

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 of China Merchants China Direct Investments Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2006 amounted to US\$262,872,110. The net asset value per share was US\$1.917, compared to US\$1.069 in 2005 – an increase of 79%. The Group's audited consolidated profit after taxation for the year 2006 was US\$115.42 million. This represents an increase of 1,374% from 2005.

In 2006, the central government continued to implement macro-economic control policies, focused on differential treatment under the principle of assisting some industry sectors while suppressing others, and adopted austerity measures by using control over taxation, money supply and land supply so as to manage the fixed asset investment scale and to prevent the real estate sector and property prices from surging too rapidly. At the same time, the central government further increased its investment in weaker segments such as agriculture, energy, transportation and public utilities, in a way to ensure that the national economy continued to grow steadily at a relatively faster pace. China's GDP increased by 10.7% and the resident consumption price index increased by 1.5% in 2006. The national economy has been characterised by a relatively rapid growth with stable consumption prices. Meanwhile, further deepening of system reforms is still underway. Important progress has been made in the reform on transforming state-owned banks into joint-stock commercial banks and on rural credit cooperatives. Share reform has been advancing steadily. Reform on the Renminbi ("RMB") exchange rate regime has been successfully implemented. State-owned enterprises have accelerated their paces to modernise their enterprise management systems. Benefiting from the steady and relatively faster development of the national economy and the deepening of the system reforms, the Group's financial services investment witnessed a significant growth in terms of its net asset value and profit after taxation.

The steady implementation of share reform bodes well for the encouraging performance of the Group's financial services investment. In 2006, China Merchants Bank successfully completed its plans of share reform and issuance of new H shares, and registered a surge in its share price. Industrial Bank was successfully listed on the Shanghai Stock Exchange in early 2007, and its share price performance has been relatively strong. In addition, China's stock market witnessed an exponential growth in 2006, with stock indexes rising substantially. Both the Shanghai Composite Index and Shenzhen Composite Index surged by more than 130% while the total market turnover of the two exchanges increased by approximately 186% when compared with the corresponding period of last year. As such, the Group's securities business investment marked a significant increase in both operating revenue and profit after taxation. The trust management business also benefited much from the booming domestic stock market. As the fund raising function of the domestic stock market has resumed, it does provide an exit channel for the Group's investment projects. Preparation work for the initial public offering of the Group's certain investment projects is in progress. Following the successful implementation of the RMB exchange rate regime reform, the value of RMB rose 3.35% against the US dollar in 2006. The continuing appreciation of the RMB does benefit the Group's performance since most of the Group's assets are denominated in the RMB.

As of the end of 2006, the Group's total investment in unlisted investments was US\$277.48 million, an increase of US\$147.54 million when compared with that of 2005 and accounted for 88.48% of the total asset value. The growth was mainly attributable to the significant increase in the value of the Group's banking assets. Total investment in listed shares was US\$1.69 million and accounted for 0.54% of the total asset value. Investment in bonds and notes was US\$6.67 million and accounted for 2.13% of the total asset value. Cash on hand was US\$27.67 million and accounted for 8.82% of the total asset value.

In January 2007, in order to broaden the shareholder and capital bases, the Company issued 12 million new shares by way of placing and top-up subscription and received overwhelming responses from the market. The Company successfully raised US\$29.17 million, and the funds will be applied for possible investment in the future.



Chairman's Statement *(continued)*

Looking forward into 2007, it is expected that China's macro-economic control policies are still in place, foreign reserves are set to rise, and consumption remains strong, all of which are the important driving forces behind the rapid and steady economic growth. In addition, some of the domestic factors that restrict economic growth such as the bottleneck in power supply have been easing, the global economy remains fairly bright, and reform and opening up is advancing further, all of which enable China's economy to continue its steady growth at a relatively faster pace. The Group will take advantage of this favourable environment brought about by the sustainable, steady and relatively rapid development to keep exploring new investment opportunities in China so as to increase shareholder value.

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 2007