Chairman's Statement

DR. FU YUNING
Chairman

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