

Chairman's Statement



Dr. Fu Yuning Chairman

Chairman's Statement (continued)

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

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

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

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



Chairman's Statement (continued)

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

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

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

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

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

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

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

Fu Yuning

Chairman

Hong Kong, 22 April 2004