtained his Bachelor in Business Administration (1st Class Honours) degree from the National University of Singapore in 1988 and a Master of Science (Management) from the same university in 1991. He has also completed the Advanced Management Program at INSEAD in 2001. Mr. Tan is a Chartered Financial Analyst (CFA) charterholder.

Directors' Report (continued)

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2003, the interests of the directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Number of shares	Capacity	Nature of interest	Percentage of total issued share capital
Mr. CHU Lap Lik, Victor	14,400,000	Interest of controlled corporation	Corporate	10.50%

Note: Mr. Chu Lap Lik, Victor is deemed to have an interest in the 14,400,000 shares of the Company in which China Bright Holdings Limited is interested.

Save as disclosed above, none of the directors or chief executive, or their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 31 December 2003, and none of the directors or chief executive, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such rights during the year ended 31 December 2003.

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

Other than the Investment Management Agreement mentioned below, 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

The directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Report (continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following persons, other than a director or chief executive of the Company, have interests in the shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name	Number of ordinary shares interested	Percentage of total issued shares
China Merchants Group Limited (Note 4)	34,309,760	25.02%
China Merchants Steam Navigation Company Limited (Note 4)	34,309,760	25.02%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	34,309,760	25.02%
China Merchants Finance Holdings Company Limited (Note 2)	34,309,760	25.02%
China Merchants Financial Services Limited (Note 4)	33,989,760	24.78%
Good Image Limited (Note 3)	33,989,760	24.78%
China Bright Holdings Limited (Note 3)	14,400,000	10.50%
Temasek Holdings (Private) Limited (Note 4)	7,200,000	5.25%
Hong Lim Fund Investments Pte Ltd. (Note 3)	7,200,000	5.25%
Bank of China (Note 4)	7,200,000	5.25%
Bank of China Group Investment Limited (Note 3)	7,200,000	5.25%
China National Metals and Minerals Import and Export Corporation (Note 4)	7,200,000	5.25%
China Minmetals H.K. (Holdings) Limited (Note 4)	7,200,000	5.25%
June Glory International Limited (Note 5)	7,200,000	5.25%
ONFEM Holdings Limited (Note 4)	7,200,000	5.25%
ONFEM Investments Limited (Note 3)	7,200,000	5.25%
Swiss Reinsurance Company (Note 3)	7,200,000	5.25%

Note 1: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its controlling shareholding (i.e. 99.32%) in the company whose name is set out immediately under it.

Note 2: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its entire shareholding in Everlink Limited and the company whose name is set out immediately under it.

Note 3: The company has a beneficial interest in the shares opposite to its name.

Note 4: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its entire shareholding in the company whose name is set out immediately under it.

Note 5: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its controlling shareholding (i.e. 53.95%) in the company whose corporate name is set out immediately under it.

Save as disclosed above, there was no person, other than a director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Directors' Report (continued)

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2003 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).

INVESTMENT MANAGEMENT AGREEMENT

China Merchants China Investment Management Limited, a company incorporated in Hong Kong, continues to be the Investment Manager to the Company for both listed and unlisted investments. Dr. Huang Dazhan, Mr. Chu Lap Lik, Victor, Ms. Zhou Linda L., Mr. Tse Yue Kit and Ms. Kan Ka Yee, Elizabeth are directors of both the Company and Investment Manager. Mr. Chu Lap Lik, Victor and Ms. Kan Ka Yee, Elizabeth have indirect beneficial interests in the Investment Manager.

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, 22 April 2004

德勤·關黃陳方會計師行

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

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

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 30 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 financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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, 22 April 2004

Consolidated Income Statement

For the year ended 31 December 2003

	NOTES	2003 US\$	2002 US\$ (Restated)
Turnover	4	2,906,501	2,443,946
Net unrealised holding gain on unlisted investments in securities		11,894,819	9,932,037
Net gain on disposal of listed investments in securities		381,049	36,109
Unrealised holding gain (loss) on listed investments in securities		375,932	(1,310,965)
Gain on disposal of a contractual joint venture		769,797	-
Write-back of impairment loss recognised in respect of a contractual joint venture		144,976	100,153
Impairment loss recognised in respect of a contractual joint venture	14	-	(2,401,975)
Other operating income		9,395	34,303
Administrative expenses		(2,734,424)	(2,738,703)
Profit from operations		13,748,045	6,094,905
Finance costs		-	(115,706)
Share of results of associates		261,272	407,410
Profit before taxation	6	14,009,317	6,386,609
Taxation	9	(1,920,493)	(1,798,974)
Profit attributable to shareholders		12,088,824	4,587,635
Dividends	10	1,782,893	1,782,893
Earnings per share	11	0.088	0.033

Consolidated Balance Sheet

At 31 December 2003

	NOTES	2003 US\$	2002 US\$ (Restated)
Non-current assets			
Interests in associates	13	15,511,720	16,322,474
Contractual joint venture	14	-	2,578,025
Investments in securities	15	91,379,224	79,518,246
		106,890,944	98,418,745
Current assets			
Trade and other receivables	16	729,365	443,089
Investments in securities	15	1,684,727	2,010,589
Cash and bank balances		37,615,925	34,061,675
		40,030,017	36,515,353
Current liabilities			
Trade and other payables		710,379	1,201,416
Taxation payable		19,913	17,215
		730,292	1,218,631
Net current assets		39,299,725	35,296,722
Total assets less current liabilities		146,190,669	133,715,467
Non-current liability			
Deferred taxation	17	7,336,784	5,475,335
Net assets		138,853,885	128,240,132
Capital and reserves			
Share capital	18	13,714,560	13,714,560
Reserves		125,139,325	114,525,572
		138,853,885	128,240,132
Net asset value per share	20	1.012	0.935

The financial statements on pages 30 to 55 were approved and authorised for issue by the Board of Directors on 22 April 2004 and are signed on its behalf by:

Huang Dazhan
DIRECTOR

Zhou Linda L.
DIRECTOR

Balance Sheet

At 31 December 2003

	NOTES	2003 US\$	2002 US\$
Non-current assets			
Investments in subsidiaries	12	68,047,506	66,420,291
Current assets			
Trade and other receivables		83,420	95,346
Cash and bank balances		29,048,893	31,258,210
		29,132,313	31,353,556
Current liabilities			
Trade and other payables		708,742	715,315
Net current assets		28,423,571	30,638,241
Net assets		96,471,077	97,058,532
Capital and reserves			
Share capital	18	13,714,560	13,714,560
Reserves	19	82,756,517	83,343,972
		96,471,077	97,058,532

Huang Dazhan
DIRECTOR

Zhou Linda L.
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital US\$	Share premium US\$	Exchange equalisation US\$	General reserve US\$	Retained profits US\$	Total US\$
THE GROUP						
Balance at 1 January 2002	13,714,560	81,525,984	131,253	744,702	29,311,740	125,428,239
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	-	-	7,206	(55)	-	7,151
Profit for the year	-	-	-	-	4,587,635	4,587,635
Final dividend paid for 2001	-	-	-	-	(1,097,165)	(1,097,165)
Interim dividend paid for 2002	-	-	-	-	(685,728)	(685,728)
Transfer to general reserve	-	-	-	135,318	(135,318)	-
Balance at 1 January 2003	13,714,560	81,525,984	138,459	879,965	31,981,164	128,240,132
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	-	-	307,822	-	-	307,822
Profit for the year	-	-	-	-	12,088,824	12,088,824
Final dividend paid for 2002	-	-	-	-	(1,097,165)	(1,097,165)
Interim dividend paid for 2003	-	-	-	-	(685,728)	(685,728)
Balance at 31 December 2003	13,714,560	81,525,984	446,281	879,965	42,287,095	138,853,885

The general reserve represents the general reserve fund set aside by a subsidiary in accordance with relevant laws and regulations of the PRC, which is not available for distribution.

Included in the above are the Group's share of post-acquisition reserves of the associates as follows:

	2003 US\$	2002 US\$
Balance at 1 January	(143,667)	423,693
Loss for the year, retained	(142,212)	(567,360)
Balance at 31 December	(285,879)	(143,667)

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	NOTE	2003 US\$	2002 US\$ (Restated)
OPERATING ACTIVITIES			
Profit from operations		13,748,045	6,094,905
Adjustments for:			
Amortisation of premium/discounts on debt securities		58,049	–
Net unrealised holding gain on unlisted investments in securities		(11,894,819)	(9,932,037)
Gain on disposal of a contractual joint venture		(769,797)	–
Net gain on disposal of listed investments in securities		(381,049)	(36,109)
Write-back of impairment loss recognised in respect of a contractual joint venture		(144,976)	(100,153)
Unrealised holding (gain) loss on listed investment in securities		(375,932)	1,310,965
Impairment loss recognised in respect of a contractual joint venture		–	2,401,975
Operating cash flows before movements in working capital		239,521	(260,454)
Decrease in trade and other receivables		35,977	2,345,095
Decrease in trade and other payables		(4,935)	(2,184,102)
Cash generated from (used in) operations		270,563	(99,461)
Income taxes paid		(935)	(4,257)
Interest paid		–	(115,706)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		269,628	(219,424)
INVESTING ACTIVITIES			
Dividends received from associates		483,669	654,184
Advances to associates		(141,858)	(25,090)
Repayment of capital from a contractual joint venture		144,976	100,153
Acquisition of investment in an associate		–	(5,000,000)
Repayment of capital from an associate		425,915	–
Acquisition of listed investments in securities		(4,919,091)	(1,284,144)
Acquisition of unlisted investments in securities		(7,106,626)	(13,752,455)
Net proceeds from disposal of a subsidiary	21	2,718,847	–
Proceeds from disposal of listed investments in securities		5,806,422	294,447
Net proceeds from disposal of a contractual joint venture		769,797	10,653,765
Proceeds from disposal/redemption of unlisted investments in securities		6,898,506	7,437,232
Decrease in pledged bank deposits		–	2,800,000
NET CASH FROM INVESTING ACTIVITIES		5,080,557	1,878,092

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2003

	2003 US\$	2002 US\$ <i>(Restated)</i>
FINANCING ACTIVITIES		
Bank loan repaid	-	(6,935,180)
Bank loan raised	-	483,255
Dividends paid	(1,782,893)	(1,782,893)
NET CASH USED IN FINANCING ACTIVITIES	(1,782,893)	(8,234,818)
NET INCREASE (DECREASE) IN CASH AND BANK BALANCES	3,567,292	(6,576,150)
CASH AND BANK BALANCES AS AT 1 JANUARY	34,061,675	40,631,746
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(13,042)	6,079
CASH AND BANK BALANCES AS AT 31 DECEMBER	37,615,925	34,061,675



Notes to the Financial Statements

For the year ended 31 December 2003

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 25 and 13 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 HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS"s) issued by the Hong Kong Society of Accountants ("HKSA"), and the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP"s) and Interpretations approved by the HKSA:

SSAP 12 (Revised) — Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of SSAP 12 (Revised) by the Group has resulted in restatement in the carrying value of unlisted investments in securities and the amount of unrealised holding gains on unlisted investments in securities for periods prior to 2003. Since the Group has recognised the deferred tax liability for periods prior to 2003 in respect of taxation on capital gains for certain investments in securities in the People's Republic of China ("PRC"), the adoption of SSAP 12 (Revised) has not had any significant effect on the results for the current or prior accounting periods.



Notes to the Financial Statements (continued)

For the year ended 31 December 2003

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 financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted 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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Interests in associates

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, less any identified impairment loss.

The results of associates 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 associates are stated at cost, as reduced by any identified impairment loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 repayments and any identified impairment loss. Payments receivable each year under the joint venture agreements are apportioned between income and the reduction of the carrying value of the investments so as to give a constant periodic rate of return on the investments.

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 identified 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 year.

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 annually.

Interest income from bank deposits is accrued on a time 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.



Notes to the Financial Statements (continued)

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

Transactions in foreign 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 assets and liabilities of the Group's overseas subsidiaries and associates are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's exchange equalisation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. TURNOVER

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

	THE GROUP	
	2003	2002
	US\$	US\$
Interest income	671,876	872,129
Dividend income from listed investments in securities	120,108	57,703
Dividend income from unlisted investments in securities	2,114,517	1,514,114
	2,906,501	2,443,946

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

5. SEGMENTAL INFORMATION

During the year, the Group was principally involved in investing in companies with significant business involvement in the PRC. Accordingly, no analysis of segment information by principal activity is presented. The Group's turnover, contribution to operating profit, assets and liabilities for the year ended 31 December 2003, analysed by geographical locations of the investee companies, were as follows:

For the year ended 31 December 2003

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
TURNOVER				
Group turnover	385,195	2,280,022	241,284	2,906,501
RESULT				
Segment result	1,142,176	15,120,614	210,284	16,473,074
Other operating income	-	-	9,395	9,395
Unallocated corporate expenses	-	-	(2,734,424)	(2,734,424)
Profit from operations	1,142,176	15,120,614	(2,514,745)	13,748,045
Share of results of associates	-	261,272	-	261,272
Profit before taxation	1,142,176	15,381,886	(2,514,745)	14,009,317
Taxation	(696)	(1,919,797)	-	(1,920,493)
Profit attributable to shareholders	1,141,480	13,462,089	(2,514,745)	12,088,824
OTHER INFORMATION				
Write-back of impairment loss recognised in respect of a contractual joint venture	-	144,976	-	144,976

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

5. SEGMENTAL INFORMATION (Continued)

BALANCE SHEET

At 31 December 2003

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
ASSETS				
Segment assets	30,893,214	7,387,955	64,121	38,345,290
Investments in associates	-	15,511,720	-	15,511,720
Investments in securities	2,078,984	87,233,543	3,751,424	93,063,951
Consolidated total assets	32,972,198	110,133,218	3,815,545	146,920,961
LIABILITIES				
Segment liabilities	710,379	7,356,697	-	8,067,076

For the year ended 31 December 2002

	Hong Kong US\$	The PRC US\$ (Restated)	Others US\$	Consolidated US\$ (Restated)
TURNOVER				
Group turnover	459,544	1,794,894	189,508	2,443,946
RESULT				
Segment result	(815,312)	9,425,109	189,508	8,799,305
Other operating income	-	-	34,303	34,303
Unallocated corporate expenses	-	-	(2,738,703)	(2,738,703)
Profit from operations	(815,312)	9,425,109	(2,514,892)	6,094,905
Finance costs	-	(115,706)	-	(115,706)
Share of results of associates	-	407,410	-	407,410
Profit before taxation	(815,312)	9,716,813	(2,514,892)	6,386,609
Taxation	(4,257)	(1,794,717)	-	(1,798,974)
Profit attributable to shareholders	(819,569)	7,922,096	(2,514,892)	4,587,635
OTHER INFORMATION				
Write-back of impairment loss recognised in respect of contractual joint ventures	-	100,153	-	100,153
Impairment loss recognised in respect of a contractual joint venture	-	(2,401,975)	-	(2,401,975)

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

5. SEGMENTAL INFORMATION (Continued)

BALANCE SHEET

At 31 December 2002

	Hong Kong US\$	The PRC US\$ (Restated)	Others US\$ (Restated)	Consolidated US\$ (Restated)
ASSETS				
Segment assets	31,372,162	3,107,707	24,895	34,504,764
Investments in associates	–	16,322,474	–	16,322,474
Investments in contractual joint ventures	–	2,578,025	–	2,578,025
Investments in securities	4,608,265	73,779,547	3,141,023	81,528,835
Consolidated total assets	35,980,427	95,787,753	3,165,918	134,934,098
LIABILITIES				
Segment liabilities	959,777	5,734,189	–	6,693,966

6. PROFIT BEFORE TAXATION

	THE GROUP	
	2003	2002
	US\$	US\$
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	49,917	51,208
Net foreign exchange (gains) losses	(32,717)	7,746
Investment manager's fee	2,443,692	2,358,469
Interest expense on bank loans repayable within five years	–	115,706
Directors' fees	32,055	39,230

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

7. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2003	2002
	US\$	US\$
Directors' fees		
– Executive	15,387	15,384
– Non-executive	16,668	23,846
	32,055	39,230
Other emoluments		
– Salaries and other benefits	–	–
– Contribution to retirement benefits schemes	–	–
– Performance related incentive payment	–	–
– Incentive payment on joining	–	–
	–	–
	32,055	39,230

Emoluments paid to each director in 2003 and 2002 were less than US\$125,000.

The amounts disclosed above include directors' fees of US\$10,257 (2002: US\$12,820) paid or payable to independent non-executive directors.

8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2003 and 2002 were all directors of the Company and details of their emoluments are included in note 7 above.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

9. TAXATION

The profits tax charge for the year comprises:

	THE GROUP	
	2003	2002
	US\$	US\$
		<i>(Restated)</i>
The Company and its subsidiaries		
Current tax:		
Hong Kong	696	4,257
Other regions in the PRC	2,937	–
	3,633	4,257
Deferred taxation (<i>Note 17</i>)	1,861,449	1,725,532
	1,865,082	1,729,789
Share of taxation on results of associates		
Other regions in the PRC	55,411	69,185
	1,920,493	1,798,974

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

9. TAXATION (Continued)

Hong Kong profits tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits for the year. Taxation arising in other regions in the PRC is calculated at the rates prevailing in the relevant regions.

The profits tax charge for the year can be reconciled to the profit per the income statement as follows:

	THE GROUP	
	2003	2002
	US\$	US\$
Profit before taxation	14,009,317	6,386,609
Tax at the domestic income tax rate of 17.5% (2002: 16%)	2,451,630	1,021,857
Effect of different tax rates of associates in other regions in the PRC	(25,312)	3,999
Tax effect of expenses not deductible for tax purpose	1,244,078	949,200
Tax effect of income not taxable for tax purpose	(1,246,930)	(789,323)
Tax effect of deferred tax assets not recognised	115,972	251,442
Tax effect of tax losses not recognised	–	244,808
Utilisation of tax losses previously not recognised	(118,592)	–
Effect of different tax rates of subsidiaries operating in other regions in the PRC	(500,557)	112,734
Others	204	4,257
Profits tax charge	1,920,493	1,798,974

10. DIVIDENDS

	2003	2002
	US\$	US\$
Interim dividend paid – US0.5 cents (2002: US0.5 cents) per share	685,728	685,728
Final dividend proposed – US0.8 cents (2002: US0.8 cents) per share	1,097,165	1,097,165
	1,782,893	1,782,893

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

11. EARNINGS PER SHARE

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

	THE GROUP	
	2003	2002
Earnings for the purpose of basic earnings per share (US\$)	12,088,824	4,587,635
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	US\$	US\$
Unlisted shares, at cost	10,001,645	10,001,647
Amounts due from subsidiaries	71,284,851	77,651,330
Less: Impairment loss recognised	(13,238,990)	(21,232,686)
	68,047,506	66,420,291

Particulars of the Company's principal subsidiaries at 31 December 2003 are set out in note 25.

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003	2002
	US\$	US\$
Share of net assets	12,252,697	12,864,487
Amounts due from associates	11,034,452	11,033,416
	23,287,149	23,897,903
Less: Impairment loss recognised	(7,775,429)	(7,575,429)
	15,511,720	16,322,474

The amounts due from associates are classified under non-current assets as the directors are of the opinion that they will not be repaid in the forthcoming year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

13. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2003, 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 Company Limited	PRC/PRC	Registered capital	Manufacturing electronics products	30%
Langfang Oriental Education Facilities Development Company Limited	PRC/PRC	Registered capital	Dormitories investment	25%
Chenzhou Heshang Environmental Protection Company Limited <i>(Note)</i>	PRC/PRC	Registered capital	Landfill operation	30%

Note: Capital has not yet been injected.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

14. CONTRACTUAL JOINT VENTURE

	THE GROUP	
	2003	2002
	US\$	US\$
Unlisted shares	2,578,025	14,980,000
Less: Disposal during the year	(2,578,025)	(10,000,000)
Impairment loss recognised	-	(2,401,975)
	-	2,578,025

Particulars of the contractual joint venture at 31 December 2003 are as follows:

Name	Principal activity	Expiry date of joint venture
Wei Fang Yin Yuan Aviation Industry Co., Ltd.	Airport construction and operation	4 May 2009

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

15. INVESTMENTS IN SECURITIES

THE GROUP

	Held to		Other		Total	
	maturity securities		investments			
	2003	2002	2003	2002	2003	2002
	US\$	US\$	US\$	US\$	US\$	US\$
				(Restated)		(Restated)
Equity securities:						
Listed	-	-	1,434,904	3,967,015	1,434,904	3,967,015
Unlisted	-	-	87,275,849	73,821,854	87,275,849	73,821,854
	-	-	88,710,753	77,788,869	88,710,753	77,788,869
Debt securities:						
Listed	2,740,117	-	-	-	2,740,117	-
Unlisted	644,081	3,739,966	969,000	-	1,613,081	3,739,966
	3,384,198	3,739,966	969,000	-	4,353,198	3,739,966
Total:						
Listed						
Hong Kong	-	-	1,368,672	3,967,015	1,368,672	3,967,015
Elsewhere	2,740,117	-	66,232	-	2,806,349	-
Unlisted	644,081	3,739,966	88,244,849	73,821,854	88,888,930	77,561,820
	3,384,198	3,739,966	89,679,753	77,788,869	93,063,951	81,528,835
Market value						
of listed securities	2,766,753	-	1,434,904	3,967,015	4,201,657	3,967,015

Carrying amount analysed for reporting purposes as:

	Held to		Other		Total	
	maturity securities		investments			
	2003	2002	2003	2002	2003	2002
	US\$	US\$	US\$	US\$	US\$	US\$
				(Restated)		(Restated)
Current	1,684,727	2,010,589	-	-	1,684,727	2,010,589
Non-current	1,699,471	1,729,377	89,679,753	77,788,869	91,379,224	79,518,246
	3,384,198	3,739,966	89,679,753	77,788,869	93,063,951	81,528,835

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

15. INVESTMENTS IN SECURITIES (Continued)

Particulars of the Group's unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2003 disclosed pursuant to Section 129(2) of the Companies Ordinance are as follows:

Name	Place of incorporation	Class of share capital	Percentage of equity held by the Group
China Merchants Bank Company, Limited	PRC	Equity	1.19%
Industrial Bank Company, Limited	PRC	Equity	2.80%

16. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2003	2002
	US\$	US\$
Trade receivables	573,654	251,401
Interest receivable	135,097	101,550
Other receivables	20,614	90,138
	729,365	443,089

All the trade receivables of the Group are aged within 6 months.

17. DEFERRED TAXATION

The Group's deferred tax liability relates to the taxation on capital gains for certain investments in securities in the PRC. The following is the deferred tax liability recognised by the Group and movements thereon during the current and prior years:

	THE GROUP	
	2003	2002
	US\$	US\$
Balance at 1 January		
– as previously reported	–	–
– adjustment on adoption of SSAP 12 (Revised)	5,475,335	3,749,803
– as restated	5,475,335	3,749,803
Charge to income statement for the year	1,861,449	1,725,532
Balance at 31 December	7,336,784	5,475,335

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

17. DEFERRED TAXATION (Continued)

At the balance sheet date, the Group has deductible temporary differences and unused tax losses available for offsetting against future taxable profits of US\$2,211,876 (2002: US\$1,571,512) and US\$3,128,314 (2002: US\$3,774,985) respectively. No deferred tax asset has been recognised in relation to such deductible temporary differences and tax losses due to the unpredictability of future relevant taxable profit against which the deductible temporary differences and tax losses can be utilised.

18. SHARE CAPITAL

	2003 & 2002
	US\$
Authorised:	
150,000,000 ordinary shares of US\$0.10 each	15,000,000
Issued and fully paid:	
137,145,600 ordinary shares of US\$0.10 each	13,714,560

19. RESERVES

	THE COMPANY		
	Share premium	Retained profits	Total
	US\$	US\$	US\$
Balance at 1 January 2002	81,525,984	2,090,299	83,616,283
Profit for the year	–	1,510,582	1,510,582
Final dividend paid for 2001	–	(1,097,165)	(1,097,165)
Interim dividend paid for 2002	–	(685,728)	(685,728)
Balance at 1 January 2003	81,525,984	1,817,988	83,343,972
Profit for the year	–	1,195,438	1,195,438
Final dividend paid for 2002	–	(1,097,165)	(1,097,165)
Interim dividend paid for 2003	–	(685,728)	(685,728)
Balance at 31 December 2003	81,525,984	1,230,533	82,756,517

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\$1,230,533 (2002: US\$1,817,988).

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

20. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$138,853,885 (2002: US\$128,240,132) and 137,145,600 ordinary shares (2002: 137,145,600 ordinary shares) of US\$0.10 each in issue.

21. DISPOSAL OF A SUBSIDIARY

	2003	2002
	US\$	US\$
Net assets disposed of:		
Interest in a contractual joint venture	2,718,847	–
Satisfied by:		
Cash consideration	3,000,000	–
Expenses incurred in connection with the disposal of a subsidiary	(281,153)	–
	2,718,847	–

The subsidiary disposed of during the year did not have any significant impact on the operating results of the Group.

22. LEASE COMMITMENTS

At 31 December 2003, the Group and the Company had no commitments under non-cancellable operating leases (2002: Nil).

23. CAPITAL COMMITMENTS

At 31 December 2003, the Group had the following commitments:

	2003	2002
	US\$	US\$
Capital expenditure contracted but not provided for in the financial statements in respect of:		
– unlisted investment in securities	–	1,200,000
– investment in an associate	2,537,219	–

The Company had no significant capital commitment at the balance sheet date.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

24. RELATED PARTY TRANSACTION

The Company has appointed China Merchants China Investment Management Limited as the Investment Manager for both listed and unlisted investments. Certain directors of the Company are also directors and/or shareholders of the Investment Manager.

During the year, management fees totalling US\$2,443,692 (2002: US\$2,358,469) were paid or payable to the Investment Manager, 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 the Investment Manager at 31 December 2003 were US\$624,633 (2002: US\$631,595).

25. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of all subsidiaries at 31 December 2003, 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 (Limited liability company)
China Merchants Industry Development (Shenzhen) Limited	PRC	Investment holding	Paid up capital of US\$10,000,000 (Wholly owned foreign enterprise)
Everich Dynamic Investments Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Foster Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Head Union Development Limited	HK	Investment holding	2 ordinary shares of HK\$1 each (Limited liability company)
Ryan Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

25. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
Star Group Limited	HK	Investment holding	2 ordinary shares of HK\$1 each (Limited liability company)
Sinovest Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Wheaton International Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Woodford Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)

None of the subsidiaries had any debt securities subsisting at 31 December 2003 or at any time during the year.

Financial Summary

CONSOLIDATED RESULTS

	For the year ended 31 December				2003 US\$
	1999 US\$	2000 US\$	2001 US\$	2002 US\$ (Restated)	
Turnover	7,985,868	6,182,818	3,689,732	2,443,946	2,906,501
Profit from operations after finance costs	2,235,827	7,563,751	3,926,202	5,979,199	13,748,045
Share of results of associates	318,360	(3,809,544)	1,219,678	407,410	261,272
Taxation	(106,087)	(101,480)	(155,028)	(1,798,974)	(1,920,493)
Profit attributable to shareholders	2,448,100	3,652,727	4,990,852	4,587,635	12,088,824

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				2003 US\$
	1999 US\$	2000 US\$	2001 US\$	2002 US\$ (Restated)	
Total assets	121,378,843	122,892,377	135,038,435	134,934,098	146,920,961
Total liabilities	(2,132,427)	(673,160)	(9,610,196)	(6,693,966)	(8,067,076)
Shareholders' funds	119,246,416	122,219,217	125,428,239	128,240,132	138,853,885