



CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

招商局中國基金有限公司



2004 ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Dr. FU Yuning (*Chairman*)
Dr. 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**
46th 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



DR. FU YUNING
Chairman

Chairman's Statement (continued)

The Board of Directors announces that the audited consolidated net asset value (“NAV”) of China Merchants China Direct Investments Limited and its subsidiaries (the “Group”) as of 31 December 2004 amounted to US\$139 million. The NAV per share was US\$1.014, compared to US\$1.012 in 2003 – an increase of 0.2%. The audited consolidated profit after tax of the Group for the year ended 31 December 2004 totalled US\$1.10 million. This represents a decrease of 90.9% from 2003.

The Board of Directors has proposed a final dividend of US¢0.7 or HK¢5.46 per share. Total cash dividends paid during the year will be US¢0.7, or HK¢5.46 per share.

The year 2004 began with vigorous growth in China's economy – a continuation of trends from the previous two years. Rapid growth in fixed asset investments, together with some imbalance in investments across industries led to shortages in electricity, coal, transportation, oil products and other energy resources. The Chinese government realised the potential risks posed by an overheating economy and began to implement austerity measures to curtail expansion in the first quarter of 2004. The measures were further strengthened in the middle of the year. In October, the government increased interest rates for both deposits and loans, shifting from administrative measures to monetary policy to balance economic growth. These macroeconomic policies clearly had some impact on the operations and asset quality of banks in China. Nevertheless, strong demand for capital, driven by rapid economic growth, helped banks in the PRC to sustain profit growth through expansion of lending activities. China Merchants Bank and Industrial Bank both achieved satisfactory profit growth for 2004. However, the securities companies of the Group continued to under-perform due to the sluggish stock markets in China. During the year, the government implemented a series of market-boosting policies, aimed at speeding up the infrastructural development of the market and providing a pro-capital market environment. However, pending a final resolution as to issues including the legal person shares, the market remained lacklustre. Such a market condition affected not only the performance of the securities companies of the Group, but also the valuation of the Group's holding in China Merchants Bank, which decreased by 4% from 2003.

To further strengthen and diversify the Group's financial services portfolio, the Group entered into an agreement to acquire a 6.8167% stake in a trust and investment company for a consideration of US\$15.31 million. The investment is awaiting approval by the China Banking Regulatory Commission and is expected to contribute cash income to the Group in the first year of investment.

Against the backdrop of continuing high demand for electronic products started in 2003, both in China and overseas, the Group's laminate and copper-foil company achieved a significant increase in sales and profit. The Group's investment in the Phase I student dormitory in Langfang University City also performed admirably, with both rental income and profit for the year showing increases over 2003 of 8.7% and 22.9%, respectively. The Group has received dividends and capital repayments for the year according to the investment agreement.

Chairman's Statement (continued)

After many years of negotiations with the Chinese partner in the Shandong Weifang Airport project and with the Weifang municipal government, the Group finally exited from the fully provided project and received RMB0.83 million in December 2004. The IRR of the project was 3.9%.

As of 31 December 2004, the Group had unlisted investments valued at US\$105.51 million, representing 75.9% of its net asset value. Its listed investments were valued at US\$1.23 million, or 0.9% of net asset value. Bonds and notes totalled US\$6.67 million, representing 4.8% of the Group's net assets. Cash on hand amounted to US\$33.88 million, or 24.4% of net asset value.

Looking ahead to 2005, it is expected that China's economy will grow at a rate of about 8.5%. The government intends to boost growth in domestic consumption and exports, while continuing to rein in excessive fixed asset investments. We expect that China's macroeconomic measures will lead to a soft landing of the economy. Apart from taking an active role in pursuing investment projects, efforts will also be made to seek divestment opportunities in order to realise capital gains.

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.

Dr. Fu Yuning
Chairman

Hong Kong, 21 April 2005

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

As of 31 December 2004, the net assets of China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") were US\$139 million, with a net asset value per share of US\$1.014 – representing a 0.2% increase over year 2003. The Fund recorded a profit attributable to shareholders of US\$1.10 million for the year 2004, representing a decrease of 90.9% from 2003. This decrease resulted largely from a drop in the valuation of China Merchants Bank, whose A Shares declined in price during the year.

Total turnover for the year decreased by 8.1% to US\$2.67 million (2003: US\$2.91 million). Turnover included dividend income from unlisted investments, which decreased 10.9% to US\$1.88 million (2003: US\$2.11 million). Turnover also included interest income, which decreased slightly to US\$0.65 million (2003: US\$0.67 million) due to a lower average deposit balance in 2004 and to declines throughout the year in deposit rates on the Hong Kong dollars in spite of a 1.25% increase in US interest rates since the middle of 2004.

The net unrealised holding gain on unlisted investments for the year was US\$0.16 million (2003: US\$11.89 million), representing a decrease of 98.7% from 2003. This decrease was attributable to a drop in the value of China Merchants Bank, as a result of the decrease of its share price. For listed stocks, both realised and unrealised gains together amounted to US\$0.52 million (2003: US\$0.75 million), in line with market indices.

MATERIAL ACQUISITIONS OF INVESTMENTS

In September 2004, the Fund entered into an agreement with Yong Cheng Mei Dian (Group) Limited to acquire a 6.8167% stake in China Credit Trust Company, Limited ("CCT") for a consideration of US\$15.31 million. Established in 1995, the core businesses of CCT include trust management, fund management, investments and loan financing. At the end of 2003, total assets and net assets of CCT were RMB2.1 billion and RMB1.863 billion, respectively. The investment is awaiting approval by the China Banking Regulatory Commission ("CBRC").

In the interim report of 2004, the Fund disclosed that it had entered into a conditional agreement to invest in Maytron (BVI) Corporation. Since then, certain conditions in the agreement had not been fulfilled and the Fund decided to terminate the agreement on 19 October 2004.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

Net cash decreased by 9.9%, from US\$37.62 million as of 31 December 2003 to US\$33.88 million as of 31 December 2004, mainly due to a capital injection into an unlisted investment project and to an increase in bond and note investments.

As of 31 December 2004, the Fund had no outstanding bank loans (2003: Nil).

As of 31 December 2004, the Fund had capital commitments of US\$15.31 million (2003: US\$2.54 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 in the near future.

EMPLOYEES

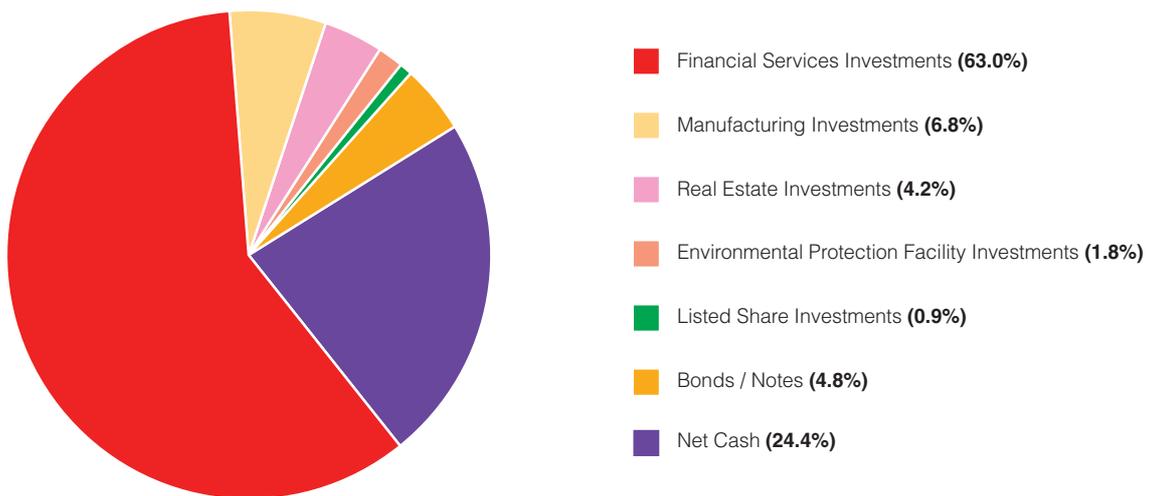
Other than a qualified accountant, the Fund has no employees. The Investment Manager handles the portfolio and day-to-day administration of the Fund.

Investment Manager's Discussion and Analysis (continued)

THE PORTFOLIO

As of 31 December 2004, the Fund had total investments of US\$113.41 million – US\$105.51 million in unlisted investments, US\$1.23 million in listed investments, and US\$6.67 million in bonds and notes. The major unlisted investment projects were in financial services (63.0% of net assets), manufacturing (6.8%), real estate (4.2%) and environmental protection facility (1.8%). In addition, the Fund had net cash of US\$33.88 million, accounting for 24.4% of the Fund's net assets.

NET ASSET DISTRIBUTION *(As at 31 December 2004)*





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 2004:

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	54.92	39.50
2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	26.59	19.12
3. Industrial Securities Co., Ltd.	Fuzhou, Fujian	Securities	0.56	0.41
4. China Merchants Securities Co., Ltd.	Shenzhen, Guangdong	Securities	1.07	0.77
5. Jutian Securities Co., Ltd.	Shenzhen, Guangdong	Securities	2.77	1.99
6. Houlder China Insurance Brokers Ltd.	Shenzhen, Guangdong	Insurance brokerage	0.62	0.45
7. Jutian Fund Management Co., Ltd.	Shenzhen, Guangdong	Fund management	1.03	0.74
Sub-total:			87.56	62.98
Manufacturing:				
8. Zhaoyuan Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	9.48	6.82
Sub-total:			9.48	6.82
Real Estate:				
9. Langfang Oriental Education Facilities Development Co., Ltd.	Langfang, Hebei	Student dormitory	3.90	2.81
10. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retail shops	1.99	1.43
Sub-total:			5.89	4.24
Environmental Protection Facility:				
11. Chenzhou Heshang Environmental Protection Co., Ltd.	Chenzhou, Hunan	Landfill operation	2.54	1.83
Sub-total:			2.54	1.83
Total:			105.47	75.87

Investment Manager's Discussion and Analysis (continued)

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 about 400 branches and offices across the country. The Fund invested US\$14.06 million and currently holds a 1.19% stake in CMB. In November 2004, CMB successfully issued RMB6.5 billion of listed convertible bonds. During the reporting year, upon receiving approvals from CBRC, CMB's branches in Yantai, Shaoxing and Dongguan commenced operations, enhancing its national service network.

CMB sustained rapid growth in 2004, with deposits and loans increasing by 26% and 22%, respectively. Net profit jumped by 41% to RMB3.1 billion. According to the adopted valuation method, CMB's shares were valued at RMB5.56 per share as of 31 December 2004, and the value of the Fund's investment in CMB decreased by US\$2.30 million from the year end value of 2003 as a result of a drop in CMB's share price. The Fund received 2003 dividends of RMB6.26 million in the year.

Industrial Bank Company, Limited ("IBCL") is a registered commercial bank in the PRC, with over 260 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 2.1% stake. During the reporting year, IBCL successfully completed the issuance of new shares and increased issued share capital to RMB3,999 million. IBCL also successfully acquired Foshan Commercial Bank, helping to enhance its service network coverage.

For 2004, IBCL recorded a net profit of RMB1.1 billion based on the new accounting standards for financial enterprises – an increase of 12% over the same period of last year. The Fund recorded an unrealised holding gain of US\$2.89 million from its investment in IBCL. To fulfill listing requirements, the shareholders' meeting of IBCL held in November 2004 resolved to amend the bank's Articles of Association and approved other resolutions related to the listing. The Fund received 2003 dividends of RMB9.24 million during 2004.

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 23 offices in China. The Fund invested RMB8.51 million (equivalent to US\$1.03 million) to acquire a 0.74% stake in ISCL.

ISCL's revenue rose by 20% in 2004, to RMB451 million. However, for the same period, ISCL's net profit decreased by 56% to RMB16.74 million due to a significant increase in provisions for non-performing assets. In addition, as of 31 December 2004, ISCL's net asset value was adjusted down by 5% to RMB631 million. As a result, the fair value of this investment decreased by US\$33,000 for the year. ISCL is still preparing for the issuance of new shares in order to strengthen its balance sheet.

Investment Manager's Discussion and Analysis (continued)

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

CMSC closed out 2004 with a net profit of RMB52.08 million – a turnaround from its net loss in the previous year. To satisfy requirements of the China Securities Regulatory Commission ("CSRC") for becoming a test point for product/service innovation ("Innovation Test Company"), CMSC conducted an interim audit review. The audit report indicated that CMSC should make a considerable provision for non-performing assets in 2004, leading to a decrease of 24% in net assets to RMB1.7 billion. Consequently, the fair value of this investment decreased by US\$0.338 million. During the reporting period, CMSC successfully became one of the first-round securities companies approved to be an Innovation Test Company, allowing it to explore a diversified range of business opportunities. CMSC is preparing for the issue of new shares to facilitate its business expansion.

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. Jutian Securities has 17 offices throughout the country. The Fund invested RMB35.36 million (equivalent to US\$4.27 million) in Jutian Securities, representing an interest of 4.66%. China's stock market was slightly more active in 2004 than in 2003. Nevertheless, the recovery was not sustained due to the difficult market environment. Jutian Securities recorded a small net profit of RMB0.74 million for the year, compared to a loss of RMB39.17 million in the previous year.

Houlder China Insurance Brokers Limited ("Houlder"), set up in 2001, is an insurance broker approved by the China Insurance Regulatory Commission. Houlder's businesses include insurance risk assessments, risk management consultation, preparing insurance proposals and handling insurance policy issuance. The Fund invested RMB5 million (equivalent to US\$0.6 million) to acquire an interest of 10%. After several years of business restructuring and development, Houlder recorded a turnover of RMB9 million for 2004, representing an increase of 66% over last year. However, due to an increase in operating costs and a drop in investment income, Houlder recorded a net profit of RMB1.12 million, representing a decrease of 58% from 2003. This year, Houlder will focus on business training, business development and team construction to enhance shareholder value.

Jutian Fund Management Company Limited ("JFM"), a fund management company, was approved by the CSRC to register in China with a total investment of RMB100 million. JFM's businesses include fund management and promotion of equity funds. The Fund invested RMB10 million (equivalent to US\$1.21 million) in JFM to acquire an interest of 10%. In March 2004, JFM's first fund, the Jutian Infrastructure Equity Investment Fund, was launched and was well received by the market. As of 31 December 2004, the Jutian Infrastructure Equity Investment Fund had a total of 1.845 billion units subscribed, with a NAV per unit of RMB0.934 and an aggregate NAV of RMB1.723 billion.

Investment Manager's Discussion and Analysis (continued)

A promotional outlay was required to be expensed in the year when it occurred, and, consequently, JFM recorded a loss of RMB5.97 million in 2004. The Fund recorded a decrease in the value of this investment of US\$72,000. In order to achieve breakeven as soon as possible, the board of directors of JFM resolved to launch two new funds, one of which is planned to be launched in May 2005. Also, JFM will set up a Beijing office to expand its regional sales service network.

Zhaoyuan Jinbao Electronics Company Limited ("Jinbao") is a Sino-foreign equity joint venture set up in 1993 in Shandong, China as a manufacturer of copper-foil and laminates. The Fund owns a 30% interest in Jinbao and has made a cumulative investment of US\$8.12 million. Since the market bottom triggered by the outbreak of SARS in 2003, China's electronics market has recovered steadily and product prices have enjoyed a sustained increase. For the year ended 31 December 2004, Jinbao's turnover and net profit reached RMB562 million and RMB18.34 million, respectively, representing growth of 61% and 113% over the same period last year. Both figures grew remarkably and turnover reached a new high. The Fund's share of net profit was US\$0.66 million. Due to the funding requirements of business expansion, the board of Jinbao resolved that all 2003 and 2004 dividends would be reinvested in the company. The Fund was entitled to a dividend of US\$0.265 million for year 2003.

Construction of the second phase of a high-grade copper foil plant was completed at the end of 2004 and its trial production commenced smoothly. Once this new plant is fully operational, annual production capacity of high-grade copper foil will increase to 5,000 tons from the present level of 2,500 tons, helping to improve the overall product quality, and thus to increase the profitability of Jinbao. The management of Jinbao is studying a reorganization plan to prepare for its listing in the future.

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 1 dormitories of Oriental University City. Current capacity of the Phase 1 dormitories is about 17,000 students. The average number of residents in 2004 increased by 12% to 13,300. In addition, after recognizing a portion of rental fees that were deferred in 2003, the profit after tax for 2004 increased by 22.9% to RMB9.245 million. The Fund received a 2003 dividend of US\$0.209 million and the repayment of capital through a depreciation distribution of US\$0.73 million. In March 2005, the Fund also received a 2004 dividend of US\$0.251 million. The Chinese partner of the joint-venture had completed its restructuring and its new business license was issued on 21 January 2005. The restructuring has no effect on the investment of the Fund.

Investment Manager's Discussion and Analysis (continued)

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 in Hansen Enterprises Limited ("Hansen") to purchase 5,262 square meters 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. According to the valuation report issued by an independent assessor, as of 31 March 2005, the value of the property decreased by 6% from the same date of 2004 to HK\$48.16 million (equivalent to US\$6.20 million).

Chenzhou Heshang Environmental Protection Company Limited ("Heshang") is a Sino-foreign cooperative joint venture formed by the Fund and Shenzhen Harvest Environment Development Company Limited in November 2003. Total investment in the project is RMB70 million. In 2004, the Fund invested US\$2.54 million for an equity stake of 30% of Heshang. Heshang owns the right to construct and operate a landfill for domestic waste in Chenzhou, Hunan Province for 10 years. The designed capacity of the landfill is 3.2 million cubic meters, with a daily waste handling capacity of 500 tons. Construction work first commenced in April of 2004. However, since the government was several months behind schedule in the relocation of current residents, the completion of the construction work, originally planned to conclude at the beginning of this year, will be postponed to December 2005 instead. According to the terms of the concession agreement, the Fund has so far received a fee prepayment of RMB2.04 million.

REVIEW OF LISTED INVESTMENTS

In 2004, driven by the outstanding performance of foreign trade and retail sales, the Hong Kong economy maintained an upward trend in growth. Although the performance of the stock market fluctuated in the middle of the year because of rising crude oil prices and interest rates, investors gradually regained confidence in Hong Kong stocks as risks of deflation abated. After reinstating the sale of land, the auctioned land prices were repeatedly over market expectation. Stimulated by various favourable factors, the Hang Seng Index climbed to a new high since March 2001. The Index rose 13.2% for the year. However, the performance of the H shares was affected by the mainland's macroeconomic controls and reforms of the capital market, and recorded a 5.6% drop for the year. The Fund recorded a gain of US\$0.66 million from stock investments in 2004. At the end of 2004, the market value of the listed stocks held by the Fund reached US\$1.23 million.

Investment Manager's Discussion and Analysis (continued)

As at 31 December 2004, the Fund's holdings in bank notes and corporate bonds amounted to US\$6.67 million (2003: 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 Insurance International Holdings (BVI) Limited	Insurance Business	0.695	0.696	5.800%	5.887%	12 November 2013
Hutchison Whampoa International Limited	Property, ports, telecommunication and hospitality business	1.004	1.004	6.250%	6.193%	24 January 2014
Citic Ka Wah Bank	Banking	0.998	0.998	4.250%	4.290%	17 November 2009
Notes:						
Lloyds TSB Bank LIBOR Structured Note		1.000	0.969	Note 1	—	20 August 2013 if no early redemption
Hang Seng Bank Fixed Rate Callable Deposit		2.000	2.000	Note 2	—	9 December 2008 if not called
Hang Seng Bank Callable Deposit		1.000	1.000	Note 3	—	16 March 2009 if not called
		6.697	6.667			

Note 1: Coupon rate for the first year is 10.5% and for subsequent years is 10% - (2 x 6-month LIBOR) per annum. The note will automatically be redeemed at par when accumulative coupon reaches 13.7%, or on 20 August 2013, whichever is the earlier.

Note 2: Interest rate for the first, second, third and fourth year are 3.55%, 3.85%, 4.15% and 4.45% respectively.

Note 3: Interest rate for the first, second, third, fourth and fifth year are 3.50%, 4.00%, 4.00%, 3 month LIBOR +4% and 3 month LIBOR +5%, provided that 3 month LIBOR less than 6% for the first three years and 3 month LIBOR less than 7% for the last two years.

PROSPECTS

China's economy will sustain rapid growth, amid continuous reforms and market openings. It is forecasted that China's GDP will grow at an annual average rate of 8% for the eleventh five-year plan. This will provide a large and growing market for world economic development. This, of course, will also benefit the Fund's investment operations in China. In this favourable environment, we will continue to pursue new investment opportunities. We will also evaluate strategic exit opportunities in order to realise capital gains and to create value for our shareholders.

Linda L. Zhou

Managing Director

China Merchants China Investment Management Limited

Hong Kong, 21 April 2005

Directors of the Investment Manager

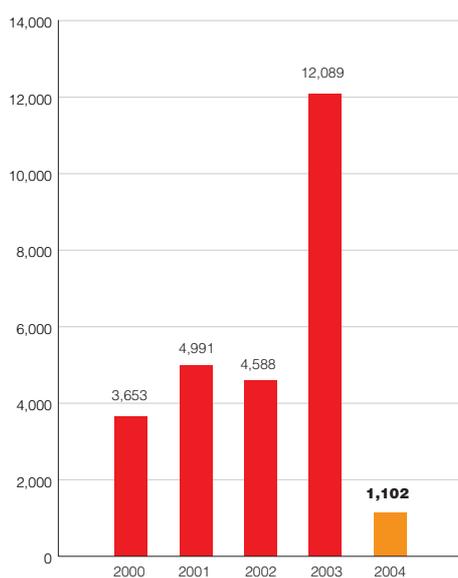


front row from right: Ms. Zhou Linda L., Dr. Huang Dazhan and Ms. Kan Ka Yee, Elizabeth;
rear row from right: Mr. Wu Hui Feng, Mr. Lee York Wo and Mr. Tse Yue Kit

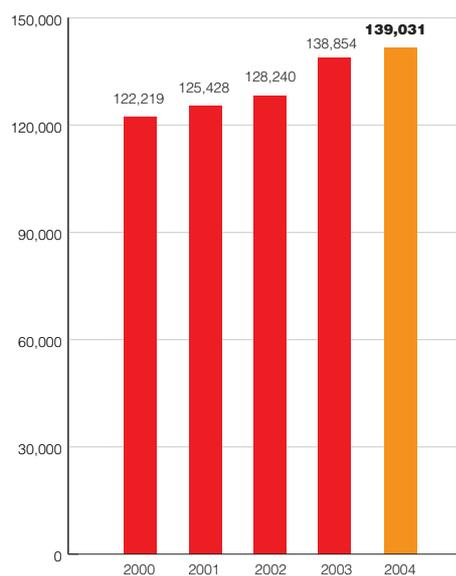
Financial Highlights

YEAR	NET PROFIT (US\$'000)	NET ASSETS (US\$'000)
2000	3,653	122,219
2001	4,991	125,428
2002	4,588	128,240
2003	12,089	138,854
2004	1,102	139,031

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 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 26 and 15 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 30.

The Directors now recommend the payment of a final dividend of US¢0.7 per share to the shareholders on the register of members on 31 May 2005.

RESERVES

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

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 19 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*)

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
Mr. LI Kai Cheong, Samson*
(*alternate to The Hon. LI Kwok Po, David**)
Mr. TAN Cheong Hin
(*alternate to Mr. HIEW Yoon Khong*)

* *Independent non-executive directors*

In accordance with the provisions of the Company's Articles of Association, The Hon. Li Kwok Po, David, Mr. Kut Ying Hay and Mr. Poon Kwok Lim, Steven, retire and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the Independent Non-Executive Directors as regards their independence to the Company and considers that each of the Independent Non-executive Directors is independent to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors:



Dr. FU Yuning, aged 48, 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, the chairman of China Merchants Holdings (International) Company Limited and an Independent Non-Executive Director of Integrated Distribution Services Group Limited, which are both publicly listed 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, and the chairman of China Nanshan Development (Group) Inc.. Besides, Dr. Fu serves as a director of Hong Kong General Chamber of Commerce and 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 47, 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, 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 47, 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 36, 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, Houlder China Insurance Brokers Limited, Jutian Fund Management Company Limited and the chairman of the Supervisory Committee of Jutian Securities Company 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 43, 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 17 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.



Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 47, 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 Institute of Certified Public 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 66, 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. 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, 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 50, 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 61, has been an independent non-executive director of the Company since June 1993. He is the chairman of Vertex 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 44, 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 42, 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 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.



Mr. HIEW Yoon Khong, aged 44, 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 44, has been an 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 more than 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 41, 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.

Senior Management:

Ms. Chan Man Wai, aged 44, has been the qualified accountant of the Company since March 2004. Ms. Chan has joined China Merchants Group for twelve years and held various positions in the areas of investment management, finance and administration. She is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. Ms Chan received her Bachelor of Commerce degree from the University of Toronto, Canada.

Directors' Report (continued)

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2004, 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 (the "Stock Exchange") 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 executives, or their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporation (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 2004, 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 its associated corporations, or had exercised any such right during the year ended 31 December 2004.

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).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, 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	Capacity	Number of ordinary shares interested	Percentage of total issued shares
China Merchants Group Limited (Note 4)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Steam Navigation Company Limited (Note 4)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Finance Holdings Company Limited (Note 2)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Financial Services Limited (Note 4)	Interest of controlled corporation	33,989,760	24.78%
Good Image Limited (Note 3)	Beneficial owner	33,989,760	24.78%
China Bright Holdings Limited (Note 3)	Beneficial owner	14,400,000	10.50%
Temasek Holdings (Private) Limited (Note 4)	Interest of controlled corporation	7,200,000	5.25%
Hong Lim Fund Investments Pte Ltd. (Note 3)	Beneficial owner	7,200,000	5.25%
Central Huijin Investment Company Limited (Note 4)	Interest of controlled corporation	7,200,000	5.25%
Bank of China Limited (formerly known as Bank of China) (Note 4)	Interest of controlled corporation	7,200,000	5.25%
Bank of China Group Investment Limited (Note 3)	Beneficial owner	7,200,000	5.25%
China Minmetals Corporation (formerly known as China National Metals & Minerals Import & Export Corporation) (Note 4)	Interest of controlled corporation	7,200,000	5.25%
China Minmetals H.K. (Holdings) Limited (Note 4)	Interest of controlled corporation	7,200,000	5.25%
June Glory International Limited (Note 5)	Interest of controlled corporation	7,200,000	5.25%
ONFEM Holdings Limited (Note 4)	Interest of controlled corporation	7,200,000	5.25%
ONFEM Investments Limited (Note 3)	Beneficial owner	7,200,000	5.25%
Swiss Reinsurance Company (Note 3)	Beneficial owner	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.

COMPLIANCE WITH THE CODE OF BEST PRACTICE AND MODEL CODE

The Company has throughout the year complied with the Code of Best Practice as was then set out in Appendix 14 of the Listing Rules of the Stock Exchange.

The Company has adopted the Model Code set out in Appendix 10 to Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

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

Dr. Fu Yuning
Chairman

Hong Kong, 21 April 2005

Deloitte.

德勤

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 53 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 Institute of Certified Public 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 2004 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
21 April 2005

Consolidated Income Statement

For the year ended 31 December 2004

	NOTES	2004 US\$	2003 US\$
Turnover	4	2,670,343	2,906,501
Net unrealised holding gain on unlisted investments in securities		160,212	11,894,819
Net gain on disposal of listed investments in securities		487,467	381,049
Unrealised holding gain on listed investments in securities		27,970	375,932
Gain on disposal of a contractual joint venture	5	99,921	769,797
Write-back of impairment loss recognised in respect of a contractual joint venture		-	144,976
Other operating income		13,876	9,395
Administrative expenses		(2,951,880)	(2,734,424)
Profit from operations		507,909	13,748,045
Finance costs	6	(74,023)	-
Share of results of associates		902,761	261,272
Profit before taxation	8	1,336,647	14,009,317
Taxation	11	(234,170)	(1,920,493)
Profit attributable to shareholders		1,102,477	12,088,824
Dividends	12	960,019	1,782,893
Earnings per share	13	0.008	0.088

Consolidated Balance Sheet

At 31 December 2004

	NOTES	2004 US\$	2003 US\$
Non-current assets			
Interests in associates	15	17,909,420	15,511,720
Investments in securities	16	95,502,365	91,379,224
		113,411,785	106,890,944
Current assets			
Trade and other receivables	17	123,917	729,365
Investments in securities	16	–	1,684,727
Cash and bank balances		33,879,726	37,615,925
		34,003,643	40,030,017
Current liabilities			
Trade and other payables		920,462	710,379
Taxation payable		13,889	19,913
		934,351	730,292
Net current assets		33,069,292	39,299,725
Total assets less current liabilities		146,481,077	146,190,669
Non-current liability			
Deferred taxation	18	7,450,539	7,336,784
Net assets		139,030,538	138,853,885
Capital and reserves			
Share capital	19	13,714,560	13,714,560
Reserves		125,315,978	125,139,325
		139,030,538	138,853,885
Net asset value per share	21	1.014	1.012

The financial statements on pages 30 to 53 were approved and authorised for issue by the Board of Directors on 21 April 2005 and are signed on its behalf by:

Dr. Huang Dazhan
DIRECTOR

Zhou Linda L.
DIRECTOR

Balance Sheet

At 31 December 2004

	NOTES	2004 US\$	2003 US\$
Non-current assets			
Investments in subsidiaries	14	73,360,211	68,047,506
Current assets			
Trade and other receivables		60,961	83,420
Cash and bank balances		23,571,160	29,048,893
		23,632,121	29,132,313
Current liabilities			
Trade and other payables		746,449	708,742
Net current assets		22,885,672	28,423,571
Net assets		96,245,883	96,471,077
Capital and reserves			
Share capital	19	13,714,560	13,714,560
Reserves	20	82,531,323	82,756,517
		96,245,883	96,471,077

Dr. Huang Dazhan
DIRECTOR

Zhou Linda L.
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2004

	Share capital US\$	Share premium US\$	Exchange equalisation US\$	General reserve US\$	Retained profits US\$	Total US\$
THE GROUP						
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 1 January 2004	13,714,560	81,525,984	446,281	879,965	42,287,095	138,853,885
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	-	-	171,341	-	-	171,341
Profit for the year	-	-	-	-	1,102,477	1,102,477
Final dividend paid for 2003	-	-	-	-	(1,097,165)	(1,097,165)
Transfer to general reserve	-	-	-	211,920	(211,920)	-
Balance at 31 December 2004	13,714,560	81,525,984	617,622	1,091,885	42,080,487	139,030,538

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:

	2004 US\$	2003 US\$
Balance at 1 January	(285,879)	(143,667)
Profit (loss) for the year	785,508	(142,212)
Balance at 31 December	499,629	(285,879)

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	NOTES	2004 US\$	2003 US\$
OPERATING ACTIVITIES			
Profit from operations	(a)	507,909	13,748,045
Adjustments for:			
Amortisation of premium/discounts on debt securities		40,550	58,049
Net unrealised holding gain on unlisted investments in securities		(160,212)	(11,894,819)
Gain on disposal of a contractual joint venture		(99,921)	(769,797)
Net gain on disposal of listed investments in securities		(487,467)	(381,049)
Write-back of impairment loss recognised in respect of a contractual joint venture		-	(144,976)
Unrealised holding gain on listed investment in securities		(27,970)	(375,932)
Operating cash flows before movements in working capital		(227,111)	239,521
Decrease in trade and other receivables		31,795	35,977
Increase (decrease) in trade and other payables		210,083	(4,935)
Cash generated from operations		14,767	270,563
Income taxes paid		(9,186)	(935)
Interest paid		(74,023)	-
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(68,442)	269,628
INVESTING ACTIVITIES			
Dividends received from associates		324,405	483,669
Advances to associates		(1,270,003)	(141,858)
Repayment of capital from a contractual joint venture		-	144,976
(Acquisition of investment in) repayment of capital from associates		(536,128)	425,915
Acquisition of listed investments in securities		(6,903,780)	(4,919,091)
Acquisition of unlisted investments in securities		(3,000,000)	(7,106,626)
Net proceeds from disposal of a subsidiary	22	-	2,718,847
Proceeds from disposal of listed investments in securities		8,079,840	5,806,422
Net proceeds from disposal of a contractual joint venture		99,921	769,797
Proceeds from disposal/redemption of unlisted investments in securities		644,081	6,898,506
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(2,561,664)	5,080,557

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2004

	2004 US\$	2003 US\$
FINANCING ACTIVITIES		
Bank loan raised	6,409,481	–
Bank loan repaid	(6,409,481)	–
Dividends paid	(1,097,165)	(1,782,893)
NET CASH USED IN FINANCING ACTIVITIES	(1,097,165)	(1,782,893)
NET (DECREASE) INCREASE IN CASH AND BANK BALANCES	(3,727,271)	3,567,292
CASH AND BANK BALANCES AS AT 1 JANUARY	37,615,925	34,061,675
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(8,928)	(13,042)
CASH AND BANK BALANCES AS AT 31 DECEMBER	33,879,726	37,615,925

Note (a): Profit from operations includes interest received and dividend received of US\$683,331 (2003: US\$638,329) and US\$2,020,193 (2003: US\$2,234,625) respectively.

Notes to the Financial Statements

For the year ended 31 December 2004

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 26 and 15 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. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has considered these new HKFRSs but does not expect that the issuance of these new HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 plus unamortised goodwill, 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.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities (Continued)

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.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 assets 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.

4. TURNOVER

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

	THE GROUP	
	2004	2003
	US\$	US\$
Interest income	646,252	671,876
Dividend income from listed investments in securities	146,110	120,108
Dividend income from unlisted investments in securities	1,877,981	2,114,517
	2,670,343	2,906,501

5. GAIN ON DISPOSAL OF A CONTRACTUAL JOINT VENTURE

It represents gain on disposal of a contractual joint venture which has been fully written off in previous years.

6. FINANCE COSTS

	THE GROUP	
	2004	2003
	US\$	US\$
Interest on bank loans wholly repayable within five years	74,023	–

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

7. 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 segmental information by principal activity is presented. The Group's turnover, contribution to operating profit, assets and liabilities for the year ended 31 December 2004, analysed by geographical locations of the investee companies, were as follows:

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
For the year ended 31 December 2004				
TURNOVER				
Group turnover	356,499	2,107,769	206,075	2,670,343
RESULT				
Segment result	871,936	2,367,902	206,075	3,445,913
Other operating income	-	-	13,876	13,876
Unallocated corporate expenses	-	-	(2,951,880)	(2,951,880)
Profit from operations	871,936	2,367,902	(2,731,929)	507,909
Finance costs	-	(74,023)	-	(74,023)
Share of results of associates	-	902,761	-	902,761
Profit before taxation	871,936	3,196,640	(2,731,929)	1,336,647
Taxation	(3,162)	(231,008)	-	(234,170)
Profit attributable to shareholders	868,774	2,965,632	(2,731,929)	1,102,477
BALANCE SHEET At 31 December 2004				
ASSETS				
Segment assets	23,672,506	10,291,844	39,293	34,003,643
Investments in associates	-	17,909,420	-	17,909,420
Investments in securities	4,075,857	87,759,741	3,666,767	95,502,365
Consolidated total assets	27,748,363	115,961,005	3,706,060	147,415,428
LIABILITIES				
Segment liabilities	920,462	-	-	920,462
Taxation payable and deferred taxation	-	7,464,428	-	7,464,428
	920,462	7,464,428	-	8,384,890

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

7. SEGMENTAL INFORMATION (Continued)

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
For the year ended 31 December 2003				
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
BALANCE SHEET				
At 31 December 2003				
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	–	–	710,379
Taxation payable and deferred taxation	–	7,356,697	–	7,356,697
	710,379	7,356,697	–	8,067,076

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

8. PROFIT BEFORE TAXATION

	THE GROUP	
	2004	2003
	US\$	US\$
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	52,506	49,917
Net foreign exchange gains	(13,206)	(32,717)
Investment manager's fee	2,622,984	2,443,692
Directors' fees	37,308	32,055

9. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2004	2003
	US\$	US\$
Directors' fees		
– Executive	15,436	15,387
– Non-executive	21,872	16,668
	37,308	32,055
Other emoluments		
– Salaries and other benefits	–	–
– Contribution to retirement benefits schemes	–	–
– Performance related incentive payment	–	–
– Incentive payment on joining	–	–
	37,308	32,055

Emoluments paid to each director in 2004 and 2003 were less than US\$125,000.

The amounts disclosed above include directors' fees of US\$10,291 (2003: US\$10,257) paid or payable to independent non-executive directors.

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2004 and 2003 were all directors of the Company and details of their emoluments are included in note 9 above.

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

11. TAXATION

The profits tax charge for the year comprises:

	THE GROUP	
	2004 US\$	2003 US\$
The company and its subsidiaries		
Current tax:		
Hong Kong	3,162	696
Other regions in the PRC	–	2,937
	3,162	3,633
Deferred taxation (<i>Note 18</i>)	113,755	1,861,449
	116,917	1,865,082
Share of taxation on results of associates		
Other regions in the PRC	117,253	55,411
	234,170	1,920,493

Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) 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	
	2004 US\$	2003 US\$
Profit before taxation	1,336,647	14,009,317
Tax at the domestic income tax rate of 17.5%	233,913	2,451,630
Effect of different tax rates of associates in other regions in the PRC	(40,730)	(25,312)
Tax effect of expenses not deductible for tax purpose	495,251	1,244,078
Tax effect of income not taxable for tax purpose	(487,241)	(1,246,930)
Tax effect of deferred tax assets not recognised	86,877	115,972
Utilisation of tax losses previously not recognised	(65,291)	(118,592)
Effect of different tax rates of subsidiaries operating in other regions in the PRC	8,231	(500,557)
Others	3,160	204
Profit tax charge	234,170	1,920,493

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

12. DIVIDENDS

	2004 US\$	2003 US\$
Interim dividend paid - Nil (2003: US0.5 cents) per share	-	685,728
Final dividend proposed - US0.7 cents (2003: US0.8 cents) per share	960,019	1,097,165
	960,019	1,782,893

The proposed dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

13. EARNINGS PER SHARE

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

	THE GROUP	
	2004	2003
Earnings for the purpose of basic earnings per share (US\$)	1,102,477	12,088,824
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 US\$	2003 US\$
Unlisted shares, at cost	10,001,645	10,001,645
Amounts due from subsidiaries	72,449,923	71,284,851
Less: Allowance on amounts due from subsidiaries	(9,091,357)	(13,238,990)
	73,360,211	68,047,506

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

Particulars of the Company's principal subsidiaries at 31 December 2004 are set out in note 26.

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 US\$	2003 US\$
Share of net assets	12,091,020	10,963,323
Amounts due from associates	12,304,455	11,034,452
	24,395,475	21,997,775
Less: Allowance on amounts due from associates	(6,486,055)	(6,486,055)
	17,909,420	15,511,720

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.

As at 31 December 2004, 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	PRC/PRC	Registered capital	Landfill operation	30%

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

16. INVESTMENTS IN SECURITIES

	THE GROUP					
	Held to		Other		Total	
	maturity securities		investments			
	2004	2003	2004	2003	2004	2003
	US\$	US\$	US\$	US\$	US\$	US\$
Equity securities:						
Listed	-	-	1,232,216	1,434,904	1,232,216	1,434,904
Unlisted	-	-	87,603,382	87,275,849	87,603,382	87,275,849
	-	-	88,835,598	88,710,753	88,835,598	88,710,753
Debt securities:						
Listed	2,697,767	2,740,117	-	-	2,697,767	2,740,117
Unlisted	3,000,000	644,081	969,000	969,000	3,969,000	1,613,081
	5,697,767	3,384,198	969,000	969,000	6,666,767	4,353,198
Total:						
Listed						
Hong Kong	-	-	1,075,857	1,368,672	1,075,857	1,368,672
Elsewhere	2,697,767	2,740,117	156,359	66,232	2,854,126	2,806,349
Unlisted	3,000,000	644,081	88,572,382	88,244,849	91,572,382	88,888,930
	5,697,767	3,384,198	89,804,598	89,679,753	95,502,365	93,063,951
Market value of listed securities	2,749,415	2,766,753	1,232,216	1,434,904	3,981,631	4,201,657

Carrying amount analysed for reporting purposes as:

	Held to		Other		Total	
	maturity securities		investments			
	2004	2003	2004	2003	2004	2003
	US\$	US\$	US\$	US\$	US\$	US\$
Current	-	1,684,727	-	-	-	1,684,727
Non-current	5,697,767	1,699,471	89,804,598	89,679,753	95,502,365	91,379,224
	5,697,767	3,384,198	89,804,598	89,679,753	95,502,365	93,063,951

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

16. INVESTMENTS IN SECURITIES (Continued)

Particulars of the Group's unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2004 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	2.10%

17. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2004 US\$	2003 US\$
Trade receivables	3,898	573,654
Interest receivable	98,018	135,097
Other receivables	22,001	20,614
	123,917	729,365

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

18. 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	
	2004 US\$	2003 US\$
Balance at 1 January		
– as previously reported	7,336,784	–
– adjustment on adoption of SSAP 12 (Revised)	–	5,475,335
– as restated	7,336,784	5,475,335
Charge to income statement for the year	113,755	1,861,449
Balance at 31 December	7,450,539	7,336,784

At the balance sheet date, the Group has deductible temporary differences and unused tax losses available for offsetting against future taxable profits of US\$2,715,979 (2003: US\$2,211,876) and US\$2,727,296 (2003: US\$3,128,314) 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.

19. SHARE CAPITAL

	2004 & 2003 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

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

20. RESERVES

	THE COMPANY		
	Share premium	Retained profits	Total
	US\$	US\$	US\$
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 1 January 2004	81,525,984	1,230,533	82,756,517
Profit for the year	–	871,971	871,971
Final dividend paid for 2003	–	(1,097,165)	(1,097,165)
Balance at 31 December 2004	81,525,984	1,005,339	82,531,323

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\$1,005,339 (2003: US\$1,230,533).

21. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$139,030,538 (2003: US\$138,853,885) and 137,145,600 ordinary shares (2003: 137,145,600 ordinary shares) of US\$0.10 each in issue.

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

22. DISPOSAL OF A SUBSIDIARY

	2004 US\$	2003 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 2003 did not have any significant impact on the operating results of the Group.

23. LEASE COMMITMENTS

At 31 December 2004, the Group and the Company had no commitments under non-cancellable operating leases (2003: Nil).

24. CAPITAL COMMITMENTS

At 31 December 2004, the Group had the following commitments:

	THE GROUP	
	2004 US\$	2003 US\$
Capital expenditure contracted but not provided for in the financial statements in respect of:		
– unlisted investment in securities (<i>Note</i>)	15,312,613	–
– investment in an associate	–	2,537,219

Note: During the year, the Group entered into an agreement with Yong Cheng Mei Dian (Group) Limited to acquire 6.8167% in China Credit Trust Company Limited (“CCT”) for a consideration of US\$15.31 million, which is subject to the approval of China Banking Regulatory Commission. The core businesses of CCT include trust management, fund management, investments and loan financing.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

25. 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\$2,622,984 (2003: US\$2,443,692) 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 2004 were US\$646,115 (2003: US\$624,633).

26. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of all subsidiaries at 31 December 2004, 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)
Head Union Development Limited	HK	Investment holding	2 ordinary shares of HK\$1 each (Limited liability company)

Notes to the Financial Statements (continued)

For the year ended 31 December 2004

26. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
Ryan Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
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)
Wisetech Limited	BVI	Dormant	1 ordinary share of US\$1 each (Limited liability company)

None of the subsidiaries had any debt securities subsisting at 31 December 2004 or at any time during the year.

Financial Summary

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2000 US\$	2001 US\$	2002 US\$ (Restated)	2003 US\$	2004 US\$
Turnover	6,182,818	3,689,732	2,443,946	2,906,501	2,670,343
Profit from operations after finance costs	7,563,751	3,926,202	5,979,199	13,748,045	433,886
Share of results of associates	(3,809,544)	1,219,678	407,410	261,272	902,761
Taxation	(101,480)	(155,028)	(1,798,974)	(1,920,493)	(234,170)
Profit attributable to shareholders	3,652,727	4,990,852	4,587,635	12,088,824	1,102,477

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2000 US\$	2001 US\$	2002 US\$ (Restated)	2003 US\$	2004 US\$
Total assets	122,892,377	135,038,435	134,934,098	146,920,961	147,415,428
Total liabilities	(673,160)	(9,610,196)	(6,693,966)	(8,067,076)	(8,384,890)
Shareholders' funds	122,219,217	125,428,239	128,240,132	138,853,885	139,030,538