



DR. FU YUNING
Chairman

Chairman's Statement (continued)

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

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

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

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

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

Chairman's Statement (continued)

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

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

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

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

Dr. Fu Yuning
Chairman

Hong Kong, 21 April 2005