CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED
招 商 局 中 國 基 金 有 限 公 司

Annual Report 2005

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Dr. FU Yuning* *(Chairman)*
Dr. HUANG Dazhan*
Mr. CHU Lap Lik, Victor*
Mr. XIE Kuixing*
Mr. TSE Yue Kit
Ms. KAN Ka Yee, Elizabeth*
(alternate to Mr. CHU Lap Lik, Victor)*

Independent Non-executive Directors:

Dr. The Hon. David LI Kwok-po
Mr. KUT Ying Hay
Dr. POON Kwok Lim, Steven
Mr. LI Kai Cheong, Samson
(alternate to Dr. The Hon. David LI Kwok-po)
Mr. MOK Hay Hoi
(alternate to Dr. POON Kwok Lim, Steven)

Non-executive Directors:

Mr. WANG Xingdong*
Mr. GONG Jianzhong*

* *members of Investment Committee*

AUDIT COMMITTEE

Dr. The Hon. David LI Kwok-po
Mr. Kut Ying Hay
Mr. Wang Xingdong

INVESTMENT MANAGER

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
China Merchants Bank Company, Limited
Bank of China (Hong Kong) Limited
Dah Sing Bank, Limited

COMPANY SECRETARY

Mr. Peter Y. W. Lee

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Linkslater
Victor Chu & Co

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

Stock Code: 0133.HK
Web-site: www.cmcdi.com.hk

Chairman's Statement

DR. FU YUNING
Chairman

Chairman's Statement (continued)

The Board of Directors (the "Board") announced that the audited consolidated net asset value ("NAV") of China Merchants China Direct Investments Limited and its subsidiaries (the "Group") as of 31 December 2005 amounted to US$146,670,962. The NAV per share was US$1.069, compared to US$1.014 in 2004 – an increase of 5.4%. The audited consolidated profit after tax of the Group for the year ended 31 December 2005 was US$7.83 million. This represents an increase of 610% from 2004.

In 2005, the government of the PRC basically continued to implement the macro-economic control policies introduced in 2004. National economy had been growing steadily at a relatively faster pace and sustained a relatively effective and energetic momentum. Demand for capital financing as a result of the economy growing at a faster pace led to a remarkable growth in the domestic banking industry during the year. China Merchants Bank and Industrial Bank in which the Group has interests recorded relatively significant increase in both revenue and profit after taxation.

The year of 2005 was a crucial year for financial reform in the PRC. Among which, reforms on the exchange rate regime and A Shares affected the Group's performance to a significant extent. On 21 July, the People's Bank of China announced a new foreign exchange system for which the exchange rate of the Renminbi floats basing upon the market demand and supply and being adjusted and managed with reference to a basket of foreign currencies. The Renminbi recorded a 2% appreciation against the US dollar on the same day. As most of the Group's assets were denominated in the Renminbi, the Group's performance was benefited from the appreciation. The implementation of Share Reform also brought about a positive impact on the performance of the banking projects for which the Group has invested. The share price performance of China Merchants Bank was relatively strong during the year. The implementation of Share Reform in full force should also benefit Industrial Bank's A Shares listing. Nevertheless, as the policies with respect to new share issue are still unclear for the time being, Industrial Bank has yet to have a definite time schedule for listing of A Shares. It is believed that, in the long run, the Share Reform is beneficial to the domestic stock market. However, it takes time to materialise. During most of the time for the year, the domestic stock market was unable to turn around from its sluggish performance that had been lasted for years. Only until the fourth quarter it has shown some signs of rebound. Total turnover has dropped by nearly one-third in value when compared to 2004. Moreover, market regulators have intensified their efforts in rationalising the activities of domestic securities firms. Performance of the securities firms and fund management company in which the Group has interests were adversely affected accordingly.

In order to maintain a comprehensive and balanced investment portfolio in the financial sector, and with the approval of the China Banking Regulatory Commission ("CBRC"), the Group acquired 6.8167% stake in China Credit Trust Company, Limited ("CCT") during the year at a consideration of US$15.31 million. The Group paid the acquisition price to the transferor in June 2005 and the procedures for registering the transfer were also completed during the year.

As of end of 2005, the Group's total investment in unlisted investments was US$129.94 million, an increase of US$24.43 million when compared to that of 2004 and accounted for 88.6% of the NAV. The growth was mainly attributable to the increase in value of the banking assets and increase in stake in CCT. Total investment in listed shares was US$3.41 million and accounted for 2.33% of the NAV. Investment in bonds and notes was US$6.67 million and accounted for 4.5% of the NAV. Cash on hand was US$17.35 million and accounted for 11.8% of the NAV.

Looking forward into 2006, it seems that the global economic environment is still favourable for China economy to continue its steady development. Further, China economy is still in a stage with relatively faster growth. Following the deepening of reform and the widening of opening up, China economy will further gain momentum of growth. Besides, the benefits of the macro-economic control measures continue to materialise. Thus, it is expected that China economy will maintain to grow at a relatively rapid pace and the GDP growth rate will be 7.5% in the year ahead. The booming economy in China will undoubtedly provide more business opportunities for the Group's projects in banking and trust management sectors which already accounted for a significant portion of the Group's investments. However, owing to the further advancement on reform and opening up, investments in China also become more challenging as the competition is keener. Nevertheless, the Group will make every effort to capture investment opportunities brought about by the relatively rapid economic growth in China and continue to identify those investment projects with low risk, short time horizon and stable returns. Simultaneously, efforts will also be made to divest the investment projects with capital gains so as to increase the Group's realised profits.

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, 20 April 2006

Investment Manager's Discussion and Analysis

DR. HUANG DAZHAN
Chairman of the Board of the Investment Manager

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") recorded a profit attributable to shareholders of US$7.83 million for the year ended 31 December 2005, representing an increase of 610% over the year 2004. This was attributable to a significant increase in the fair value of financial assets at fair value through profit and loss (the "financial assets"). As of 31 December 2005, the net assets of the Fund were US$146.67 million (31 December 2004: US$139.03 million), with a net asset value per share of US$1.069 (31 December 2004: US$1.014).

Total turnover for the year increased by 17% to US$3.12 million (2004: US$2.67 million). This was due mainly to an increase in both dividend income from China Merchants Bank and interest income.

For the year 2005, the fair value of the financial assets increased by US$9.98 million (2004: US$0.19 million). The significant increase in the fair value was attributed to the favourable valuation of both China Merchants Bank and Industrial Bank whose values increased by US$9.68 million and US$2.86 million respectively against the end of 2004.

MATERIAL ACQUISITION OF INVESTMENT

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 Co., Ltd. at a consideration of US$15.31 million. The acquisition was approved by the CBRC in May 2005 and the Fund then paid the acquisition price to the transferor in June 2005. The acquisition was then completed.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

Net cash decreased by 48.8%, from US$33.88 million as of 31 December 2004 to US$17.35 million as of 31 December 2005, mainly due to a capital injection into an unlisted investment project and an increase in listed share investments.

As of 31 December 2005, the Fund had no outstanding bank loans (2004: Nil).

As of 31 December 2005, the Fund had no capital commitments (2004: US$15.31 million).

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 Renminbi ("RMB"). The People's Bank of China announced the reform of the RMB exchange rate regime and simultaneously revalued the RMB against the US dollar by approximately 2% in July 2005. Such RMB revaluation has a positive impact on the Fund since the Fund holds a considerable amount of assets denominated in the RMB.

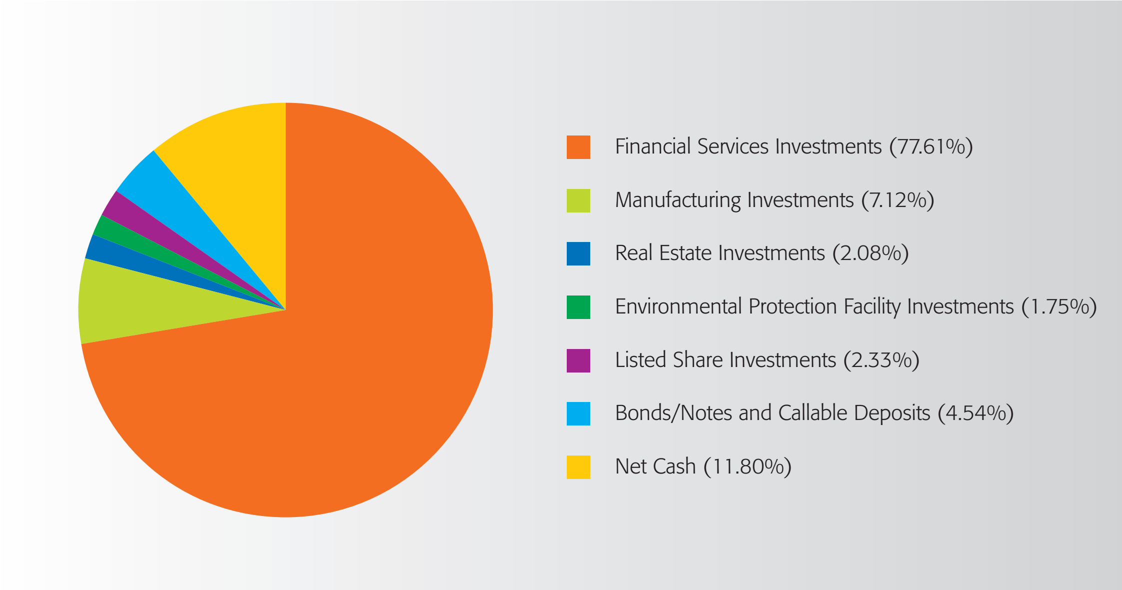
EMPLOYEES

Other than a qualified accountant whose remuneration packages are borne by the Investment Manager, the Fund has no salaried employees. The Investment Manager handles the portfolio and day-to-day administration of the Fund.

THE PORTFOLIO

As of 31 December 2005, the Fund had total investments of US$140.02 million – US$129.94 million in unlisted investments, US$3.41 million in listed investments, and US$6.67 million in bonds, notes and callable deposits. The major unlisted investment projects were in financial services (77.61% of net assets), manufacturing (7.12%), real estate (2.08%) and environmental protection facility (1.75%). In addition, the Fund had net cash of US$17.35 million, accounting for 11.80% of the Fund's net assets.

NET ASSET DISTRIBUTION *(As at 31 December 2005)*



MR. XIE KUIXING
Managing Director of the Investment Manager

REVIEW OF UNLISTED INVESTMENTS

The following table shows the major unlisted investment projects held by the Fund as at 31 December 2005:

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	64.96	44.29
2.	Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	29.89	20.38
3.	China Credit Trust Co., Ltd.	Beijing	Trust management	16.18	11.03
4.	China Merchants Securities Co., Ltd.	Shenzhen, Guangdong	Securities	1.10	0.75
5.	Industrial Securities Co., Ltd.	Fuzhou, Fujian	Securities	–	–
6.	Jutian Securities Co., Ltd.	Shenzhen, Guangdong	Securities	–	–
7.	Houlder China Insurance Brokers Ltd.	Shenzhen, Guangdong	Insurance brokerage	0.65	0.44
8.	Jutian Fund Management Co., Ltd.	Shenzhen, Guangdong	Fund management	1.06	0.72
			Sub-total	113.84	77.61
Manufacturing:					
9.	Zhaoyuan Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	10.44	7.12
			Sub-total	10.44	7.12
Real Estate:					
10.	Langfang Oriental Education Facilities Development Co., Ltd.	Langfang, Hebei	Student dormitory	3.05	2.08
11.	Shenzhen Man Kam Square	Shenzhen, Guangdong	Retail shops	–	–
			Sub-total	3.05	2.08
Environmental Protection Facility:					
12.	Chenzhou Heshang Environmental Protection Co., Ltd.	Chenzhou, Hunan	Landfill operation	2.57	1.75
			Sub-total	2.57	1.75
			Total	129.90	88.56

China Merchants Bank Company, Limited ("CMB"), a registered commercial bank in the PRC, is the first joint-stock commercial bank established by mainland enterprises and the shares of which were first listed on the Shanghai Stock Exchange in 2002. CMB now has over 400 branches and offices across the country. The Fund invested US$14.06 million and held a 1.18% stake in CMB at the balance sheet date. In 2005, CMB sustained its pace of growth with the revenue of RMB28.45 billion and a profit after taxation of RMB3.93 billion, which was increased by 26% and 25% respectively as compared with the same period of last year. The Fund received dividends for 2004 of RMB9.06 million in the year.

CMB proposed its Share Reform Plan on 29 December 2005, which was subsequently approved in a shareholders' meeting in early 2006 and was successfully implemented. After the completion of the Share Reform Plan in February 2006, the Fund's interest in CMB decreased from 1.18% to 0.998% (after taking into account the conversion of the convertible notes). The originally non-freely transferable shares held by the Fund will be available for trading two years from the date of completion of the Share Reform Plan. By the end of 2005, the Fund's interest in CMB was valued as US$64.96 million, which increased by 18% from the end of last year.

On 16 March 2006, CMB announced to hold a shareholders' meeting for the purpose of considering a proposal for issuing H Shares and listing in Hong Kong. According to the proposal, the H Shares to be issued will be 2.2 billion, representing no less than 15% of its enlarged share capital (excluding the over-allotment option). The proposal was duly approved by the shareholders' meeting on 17 April 2006. If the proposal for issuing H Shares and listing is successfully implemented, the Fund's interest in CMB should be diluted. Nevertheless, it is believed that the capital enlargement will help the business development of CMB. In turn, it will benefit the Fund as a whole.

Industrial Bank Company, Limited ("IBCL") is a joint-stock commercial bank registered in the PRC with over 300 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 in IBCL. In 2005, IBCL recorded a revenue of RMB17.60 billion (unaudited) and a profit after taxation of RMB2.45 billion (unaudited), representing an increase of 43% and 47% as compared with the same period of last year respectively. The Fund received dividends for 2004 of RMB9.24 million during the reporting period.

In order to secure sufficient capital for sustainable development, it was approved by the Board of Directors and the shareholders' meeting that IBCL would actively pursue for various preparations for the listing of A Shares. Nevertheless, as there is still uncertainty in the progress on the Share Reform in the domestic securities market, the specific timetable for the issue of A Shares by IBCL in the coming year remains uncertain. At the same time, IBCL is actively expediting the issuance of hybrid capital bond and considering the alternatives of raising capital such as the issue of H Shares or private placement of equity whereas the concrete proposal is awaiting the final decision of its Board of Directors.

China Credit Trust Company, Limited ("CCT") was established in 1995 and formerly known as China Coal Trust Company, Limited. Its principal activities are trust management, fund management, investments and loan financing. After being approved by the CBRC, the Fund acquired a 6.8167% stake in CCT at a total consideration of US$15.31 million in June 2005. Registration regarding the change of shareholder was completed during year 2005.

In December 2005, CCT was approved by the People's Bank of China to issue credit asset-backed securities up to RMB4.30 billion in the domestic inter-bank bond market. It was one of the first batch trust companies in the PRC to obtain the qualification for issuing credit asset-backed securities. CCT achieved a profit after taxation of RMB77.27 million (unaudited) for the year, which was increased by 144% as compared to the same period of last year.

China Merchants Securities Company, Limited ("CMSC"), is a comprehensive securities company registered in the PRC. Its businesses include IPO sponsorship, 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 in 2001.

During 2005, the domestic securities market fluctuated considerably and total turnover in securities declined substantially. As a result, incomes from various businesses of CMSC including income from brokerage business and net income from proprietary trading declined significantly. However, its investment incomes (including share of results of its associated companies under equity method, and incomes from holding treasury bills and dividends from securities etc.) increased substantially as compared with 2004. Therefore, CMSC's profit after taxation for 2005 amounted to RMB47.31 million (unaudited), which was increased by 11% as compared with the same period of 2004.

At the end of June 2005, CMSC was approved by the CSRC to acquire China Merchants Securities (HK) Company Limited which is a company incorporated in Hong Kong. This is an important step for CMSC to develop its international business.

Industrial Securities Company, Limited ("ISCL") is a comprehensive securities company registered in the PRC. Its businesses include IPO sponsorship, securities underwriting, brokerage, proprietary trading and investment consulting. The Fund totally invested RMB8.51 million (equivalent to US$1.03 million) to acquire a 0.74% stake in ISCL. There was a significant decline in income from brokerage business for ISCL as the total turnover of the domestic securities market declined near one-third in 2005 compared with 2004. As a result, ISCL sustained a loss of RMB67.09 million (unaudited) for 2005 compared with a net profit of RMB16.74 million for the same period of last year. In addition, the net asset value at the end of 2005 decreased by 16% to RMB520 million (unaudited) as compared with the net asset value at the end of last year.

It is expected that it will be difficult for ISCL to resume dividend-paying ability in the foreseeable future due to serious losses accumulated over years. At the same time, the China Securities Regulatory Commission ("CSRC") is now actively rationalising the domestic securities industry. As such, the minority equity interest in ISCL held by the Fund could hardly be sold in the short term. The Fund thus made a full provision on ISCL for the year for prudence purpose.

Jutian Securities Company, Limited ("Jutian Securities") is one of the earliest comprehensive securities companies established in the PRC. Jutian Securities has 17 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%. As there was a significant decline in total turnover of the domestic securities market, income from brokerage business for the industry also decreased substantially. Jutian Securities sustained a loss of RMB52.08 million (unaudited) in 2005, compared to a profit after taxation of RMB0.74 million over the same period last year.

The CSRC requires all domestic securities companies to fully replenish any appropriated customers' deposits within specific deadlines. After making efforts through different ways, customers' deposits appropriated and not yet replenished by Jutian Securities at the expiry of the deadline (being at the end of February 2006) still amounted to RMB295 million. If Jutian Securities finally fails to comply with relevant regulations, the CSRC may, depending on the circumstances, take over Jutian Securities or suspend its business operations.

In addition, a company in Beijing has initiated legal action against Jutian Securities for alleged claim that Jutian Securities had disposed of its treasury bills (with face value of about RMB166 million) held in custody without its authorisation. Jutian Securities states that both the parties intend to resolve this litigation by agreement.

It is subject to the material risk factors as discussed above whether Jutian Securities will continue as a going concern in the future. Therefore, the Fund made a full provision on Jutian Securities for the year for prudence purpose.

Houlder China Insurance Brokers Limited ("Houlder"), set up in 2001, is an insurance broker authorised by the China Insurance Regulatory Commission to register in the PRC. The Fund invested RMB5 million (equivalent to US$0.6 million) to acquire an interest of 10%. During 2005, Houlder achieved good results through market expansion and costs saving. Turnover amounted to RMB13.23 million, which was increased by 47% compared with the same period of last year. Profit after taxation amounted to RMB1.30 million, which was increased by 16% compared with the same period of last year. In the coming year, Houlder will continue to reinforce its efforts in building up its core business team, and devote more efforts to business expansion activities.

Jutian Fund Management Company, Limited ("JFM"), a fund management company, was approved by the CSRC to register in the PRC with a registered capital of RMB100 million. JFM's scope of businesses includes fund management and promotion of equity funds, etc. The Fund invested RMB10 million (equivalent to US$1.21 million) in JFM to acquire an interest of 10%. In September 2005, JFM issued its second equity investment fund, Jutian Resources Selective Equity Investment Fund. In 2005, the domestic securities market remained sluggish. Amount of assets under the management of JFM declined continuously. At the end of 2005, the net asset value of funds managed by JFM was RMB1.06 billion, which was decreased by 38% as compared with the same period of last year. JFM sustained a loss of RMB5.92 million for the year, as compared to a loss of RMB5.97 million for the same period of last year.

Zhaoyuan Jinbao Electronics Company, Limited ("Jinbao") was set up in 1993 in Zhaoyuan City of Shandong Province as a manufacturer of copper-foil and laminates. The Fund owns a 30% interest in Jinbao and has made a cumulative investment of US$7.85 million. In 2005, as the sales of copper-foil and laminates were satisfactory, Jinbao's revenue amounted to RMB741 million, which was increased by 32% as compared with the same period of last year. Nonetheless, gross profit margin dropped due to surge in raw materials cost. Profit after taxation dropped by 5% to RMB17.47 million as compared with the same period of last year.

As to the reinvestment of dividends for both 2003 and 2004 by Jinbao, since two of shareholders of Jinbao are state-owned enterprises, and their applications for reinvestment of dividends had not been approved by the relevant authorities as yet, therefore Jinbao decided to withdraw the dividend declared for such reinvestment of 2003 and cancel the reinvestment plan of 2004. The interest of the Fund in Jinbao remains unchanged.

Langfang Oriental Education Facilities Development Company, Limited ("Oriental") is a Sino-foreign cooperative joint venture established in Langfang City of 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 of Langfang City. Current capacity of the Phase 1 dormitories is about 17,000 students. It accommodated 12,600 students in the school year of 2004/2005, an 8% decrease over last school year. Due to various reasons such as upward adjustment of property management fee and an unexpected tax expense, its profit after taxation decreased 31% to RMB4.35 million (unaudited) for 2005, and profit after taxation for 2004 was retrospectively restated to be RMB6.33 million.

Oriental had a dispute with the State Taxation Bureau of the Langfang Development Zone on issue concerning the income tax for 2002 to 2005. Although the State Taxation Bureau of Langfang City accepted an application for administrative review on such tax issue submitted by Oriental, it finally adjudicated to support the decision of the State Taxation Bureau of the Langfang Development Zone.

The Fund has urged Oriental to review any potential tax problem or risk, and take appropriate actions in a timely manner.

Shenzhen Mankam Square ("Mankam") is a 33-storey commercial complex on North Wen Jin Road, Shenzhen. In 1994, the Fund invested US$4.30 million through a 35% holding in Hansen Enterprises Limited ("Hansen") to purchase 5,262 square metres of retail space on the third floor of Mankam. The Fund capitalised its loan to Hansen of US$4.48 million in 2005. 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 due to the issue of ownership. Hansen made every effort to seek a feasible plan to exit, but in vain. Therefore, the Fund made a full provision on the property for prudence purpose in this year.

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. The Fund invested US$2.54 million for an equity stake of 30%. 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 metres, with a daily waste handling capacity of 500 tons.

The construction work was completed at the end of February 2006. Various takeover procedures including inspection and acceptance were conducted forthwith. Trial operation commenced in early March 2006. It is operating smoothly at present. According to the terms of the concession agreement and shareholder's loan agreement, the Fund has so far received a fee prepayment of RMB4.80 million and repayment of shareholder's loan of US$127,000.

REVIEW OF LISTED INVESTMENTS

In 2005, Hong Kong stocks fluctuated but remained its upward moving trend. Hang Seng Index climbed to a four-year high in the third quarter of 2005, and reached 15509 points. Although New York crude oil price rose to a historical high of US$70 per barrel, the market generally considered that oil price was still at an acceptable level at that time, which supported the upward moving trend of Hong Kong stocks. The reform of the Renminbi exchange rate regime duly commenced in 2005, confirming the appreciation of the Renminbi against US dollar and lending strength to other Asian currencies. Consequent to persistent high oil price, there were significant interest rate increases and subsidy cuts of oil products in part of the Southeast Asian region. In the US, there was mounting pressure of inflation, increasing concerns that the US Federal Reserve would extend the interest-rate rise cycle or enlarge the rate increase margin. Those Hong Kong stocks that are sensitive to interest rate, affected by the rates rise, also descended from their highs, making the market even more volatile. The closing of the Hang Seng Index, China Enterprises Index and China-Affiliated Corporations Index at the end of 2005 increased by 5%, 12% and 24% against the opening of the year respectively.

For 2005, the profits from listed shares amounted to US$22,000, which included US$82,000 of dividends, US$262,000 of realised gains and US$322,000 of unrealised losses. At the end of December 2005, the value of listed shares held by the Fund was US$3.41 million.

As at 31 December 2005, the Fund's holdings in bank notes and corporate bonds amounted to US$6.67 million (2004: US$6.67 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

Following the deepening of reform and the widening of opening up, China economy will further gain momentum of growth and the economy is able to maintain to grow at a relatively faster pace. It is expected that China annual GDP growth rate will keep at 7.5% during the Eleventh Five-Year Plan. The further advancement on reform will help China economy continue its steady development. The further advancement on opening up will provide a broader market for the world economy, which will also help Hong Kong maintain as an international financial centre. It is believed that this will bring more opportunities to the Fund, but along with more challenges. With the resort of a fast and stable economic growth in China, coupling with the recovery of Hong Kong economy, the Fund will continue to explore investment opportunities so as to increase the shareholder value.

Xie Kuixing
Managing Director
China Merchants China Investment Management Limited

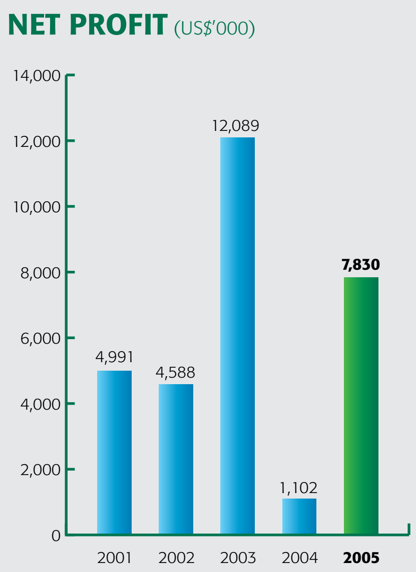
Hong Kong, 20 April 2006

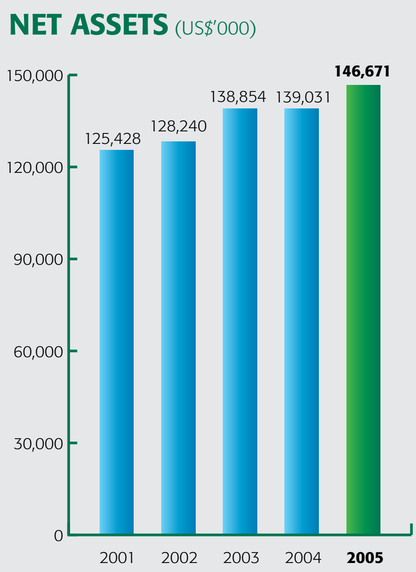
DIRECTORS OF THE INVESTMENT MANAGER

front row from left: Mr. Xie Kuixing, Dr. Huang Dazhan and Ms. Kan Ka Yee, Elizabeth;
rear row from left: Mr. Tse Yue Kit and Mr. Wu Huifeng

Financial Highlights

YEAR	NET PROFIT (US$'000)	NET ASSETS (US$'000)
2001	4,991	125,428
2002	4,588	128,240
2003	12,089	138,854
2004	1,102	139,031
2005	**7,830**	**146,671**





Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 29 and 15 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 36.

The Directors do not recommend the payment of a dividend.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2005.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 24 to the financial statements.

EMOLUMENT POLICY

The emoluments of the Directors of the Company are determined by the Shareholders at the annual general meeting of the Company with reference to comparable market statistics.

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

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	
Mr. XIE Kuixing	(appointed on 26 September 2005)
Mr. TSE Yue Kit	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	
Ms. ZHOU Linda L.	(resigned on 26 September 2005)

Non-executive Directors

Dr. The Hon. David LI Kwok-po*	
Mr. KUT Ying Hay*	
Dr. POON Kwok Lim, Steven*	
Mr. WANG Xingdong	
Mr. GONG Jianzhong	
Mr. LI Kai Cheong, Samson *(alternate to Dr. The Hon. David LI Kwok-po*)*	
Mr. MOK Hay Hoi *(alternate to Dr. POON Kwok Lim, Steven*)*	(appointed on 29 June 2005)
Mr. HIEW Yoon Khong	(resigned on 26 September 2005)
Mr. TAN Cheong Hin *(alternate to Mr. HIEW Yoon Khong)*	(resigned on 26 September 2005)
Mr. PHOON Siew Heng	(appointed on 26 September 2005 and resigned on 20 April 2006)
Mr. TAN Cheong Hin *(alternate to Mr. PHOON Siew Heng)*	(appointed on 26 September 2005 and resigned on 20 April 2006)

* *Independent Non-executive Directors*

In accordance with Article 101 and Article 105 of the Company's Articles of Association, Dr. Fu Yuning, Dr. Huang Dazhan, Mr. Xie Kuixing, Mr. Tse Yue Kit, Mr. Wang Xingdong and Mr. Gong Jianzhong, 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 49, 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, and the Chairman of China Merchants Finance Holdings Company Limited. He is also the Chairman and Managing Director of China Merchants Holdings (International) Company Limited and an Independent Non-executive Director of Integrated Distribution Services Group Limited and Sino Land Company Limited, all of which are publicly listed on the Hong Kong Stock Exchange. China Merchants Group Limited is a substantial shareholder of the Company. Dr. Fu is also the Chairman of the Executive Committee for the Board of Directors of China Merchants Bank Company, Limited. Besides, Dr. Fu serves as a Director of Hong Kong General Chamber of Commerce and Hong Kong Port Development Council. 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 48, 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 China Credit Trust Company, 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. China Merchants Group Limited is a substantial shareholder of the Company. He is also a Director of a subsidiary of the Company. 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.

Mr. CHU Lap Lik, Victor, aged 48, has been an Executive Director of the Company since June 1993 and holds directorship in a subsidiary of the Company. Mr. Chu is a Director of China Bright Holdings Limited which is a substantial shareholder of the Company. 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 Foundation Board 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.

Mr. XIE Kuixing, aged 41, was appointed as an Executive Director of the Company on 26 September 2005. He is currently the Managing Director of the Investment Manager. Prior to joining the Investment Manager, he worked with China Merchants Securities Company, Limited, where he held senior posts in various divisions for 13 years. He is also a Director of certain subsidiaries of the Company. Mr. Xie has extensive experience in securities business, corporate finance, risk management as well as investment. Mr. Xie obtained his bachelor degree in Economics from the Hunan Institute of Finance & Economics and master degree in Economics from the Dongbei University of Finance & Economics. Mr. Xie once gave his finance lecture at the Zhongnan University of Finance & Economics.

Mr. TSE Yue Kit, aged 44, 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 which is a substantial shareholder of the Company. Mr Tse has a number of years 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 48, has been an Alternate Director of the Company since May 1999 and holds directorships in certain subsidiaries of the Company. Ms. Kan is a Director of China Bright Holdings Limited which is a substantial shareholder of the Company. She is also a Director of the Investment Manager. Ms. Kan is Managing Director of FE Group with which she has been associated since its founding in 1988. She is licensed with the Securities and Futures Commission in Hong Kong. Ms. Kan is a Certified Public Accountant (U.S.A.) and a Fellow of the Hong Kong Institute of Certified Public Accountants. She began her professional accounting career with the Hong Kong office of Arthur Andersen in the area of audit and business advisory services. Ms. Kan obtained her Bachelor of Science degree in Business Administration and Accounting and Bachelor of Arts degree in Economics from the University of Minnesota, Minneapolis, USA.

Dr. The Hon. David LI Kwok-po, *GBS, OBE, JP, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur*, aged 67, has been an Independent Non-executive Director of the Company since June 1993. He is also the Chairman of the Audit Committee of the Board of Directors of the Company. Dr. Li is the Chairman and Chief Executive of The Bank of East Asia, Limited, and a Director of numerous other companies in Hong Kong and overseas. He is a Member of both the Executive Council and the Legislative Council of Hong Kong. He is the Chairman of The Chinese Banks' Association, Limited and the Hong Kong Management Association. He is also a member of the Banking Advisory Committee, the Exchange Fund Advisory Committee and the Council of the Treasury Markets Association.

Mr. KUT Ying Hay, aged 51, has been an Independent Non-executive Director of the Company since June 1993. He is also a Non-executive Director of China Merchants Holdings (International) Company Limited and China Merchants Insurance 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, and Singapore, and 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. Mr. Kut is currently the Chairman of the Professional Development Committee of the Association of Hong Kong Professionals Limited, a non-profit making body dedicated to provide a cross-profession platform for professionals of diverse disciplines to socialize, share knowledge and to create opportunities.

Dr. POON Kwok Lim, Steven, aged 62, has been an Independent Non-executive Director of the Company since June 1993. He is the Chairman of Vertex Communications & Technology Group Limited. Dr. 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 45, 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, both are substantial shareholder of the Company. Mr. Wang graduated from the Xiamen University, P.R.C. in 1982 with a Bachelor of Arts degree. He then continued 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 43, 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 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. BOCGI is a substantial shareholder of the Company.

Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. David LI Kwok-po), aged 45, 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. MOK Hay Hoi, (alternate to Dr. POON Kwok Lim, Steven), aged 45, has been an Alternate Director of the Company since 29 June 2005. Mr. Mok is an Executive Director and the Group Controller of Vertex Communications and Technology Group Limited whose shares are listed on the GEM Board of The Stock Exchange of Hong Kong Limited. He is a member of the Hong Kong Institute of Certified Public Accountants and a full member of the Australian Society of Certified Public Accountants and the Institute of Certified Public Accountants of Singapore. Mr. Mok obtained a Bachelor of Commerce degree majoring in Accounting and Economics, and a Master of information system degree from University of Queensland, Australia.

Senior Management:

Mr. HO Lap Sang, Sunny, aged 39, is the qualified accountant of the Company. Mr. Ho joined the Investment Manager as the General Manager of Finance in November 2005. He has extensive experience in finance in several multinational corporations and public listed companies in Hong Kong. He holds his bachelor of laws degree with honours from the University of London and master degree of business administration specialising in Finance and Investment from the University of Hull, UK. He is a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants. He is also a member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2005, 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 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 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 2005, 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 2005.

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 2005, 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%
Deutsche Bank Aktiengesellschaft	Security Interest	10,994,000	8.02%
QVT Financial GP LLC *(Note 6)*	Interest of controlled corporation	9,644,000	7.03%
QVT Financial LP	Fund Manager	9,644,000	7.03%
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 *(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 *(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%
QVT Associates GP LLC *(Note 6)*	Interest of controlled corporation	6,919,610	5.05%
QVT Fund LP *(Note 3)*	Beneficial owner	6,919,610	5.05%

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.

Note 6: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its interest 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.

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 Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

INVESTMENT MANAGEMENT AGREEMENT

China Merchants China Investment Management Limited, a company incorporated in Hong Kong, continues to be the Investment Manager of the Company for both listed and unlisted investments. Dr. HUANG Dazhan, Mr. CHU Lap Lik, Victor, Mr. XIE Kuixing, 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. Huang Dazhan
Director

Hong Kong, 20 April 2006

Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance. The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Listing Rules throughout the year under review, except for the deviations as stated below:

According to the Investment Management Agreement, the portfolio and day-to-day administration of the Company are handled by the Investment Manager. Except the qualified accountant whose remuneration packages are borne by the Investment Manager, the Company has no salaried employees. Thus, no remuneration committee has been established by the Company and it is appropriate to remain holding board meeting twice a year at a minimum.

Further, owing to the flight delay, the Chairman, Dr. Fu Yuning, has given an apology for not hosting the annual general meeting of the Company which was held on 31 May 2005.

THE BOARD OF DIRECTORS

As at 31 December 2005, the Board consisted of five Executive Directors and six Non-executive Directors of whom three are independent as defined by the Listing Rules. The biography of the current Directors are set out on pages 22 to 26 of this Annual Report.

The Company has appointed an Investment Manager to manage its investment portfolio and day-to-day administration of the Company. According to the Investment Management Agreement entered into between the Company and the Investment Manager, the Investment Manager is responsible for identifying and researching prospective investments for the Company. The Board is responsible for formulating the Company's overall investment strategy and guidelines that the Investment Manager shall follow to make the investment.

For the regular Board meetings, at least 14 days' notice is given for all Directors to attend. Directors are also consulted to include matters in the agenda for every Board meeting. The Board held meetings twice during the year under review. The attendance of each of the Director and Alternate Director is as follows:

	Attendance/Number of Meetings
Executive Directors:	
Dr. FU Yuning *(Chairman)*	1/2
Dr. HUANG Dazhan	1/2
Mr. CHU Lap Lik, Victor	0/2
Mr. XIE Kuixing	1/1
Mr. TSE Yue Kit	2/2
Non-executive Directors:	
Mr. WANG Xingdong	0/2
Mr. GONG Jianzhong	0/2
Mr. PHOON Siew Heng	0/1
Independent Non-executive Directors:	
Dr. The Hon. David LI Kwok-po	0/2
Mr. KUT Ying Hay	1/2
Dr. POON Kwok Lim, Steven	0/2
Alternate Directors:	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	1/2
Mr. LI Kai Cheong, Samson *(alternate to Dr. The Hon. David LI Kwok-po)*	1/2
Mr. TAN Cheong Hin *(alternate to Mr. PHOON Siew Heng)*	0/1
Mr. MOK Hay Hoi *(alternate to Dr. POON Kwok Lim, Steven)*	1/1

All Directors have access to the services of the Company Secretary or his assistant who regularly updates the Board on governance and regulatory matters so as to ensure that all applicable rules and regulations are followed. Any Director, any member of the Audit Committee or the Investment Committee may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

The Board has established two committees, namely the Audit Committee and the Investment Committee, to monitor the management of the Company. The details of the Committees are as below:

The Audit Committee

The Board has established an Audit Committee with specific written terms of reference which follows the guidelines set out by the Hong Kong Institute of Certified Public Accountants and the requirements of the Code. The terms of reference of the Audit Committee are available on request to the Company. All Committee members are Non-executive Directors and two of them including the Chairman are independent. The functions of the Audit Committee include but not limited to the following:

- considering and reviewing the appointment, resignation and removal of external auditors;
- considering the audit fees;
- reviewing the interim and annual results;
- reviewing internal control and risk management systems;
- discussing the potential audit issues with the auditors.

The Committee held meetings twice during the year under review. The attendance of individual members of the Audit Committee is as follows:

	Attendance/Number of Meetings
Directors:	
Dr. The Hon. David LI Kwok-po	0/2
(Chairman of the Audit Committee)	
Mr. KUT Ying Hay	2/2
Mr. WANG Xingdong	1/2
Alternate Director:	
Mr. LI Kai Cheong, Samson	1/2
(alternate to Dr. The Hon. David LI Kwok-po)	

The scope of work done by the Audit Committee during the year under review includes the following:

- Reviewed and recommended to the Board approval of the audit fee proposal for year 2005;
- Reviewed the interim report and the interim results announcement for the six months ended 30 June 2005;
- Reviewed the audit plan for year 2005 to assess the general scope of audit work;
- Reviewed the audited accounts and final results announcement for year 2004.

The Audit Committee has been provided with sufficient resources to discharge its duties.

The Investment Committee

The Board has established an Investment Committee of seven members to approve transactions (investments or realisations) of over US$5 million each and to supervise the day-to-day management functions of the Investment Manager.

No meetings were held during the year under review as there were no transactions submitted for its approval.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. FU Yuning is appointed as the Chairman of the Company. The functions of the Chief Executive Officer have been undertaken by the Investment Manager. The Managing Director of the Investment Manager is Mr. XIE Kuixing, who is also a Director of the Company. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

NON-EXECUTIVE DIRECTORS

Non-executive Directors of the Company were not appointed for a specific term but were subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Associations of the Company. On 21 April 2005, the Board resolved to fix the terms of appointment of Non-executive Directors to a specific term of three years.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors and relevant employees. Having made specific enquiry to all Directors, the Company confirms that all Directors have complied with the Model Code throughout the year under review.

REMUNERATION OF DIRECTORS

The Company does not have a Remuneration Committee since the Company has no salaried employees, except the qualified accountant whose remuneration packages are borne by the Investment Manager. The remuneration of Directors is determined by the shareholders at the annual general meeting of the Company. At the annual general meeting of the Company held on 31 May 2005, it was resolved that the remuneration of the Directors for the year ended 31 December 2005 be fixed by the Board. The total remuneration payable to the Directors for the year ended 31 December 2005 is stated in note 9 to the financial statements.

NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors. The Board will consider and assess the qualification, ability and potential contribution of candidates for directorships on the Board.

At the Board meeting held on 26 September 2005, Mr. XIE Kuixing and Mr. PHOON Siew Heng were appointed as Executive Director and Non-executive Director of the Company respectively. Dr. HUANG Dazhan, Mr. TSE Yue Kit, Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. David LI Kwok-po) and Mr. MOK Hay Hoi (alternate to Dr. POON Kwok Lim, Steven) had attended the said meeting. According to the Articles of Association of the Company, those Directors appointed by the Board during the year shall hold office until the next annual general meeting and shall then be eligible for re-election.

According to the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not three nor a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

AUDITORS' REMUNERATION

The Company has appointed Deloitte Touche Tohmatsu as the Company's auditors. During the year under review, the fee paid or payable to the Company's auditors for audit services provided is approximately US$57,000. The Company has not incurred any other fees for non-audit services provided by the Company's auditors.

FINANCIAL REPORTING

The Directors acknowledge their responsibility to prepare financial statements in accordance with generally accepted accounting principles in Hong Kong for each financial year which give a true and fair view of the state of affairs of the Company and in presenting the interim results, annual financial statements, and announcements to shareholders.

The Directors is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Report of the Auditors on page 35.

INTERNAL CONTROL

The Board recognises its responsibility for maintaining an adequate system of internal control for the Company. The Board has regularly reviewed the internal control policy so as to safeguard the Company's assets. In September 2005, the Board approved a cash management policy to further strengthen the control over the use of cash. The Board also requires the Investment Manager to establish an internal control system setting out the policies and procedures on investments, securities dealing, and financial reporting.

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 36 to 67 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 Hong Kong Standards on Auditing 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 20 April 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 US$	2004 US$ (restated)
Turnover	5	**3,118,649**	2,670,343
Increase in fair value of financial assets at fair value through profit and loss		**9,976,994**	–
Net gain on disposal of financial assets at fair value through profit and loss		**262,380**	–
Net unrealised holding gain on unlisted investments in securities		**–**	160,212
Net gain on disposal of listed investments in securities		**–**	487,467
Unrealised holding gain on listed investments in securities		**–**	27,970
Gain on disposal of a contractual joint venture		**–**	99,921
Other income		**976,529**	13,876
Administrative expenses		**(3,182,117)**	(2,951,880)
Share of results of associates		**(1,301,764)**	785,508
Finance costs	6	**–**	(74,023)
Profit before taxation	8	**9,850,671**	1,219,394
Taxation	11	**(2,020,645)**	(116,917)
Profit for the year		**7,830,026**	1,102,477
Earnings per share	13	**0.057**	0.008

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 US$	2004 US$
Non-current assets			
Interests in associates	15	**16,062,662**	17,909,420
Financial assets at fair value through profit and loss	16	**118,263,568**	–
Other investments in financial assets	17	**5,698,157**	–
Investments in securities	18	**–**	95,502,365
		140,024,387	113,411,785
Current assets			
Trade and other receivables	20	**81,143**	123,917
Cash and bank balances	21	**17,354,211**	33,879,726
		17,435,354	34,003,643
Current liabilities			
Trade and other payables	22	**1,302,222**	920,462
Taxation payable		**65,477**	13,889
		1,367,699	934,351
Net current assets		**16,067,655**	33,069,292
Total assets less current liabilities		**156,092,042**	146,481,077
Non-current liability			
Deferred taxation	23	**9,421,080**	7,450,539
Net assets		**146,670,962**	139,030,538
Capital and reserves			
Share capital	24	**13,714,560**	13,714,560
Reserves		**132,956,402**	125,315,978
		146,670,962	139,030,538
Net asset value per share	26	**1.069**	1.014

The consolidated financial statements on pages 36 to 67 were approved and authorised for issue by the Board of Directors on 20 April 2006 and are signed on its behalf by:

Dr. Huang Dazhan
Director

Mr. Xie Kuixing
Director

Balance Sheet

At 31 December 2005

	Notes	2005 US$	2004 US$
Non-current assets			
Investments in subsidiaries	14	**10,000,006**	10,001,645
Financial assets at fair value through profit and loss	16	**14,958,416**	–
		24,958,422	10,001,645
Current assets			
Amounts due from subsidiaries	19	**66,762,638**	63,358,566
Trade and other receivables	20	**21,837**	60,961
Cash and bank balances	21	**2,844,216**	23,571,160
		69,628,691	86,990,687
Current liabilities			
Trade and other payables	22	**900,526**	746,449
Net current assets		**68,728,165**	86,244,238
Net assets		**93,686,587**	96,245,883
Capital and reserves			
Share capital	24	**13,714,560**	13,714,560
Reserves	25	**79,972,027**	82,531,323
		93,686,587	96,245,883

Dr. Huang Dazhan
Director

Mr. Xie Kuixing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital US$	Share premium US$	Exchange equalisation US$	General reserve US$	Retained profits US$	Total US$
THE GROUP						
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	–	–	156,680	–	–	156,680
Share of changes in reserve of associates	–	–	14,661	–	–	14,661
Profit for the year	–	–	–	–	1,102,477	1,102,477
Total income recognised for the year	–	–	171,341	–	1,102,477	1,273,818
Final dividend paid for 2003	–	–	–	–	(1,097,165)	(1,097,165)
Transfer to general reserve	–	–	–	211,920	(211,920)	–
Balance at 1 January 2005	13,714,560	81,525,984	617,622	1,091,885	42,080,487	139,030,538
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	–	–	365,958	–	–	365,958
Share of changes in reserve of associates	–	–	404,459	–	–	404,459
Profit for the year	–	–	–	–	7,830,026	7,830,026
Total income recognised for the year	–	–	770,417	–	7,830,026	8,600,443
Final dividend paid for 2004	–	–	–	–	(960,019)	(960,019)
Transfer to general reserve	–	–	–	184,979	(184,979)	–
Balance at 31 December 2005	13,714,560	81,525,984	1,388,039	1,276,864	48,765,515	146,670,962

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.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 US$	2004 US$ (restated)
OPERATING ACTIVITIES			
Profit before taxation	(a)	**9,850,671**	1,219,394
Adjustments for:			
Share of results of associates		**1,301,764**	(785,508)
Finance costs		**–**	74,023
Interest income of held-to-maturity financial assets		**(390)**	–
Amortisation of premium/discounts on debt securities		**–**	40,550
Increase in fair value of financial assets at fair value through profit and loss		**(9,976,994)**	–
Net gain on disposal of financial assets at fair value through profit and loss		**(262,380)**	–
Net unrealised holding gain on unlisted investments in securities		**–**	(160,212)
Net gain on disposal of listed investments in securities		**–**	(487,467)
Unrealised holding gain on listed investments in securities		**–**	(27,970)
Gain on disposal of a contractual joint venture		**–**	(99,921)
Operating cash flows before movements in working capital		**912,671**	(227,111)
Decrease in trade and other receivables		**42,774**	31,795
Increase in trade and other payables		**381,760**	210,083
Cash generated from operations		**1,337,205**	14,767
Income taxes refunded (paid)		**1,484**	(9,186)
Interest paid		**–**	(74,023)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**1,338,689**	(68,442)
INVESTING ACTIVITIES			
Dividends received from associates		**251,342**	324,405
Repayment from (advances to) associates		**8,412**	(1,270,003)
Repayment of capital from (acquisition of investments in) associates		**717,703**	(536,128)
Acquisition of financial assets at fair value through profit and loss		**(19,325,883)**	–
Proceeds from disposal of financial assets at fair value through profit and loss		**2,136,930**	–
Acquisition of listed investments in securities		**–**	(6,903,780)
Acquisition of unlisted investments in securities		**–**	(3,000,000)
Proceeds from disposal of listed investments in securities		**–**	8,079,840
Net proceeds from disposal of a contractual joint venture		**–**	99,921
Proceeds from disposal/redemption of unlisted investments in securities		**–**	644,081
NET CASH USED IN INVESTING ACTIVITIES		**(16,211,496)**	(2,561,664)

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2005

	Note	**2005** **US$**	2004 US$ (restated)
FINANCING ACTIVITIES			
Bank loan raised		**–**	6,409,481
Bank loan repaid		**–**	(6,409,481)
Dividend paid		**(960,019)**	(1,097,165)
NET CASH USED IN FINANCING ACTIVITIES		**(960,019)**	(1,097,165)
NET DECREASE IN CASH AND BANK BALANCES		**(15,832,826)**	(3,727,271)
CASH AND BANK BALANCES AS AT 1 JANUARY	21	**33,879,726**	37,615,925
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(692,689)**	(8,928)
CASH AND BANK BALANCES AS AT 31 DECEMBER	21	**17,354,211**	33,879,726

Note (a): Profit before taxation includes interest received and dividends received of US$849,858 (2004: US$683,331) and US$2,312,344 (2004: US$2,020,193) respectively.

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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 29 and 15 respectively to the financial statements.

The functional currency of the Company is United States dollar which is also the presentation currency of the financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

A. In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement and consolidated balance sheet and there is no material impact on the Company's balance sheet. In particular, the presentation of share of tax of associates has been changed. The change in presentation has been applied retrospectively. The application of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" ("HKAS 32") and HKAS 39 "Financial instruments: Recognition and Measurement" ("HKAS 39"). HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. HKAS 39 which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, de-recognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

A. Financial instruments (continued)

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Up to 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. Other investments and held-to-maturity investments classified under investments in securities with carrying amount of US$89,804,598 and US$5,697,767 were re-classified to financial assets at fair value through profit and loss and other investments in financial assets including held-to-maturity financial assets and loans and receivables on 1 January 2005 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

B. Summary of the effects of the changes in accounting policies

The effects of the application of the new HKFRSs are summarised below:

	2005	2004
	US$	US$
Income statement items:		
Decrease in share of results of associates	**(193,531)**	(117,253)
Decrease in taxation	**193,531**	117,253
Change in profit for the year	**–**	–

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective for the year ended 31 December 2005. The Group considers that it is not yet in a position to reasonably ascertain how the following new standards, amendments and interpretations may affect the preparation and presentation of the results of operations and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK (IFRIC)-INT 4	Determining whether an arrangement contains a lease[2]
HK (IFRIC)-INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK (IFRIC)-INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK (IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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 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

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and held-to-maturity financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are those designated at fair value through profit or loss on initial recognition. They comprise a group of financial assets managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including dividend, interest and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

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 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

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such exchange differences are recognised in the consolidated profit and loss account in the period which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised on differences between the carrying amount of assets and liabilities in the consolidated 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 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, except where the Group as a parent 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 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 assets 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. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include held-to-maturity financial assets, financial assets at fair value through profit and loss, interest and other receivables and cash and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

Most of the Group's investments are located in China where the official currency is the Renminbi ("RMB"). The People's Bank of China announced the reform of the RMB exchange rate regime and simultaneously revalued the RMB against the US dollar by approximately 2% in July 2005. Such RMB revaluation has a positive impact on the Group since the Group holds a considerable amount of net assets denominated in the RMB.

The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short term bank deposits at market rates. Since the bank deposits are all short term in nature, any future variations in interest rates will not have a significant impact on the results of the Group.

The Group is also exposed to fair value interest rate risk which resulting from the timing difference in the repricing of fixed rate on certain debt securities (see note 17). The Group manages such interest rate exposure through the Investment Manager, which would consider interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility, and formulating a cash management policy, which sets out certain investment guidelines to limit the risks on investing such financial assets. In addition, the Group has intention and ability to hold such financial assets to maturity. Hence, the Group considers that there is no significant impact on the financial position of the Group arising from the volatility of interest rates.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(iii) Other price risk

The Group is exposed to equity security price risk through its investments in equity securities designated as fair value through profit and loss. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's financial assets include debt and equity investments, interest and other receivables and cash and bank balances.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets stated in the balance sheet.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with credit ratings assigned by international credit rating agencies.

5. TURNOVER

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

	THE GROUP	
	2005	2004
	US$	US$
Interest income	**810,203**	646,252
Dividend income from financial assets at fair value through profit and loss	**2,308,446**	–
Dividend income from listed investments in securities	**–**	146,110
Dividend income from unlisted investments in securities	**–**	1,877,981
	3,118,649	2,670,343

6. FINANCE COSTS

	THE GROUP	
	2005 US$	2004 US$
Interest on bank loans wholly repayable within five years	**–**	74,023

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 2005, analysed by geographical locations of the investee companies, were as follows:

For the year ended 31 December 2005

	Hong Kong US$	**The PRC US$**	**Others US$**	**Consolidated US$**
TURNOVER				
Group turnover	**346,427**	**2,598,890**	**173,332**	**3,118,649**
RESULT				
Segment result	**300,857**	**12,883,834**	**173,332**	**13,358,023**
Other income	**–**	**–**	**976,529**	**976,529**
Unallocated corporate expenses	**–**	**–**	**(3,182,117)**	**(3,182,117)**
Share of results of associates	**–**	**(1,301,764)**	**–**	**(1,301,764)**
Profit before taxation	**300,857**	**11,582,070**	**(2,032,256)**	**9,850,671**
Taxation	**328**	**(2,020,973)**	**–**	**(2,020,645)**
Profit for the year	**301,185**	**9,561,097**	**(2,032,256)**	**7,830,026**
BALANCE SHEET				
At 31 December 2005				
ASSETS				
Segment assets	**2,879,080**	**14,518,439**	**37,835**	**17,435,354**
Interests in associates	**–**	**16,062,662**	**–**	**16,062,662**
Financial assets at fair value through profit and loss	**3,307,529**	**113,944,732**	**1,011,307**	**118,263,568**
Other investments in financial assets	**3,000,000**	**–**	**2,698,157**	**5,698,157**
Consolidated total assets	**9,186,609**	**144,525,833**	**3,747,299**	**157,459,741**
LIABILITIES				
Segment liabilities	**900,526**	**401,696**	**–**	**1,302,222**
Taxation payable and deferred taxation	**–**	**9,486,557**	**–**	**9,486,557**
	900,526	**9,888,253**	**–**	**10,788,779**

7. SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2004

	Hong Kong US$	The PRC US$	Others US$	Consolidated US$
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 income	–	–	13,876	13,876
Unallocated corporate expenses	–	–	(2,951,880)	(2,951,880)
Finance costs	–	(74,023)	–	(74,023)
Share of results of associates	–	785,508	–	785,508
Profit before taxation	871,936	3,079,387	(2,731,929)	1,219,394
Taxation	(3,162)	(113,755)	–	(116,917)
Profit for the year	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
Interests 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

8. PROFIT BEFORE TAXATION

	THE GROUP	
	2005	2004
	US$	US$
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	**56,861**	52,506
Net foreign exchange gains	**(966,443)**	(13,206)
Investment manager's fee	**2,869,994**	2,622,984
Directors' fees	**34,732**	37,308
Share of tax of associates (included in share of results of associates)	**193,531**	117,253

9. DIRECTORS' EMOLUMENTS

The Directors' fees paid or payable to each of the 17 (2004: 14) Directors were as follows:

	THE GROUP	
	2005	2004
	US$	US$
Executive Directors:		
Dr. FU Yuning	**5,144**	5,148
Dr. HUANG Dazhan	**2,573**	2,573
Mr. CHU Lap Lik, Victor	**2,573**	2,573
Mr. XIE Kuixing	**2,573**	–
Ms. ZHOU Linda L.	**–**	2,573
Mr. TSE Yue Kit	**2,573**	2,573
Ms. KAN Ka Yee, Elizabeth *(Alternate Director)*	**–**	–
	15,436	15,440
Non-executive Directors:		
Mr. WANG Xingdong	**3,859**	3,859
Mr. GONG Jianzhong	**2,573**	2,573
Mr. HIEW Yoon Khong	**–**	5,145
Mr. PHOON Siew Heng	**2,573**	–
Mr. TAN Cheong Hin *(Alternate Director)*	**–**	–
	9,005	11,577
Independent Non-executive Directors:		
Dr. The Hon. David LI Kwok-po	**3,859**	3,859
Mr. KUT Ying Hay	**3,859**	3,859
Dr. POON Kwok Lim, Steven	**2,573**	2,573
Mr. LI Kai Cheong, Samson *(Alternate Director)*	**–**	–
Mr. MOK Hay Hoi *(Alternate Director)*	**–**	–
	10,291	10,291
	34,732	37,308

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2005 and 2004 were all Directors of the Company and details of their emoluments are included in note 9 above.

11. TAXATION

The profits tax charge for the year comprises:

	THE GROUP	
	2005	2004
	US$	US$
The company and its subsidiaries		
Current tax:		
Hong Kong	**–**	3,162
Other regions in the PRC	**50,432**	–
	50,432	3,162
Overprovision in prior year		
Hong Kong	**(328)**	–
	50,104	3,162
Deferred taxation *(note 23)*	**1,970,541**	113,755
	2,020,645	116,917

Hong Kong profits tax is calculated at 17.5% (2004: 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.

11. TAXATION (continued)

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

	THE GROUP	
	2005	2004
	US$	US$
Profit before taxation	**9,850,671**	1,219,394
Share of results of associates	**1,301,764**	(785,508)
Profit before taxation attributable to the Company and its subsidiaries	**11,152,435**	433,886
Tax at the domestic income tax rate of 15%	**1,672,865**	65,083
Tax effect of expenses not deductible for tax purpose	**359,195**	424,501
Tax effect of income not taxable for tax purpose	**(436,011)**	(417,636)
Tax effect of tax losses/deductible temporary differences not recognised	**556,097**	75,615
Utilisation of tax losses previously not recognised	**(28,102)**	(55,964)
Effect of different tax rates of subsidiaries operating in other regions in the PRC	**(95,108)**	–
Overprovision in prior year	**(328)**	–
Others	**(7,963)**	25,318
Profits tax charge	**2,020,645**	116,917

Note : The domestic tax rate (which is PRC Enterprise Income Tax rate applicable to the Group's subsidiary in the PRC) in the jurisdiction where the investments of the Group is substantially located.

12. DIVIDEND

	2005	2004
	US$	US$
Final dividend proposed – Nil (2004: US0.7 cents) per share	**–**	960,019

The final dividend of 2004 was paid in June 2005.

13. EARNINGS PER SHARE

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

	THE GROUP	
	2005	2004
Earnings for the purpose of basic earnings per share (US$)	**7,830,026**	1,102,477
Number of ordinary shares for the purpose of basic earnings per shares	**137,145,600**	137,145,600

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	US$	US$
Unlisted shares, at cost	**10,000,006**	10,001,645

Particulars of the Company's principal subsidiaries at 31 December 2005 are set out in note 29.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	US$	US$
Cost of unlisted investments in associates	**16,508,147**	13,009,117
Amounts due from associates	**7,814,595**	12,304,455
Allowance on amounts due from associates	**(6,545,995)**	(6,486,055)
Share of post-acquisition results, net of dividends received	**(2,265,093)**	(1,064,646)
Share of exchange equalisation	**551,008**	146,549
	16,062,662	17,909,420

During the year ended 31 December 2005, one of the associates capitalised its loan from the Group amounted to US$4,481,448 to cost of investment.

As to the reinvestment of dividend amounting to US$264,715 for an associate in 2003, since there are two of shareholders of the associate which are state-owned enterprises, and their applications for reinvestment of dividends had not been approved by relevant authorities as yet, therefore the associate decided to withdraw the dividend declared for such reinvestment.

15. INTERESTS IN ASSOCIATES (continued)

The amounts due from associates are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the Directors, the Company will not demand for the repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

The Directors consider the carrying amounts of amounts due from associates were approximate to their fair values.

As at 31 December 2005, the Group had investments in the following associates:

Name of company	**Place of incorporation/ registration and 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%

15. INTERESTS IN ASSOCIATES (continued)

The summarised financial information in respect of the Group's associates is set out below:

	2005 **US$**	2004 US$
Total assets	**239,342,547**	200,200,569
Total liabilities	**(187,939,335)**	(164,114,845)
Net assets	**51,403,212**	36,085,724
Group's share of net assets of associates	**16,062,662**	17,909,420
Turnover	**99,735,831**	79,734,944
(Loss) profit for the year	**(3,293,879)**	1,101,221
Group's share of results of associates for the year	**(1,301,764)**	785,508

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant audited/management accounts of associates, both for the year and cumulatively, are as follows:

	2005 **US$**	2004 US$
Unrecognised share of (gain) losses for the year	**(75,409)**	401,227
Accumulated unrecognised share of losses of associates	**3,970,530**	4,045,939

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	THE GROUP 2005 US$	THE COMPANY 2005 US$
Equity securities:		
– listed in Hong Kong *(note a)*	**3,307,529**	**–**
– listed elsewhere *(note a)*	**104,762**	**–**
– non-circulating and unlisted *(note b)*	**64,957,430**	**–**
– unlisted *(note c)*	**48,924,847**	**14,958,416**
	117,294,568	**14,958,416**
Debt securities:		
– unlisted *(note d)*	**969,000**	**–**
Total	**118,263,568**	**14,958,416**

The above financial assets are designated by the Group as financial assets at fair value through profit and loss at initial recognition.

Notes:

(a) The fair values of the above listed securities are determined based on the quoted market bid prices available on the relevant exchanges.

(b) The non-circulating and unlisted equity securities represented the Group's 1.18% interest held in China Merchants Bank Company Limited ("CMBC"). Its fair value is estimated by reference to the market prices of CMBC's circulating shares after adjusting the marketability factor due to its non-circulation.

(c) The fair values are determined by reference to recent transaction prices.

(d) The unlisted debt securities carry floating interest rate and will mature on 20 August 2013 unless early redeemed. The fair value is determined by reference to the market value.

Particulars of the Group's unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2005 disclosed pursuant to Section 129(2) of the Companies Ordinance are as follows:

Name of company	Place of registration	Class of share capital	Percentage of equity held by the Group
China Merchants Bank Company, Limited	PRC	Equity	1.18%
Industrial Bank Company, Limited	PRC	Equity	2.10%
China Credit Trust Company, Limited	PRC	Equity	6.82%

17. OTHER INVESTMENTS IN FINANCIAL ASSETS

	THE GROUP 2005 US$
Listed debt securities – held-to-maturity financial assets *(note a)*	**2,698,157**
Loans and receivables – long term callable deposits *(note b)*	**3,000,000**
Total	**5,698,157**

Notes:

(a) The maturity of the debt securities which carry effective interest rates ranged from 4.29% to 6.19% falls into:

	THE GROUP 2005 US$
Over one year but less than five years	**998,566**
Over five years	**1,699,591**
	2,698,157

(b) The long term callable deposits carry fixed interest rates and maturity dates at 9 December 2008 and 16 March 2009, respectively. The fair value of the long term callable deposits at 31 December 2005 was approximate to the corresponding carrying amount.

18. INVESTMENTS IN SECURITIES

	THE GROUP 2004 Held to maturity securities US$	Other investments US$	Total US$
Equity securities:			
Listed	–	1,232,216	1,232,216
Unlisted	–	87,603,382	87,603,382
	–	88,835,598	88,835,598
Debt securities:			
Listed	2,697,767	–	2,697,767
Unlisted	3,000,000	969,000	3,969,000
	5,697,767	969,000	6,666,767
Total:			
Listed			
Hong Kong	–	1,075,857	1,075,857
Elsewhere	2,697,767	156,359	2,854,126
Unlisted	3,000,000	88,572,382	91,572,382
	5,697,767	89,804,598	95,502,365
Market value of listed securities	2,749,415	1,232,216	3,981,631

19. AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2005 US$	2004 US$
Amounts due from subsidiaries	**77,692,030**	72,449,923
Less: Allowance on amounts due from subsidiaries	**(10,929,392)**	(9,091,357)
	66,762,638	63,358,566

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

The Directors consider the carrying amounts of amounts due from subsidiaries were approximate to their fair values.

20. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2005	2004
	US$	US$
Trade receivables	**–**	3,898
Interest receivable	**58,363**	98,018
Other receivables	**22,780**	22,001
	81,143	123,917

	THE COMPANY	
	2005	2004
	US$	US$
Interest receivable	**2,391**	42,212
Other receivables	**19,446**	18,749
	21,837	60,961

The fair value of the Group's and the Company's interest and other receivables at 31 December 2005 was approximate to the corresponding carrying amount.

21. CASH AND BANK BALANCES

THE GROUP AND THE COMPANY

Bank balances comprised short-term bank deposits at prevailing market interest rates. The fair value of these assets at 31 December 2005 was approximate to the corresponding carrying amount.

22. TRADE AND OTHER PAYABLES

THE GROUP AND THE COMPANY

Trade payables mainly comprise of amount due to the Investment Manager.

The fair value of trade and other payables at 31 December 2005 was approximate to the corresponding carrying amount.

23. DEFERRED TAXATION

THE GROUP

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	
	2005	2004
	US$	US$
Balance at 1 January	**7,450,539**	7,336,784
Charge to income statement for the year	**1,970,541**	113,755
Balance at 31 December	**9,421,080**	7,450,539

At the balance sheet date, the Group had deductible temporary differences and unused tax losses available for offsetting against future taxable profits of US$6,134,480 (2004: US$2,715,979) and US$3,016,108 (2004: US$2,727,296) respectively. The losses can be carried forward indefinitely.

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.

THE COMPANY

The Company had no significant deferred taxation at both balance sheet dates.

24. SHARE CAPITAL

	2005 & 2004
	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

25. RESERVES

	THE COMPANY		
	Share premium	Retained profits (loss)	Total
	US$	US$	US$
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 1 January 2005	81,525,984	1,005,339	82,531,323
Loss for the year	–	(1,599,277)	(1,599,277)
Final dividend paid for 2004	–	(960,019)	(960,019)
Balance at 31 December 2005	81,525,984	(1,553,957)	79,972,027

26. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US$146,670,962 (2004: US$139,030,538) and 137,145,600 ordinary shares (2004: 137,145,600 ordinary shares) of US$0.10 each in issue.

27. CAPITAL COMMITMENTS

At 31 December 2005, the Group had the following commitments:

	THE GROUP	
	2005	2004
	US$	US$
Capital expenditure contracted but not provided for in the financial statements in respect of:		
– unlisted investment in securities	**–**	15,312,613

The Company had no significant capital commitments at both balance sheet dates.

28. 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$2,869,994 (2004: US$2,622,984) 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 amount due to the Investment Manager included in trade and other payables at 31 December 2005 was US$789,099 (2004: US$646,115).

Amount due to the Investment Manager is unsecured, interest free and repayable on demand. The fair value of amount due to the Investment Manager at the balance sheet date was approximate to the corresponding carrying amount.

Details of compensation of the Directors are set out in note 9 to the financial statements.

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of all subsidiaries at 31 December 2005, which are all wholly-owned and directly held by the Company, are as follows:

Name	Place of incorporation/ registration	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)
Ryan Pacific Limited	BVI	Investment holding	1 ordinary share of US$1 each (Limited liability company)

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	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)
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 2005 or at any time during the year.

Financial Summary

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2001	2002	2003	2004	**2005**
	US$	US$	US$	US$	**US$**
		(restated)		(restated)	
Turnover	3,689,732	2,443,946	2,906,501	2,670,343	**3,118,649**
Profit from operations after finance costs	3,926,202	5,979,199	13,748,045	433,886	**11,152,435**
Share of results of associates	1,219,678	407,410	261,272	785,508	**(1,301,764)**
Taxation	(155,028)	(1,798,974)	(1,920,493)	(116,917)	**(2,020,645)**
Profit for the year	4,990,852	4,587,635	12,088,824	1,102,477	**7,830,026**

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2001	2002	2003	2004	**2005**
	US$	US$	US$	US$	**US$**
		(restated)			
Total assets	135,038,435	134,934,098	146,920,961	147,415,428	**157,459,741**
Total liabilities	(9,610,196)	(6,693,966)	(8,067,076)	(8,384,890)	**(10,788,779)**
Shareholders' funds	125,428,239	128,240,132	138,853,885	139,030,538	**146,670,962**