



CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

招商局中國基金有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 133)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

The Board of Directors of China Merchants China Direct Investments Limited (the "Company") is pleased to announce that the audited consolidated results for the year ended 31 December 2003 of the Company and its subsidiaries (the "Group") together with the 2002 comparative figures are as follows:-

	2003 US\$	2002 US\$ (restated)
Turnover (<i>Note 2</i>)	2,906,501	2,443,946
Net unrealised holding gain on unlisted investments in securities	11,894,819	9,932,037
Net gain on disposal of listed investments in securities	381,049	36,109
Unrealised holding gain (loss) on listed investments in securities	375,932	(1,310,965)
Gain on disposal of a contractual joint venture	769,797	–
Write-back of impairment loss recognised in respect of a contractual joint venture	144,976	100,153
Impairment loss recognised in respect of a contractual joint venture	–	(2,401,975)
Other operating income	9,395	34,303
Administrative expenses	(2,734,424)	(2,738,703)
Profit from operations	13,748,045	6,094,905
Finance costs	–	(115,706)
Share of results of associates	261,272	407,410
Profit before taxation	14,009,317	6,386,609
Taxation (<i>Note 3</i>)	(1,920,493)	(1,798,974)
Profit attributable to shareholders	12,088,824	4,587,635
Dividends – Interim (US¢0.5) – Final (US¢0.8)	685,728 1,097,165	685,728 1,097,165
	1,782,893	1,782,893
Earnings per share (<i>Note 4</i>)	0.088	0.033
Net asset value per share (<i>Note 5</i>)	1.012	0.935

Notes:

- In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice ("SSAP") 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of SSAP 12 (Revised) by the Group has resulted in restatement in the carrying value of unlisted investments in securities and the amount of unrealised holding gain on unlisted investments in securities for period prior to 2003. Since the Group has recognised the deferred tax liability for periods prior to 2003 in respect of taxation on capital gain for certain investments in securities in the People's Republic of China ("PRC"), the adoption of SSAP 12 (Revised) has not had any significant effect on the results for the current or prior accounting periods.

2. Turnover

	2003 US\$	2002 US\$
Interest Income	671,876	872,129
Dividend income from listed investments in securities	120,108	57,703
Dividend income from unlisted investments in securities	2,114,517	1,514,114
	2,906,501	2,443,946

3. Taxation comprises:

	2003 US\$	2002 US\$ (restated)
The Company and its subsidiaries:		
Current tax:		
Hong Kong	696	4,257
Other regions in the PRC	2,937	–
	3,633	4,257
Deferred taxation	1,861,449	1,725,532
	1,865,082	1,729,789
Share of taxation on results of associates:		
Other regions in the PRC	55,411	69,185
	1,920,493	1,798,974

Hong Kong profits tax is calculated at 17.5% (2002: 16%) 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.

- The calculation of earnings per share is based on the profit for the year of US\$12,088,824 (2002: US\$4,587,635) and 137,145,600 ordinary shares (2002: 137,145,600 ordinary shares) in issue during the year.
- The calculation of the net asset value per share is based on the net assets of US\$138,853,885 (2002: US\$128,240,132) and 137,145,600 ordinary shares (2002: 137,145,600 ordinary shares) in issue.

DIVIDENDS

An interim dividend of US¢0.5 or HK¢3.9 per share was paid in cash to shareholders on 5 November 2003.

The Board of Directors has resolved to recommend at the forthcoming Annual General Meeting to be held on 28 May 2004 the payment of a final dividend of US¢0.8 (or HK¢6.23) per share. This final dividend, if approved, will be paid on 30 June 2004 in cash to shareholders whose names appear on the Register of Members on 28 May 2004. Total dividend for the year is US¢1.3 or HK¢10.13 per share.

Shareholders who wish to receive the dividend in Hong Kong Dollars have to complete a Hong Kong Dollar dividend election form, a copy of which will be despatched with the Annual Report to Shareholders, and return the same to the Share Registrars on or before 16 June 2004. Shareholders who have submitted the election form previously do not need to re-submit this form.

BOOK CLOSURE

The register of members of the Company will be closed from 25 May 2004 to 28 May 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend to be approved at the forthcoming Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 24 May 2004.

REVIEW AND OUTLOOK

Overall Performance

The Group recorded a profit attributable to shareholders of US\$12.09 million for the year 2003, representing an increase of 163.5% over year 2002. This stronger performance was attributable to a substantial decrease in the provision for investments, coupled with an increase in dividend income from, and unrealised holding gain on, unlisted investments in financial services. As of 31 December 2003, the net assets of the Group were US\$138.9 million, with a net asset value per share of US\$1.012, representing an 8.2% increase over year 2002.

Total turnover for the year increased by 19.3% to US\$2.91 million (2002: US\$2.44 million). Turnover included dividend income from unlisted investments, which increased 39.7% to US\$2.11 million (2002: US\$1.51 million). Another component of turnover was interest income, which decreased 23.0% to US\$0.67 million (2002: US\$0.87 million) due to interest rate declined throughout the year. The average 90-day US Treasury Bill rate declined from 1.6% in 2002 to 1.02% in 2003.

The net unrealised holding gain on unlisted investments for the year was US\$11.89 million (2002: US\$9.93 million), representing an increase of 19.7% over 2002. The increase came from the strong growth in Industrial Bank's profit for 2003, as well as from the improved results of investments in major securities companies over 2002.

In 2003, no impairment loss was required to provide for the Group's investment in contractual joint ventures (2002: US\$2.4 million). The disposal of Weifang Real Estate project contributed a gain of US\$0.77 million (2002: Nil) to the Group in 2003. The realised and unrealised gains from listed stocks totalled US\$0.76 million (2002: Loss of US\$1.27 million).

Material Acquisitions and Disposals of Investments

In February 2003, the Group disposed of its entire interest in a wholly-owned subsidiary, Convoy Overseas Limited, which owned Beijing Longbao Mansion, through sale to an independent third party for a consideration of US\$3.00 million, which was received in full during the year. Since the carrying value of the investment was written down to the net proceeds of disposal at the end of 2002, there was no impact to financial results in the year.

In July 2003, the Group disposed of its entire interest in Weifang Zhaoyin Real Estate Development Limited to a Chinese partner for a consideration of US\$0.80 million. The net proceeds of US\$0.77 million, equal to the sale price net of disposal expenses, was

recognised as a gain on disposal in the year since this investment had been fully provided for in prior years.

In November 2003, the Group entered into an agreement with Shenzhen Harvest Environment Development Company Limited to jointly operate Chenzhou Heshang Environmental Protection Company Limited ("Heshang"), a Sino-foreign cooperative joint venture, for a total investment of RMB70 million. Heshang is formed to construct and operate a landfill for domestic waste in Chenzhou, Hunan Province. Heshang owns the operation right of the landfill for 10 years. The Group committed to invest US\$2.54 million for an equity stake of 30% of Heshang. The Group injected US\$1.27 million as registered capital into Heshang in January 2004, and the remaining US\$1.27 million will be injected as a shareholder's loan according to construction progress. The designed capacity of the landfill is 3.2 million cubic metres, with a daily waste handling capacity of 500 tons. Construction work on the landfill has commenced and will be completed by the end of 2004. The project is expected to provide steady cash flow and a satisfactory investment return to the Group after it comes into operation.

Liquidity, Financial Resources, Gearing and Capital Commitments

Net cash increased by 10.5%, from US\$34.06 million as of 31 December 2002 to US\$37.62 million as of 31 December 2003, due to cash received from the disposal of the two unlisted investment projects.

As of 31 December 2003, the Group had no outstanding bank loans (2002: Nil).

As of 31 December 2003, the Group had capital commitments of US\$2.54 million (2002: US\$1.20 million), earmarked for an investment that has been committed to, but not yet provided for in the financial statements.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Most of the Group's investments are located in China, where the official currency is the Yuan. The Yuan remained stable during the reporting period, and is expected to remain so.

Employees

The Group had no employees during the year, because its portfolio and operations are administered by the Investment Manager.

The Portfolio

As of 31 December 2003, the Group had total investments of US\$108.57 million – US\$102.79 million in unlisted investments, US\$1.43 million in listed share investments, and US\$4.35 million in bonds/notes. The major unlisted investment projects were in financial services (62.8% of net assets), manufacturing (6.4%), and real estate (4.8%). In addition, the Group had net cash of US\$37.62 million as of 31 December 2003.

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.

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 November 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.

Prospects

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.

APPOINTMENT OF ALTERNATE DIRECTOR

The Board of Directors of the Company announces that Mr. Tan Cheong Hin was appointed as alternate director to Mr. Hiew Yoon Khong on 22 April 2004.

Mr. Tan Cheong Hin, aged 40, is a director in the Private Equity Funds Investments of Temasek Holdings (Pte) Ltd. which is the holder of 5.25% of the issued shares of the Company. Mr. Tan obtained his Bachelor in Business Administration (1st Class Honours) degree from the National University of Singapore in 1988 and a Master of Science (Management) from the same university in 1991. He has also completed the Advanced Management Program at INSEAD in 2001. Mr. Tan is a Chartered Financial Analyst (CFA) charterholder.

Mr. Tan's term of service as an alternate director will be subject to the relevant provisions of the articles of association of the Company, according to which he shall cease to be an alternate director if Mr. Hiew ceases to be a director. Mr. Tan shall not be entitled to receive from the Company in respect of his appointment as alternate director any remuneration except only such part (if any) of the remuneration otherwise payable to Mr. Hiew as such Mr. Hiew may be notice in writing to the Company from time to time direct.

Save as disclosed above, Mr. Tan does not have any interest in the Company's shares within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

By Order of the Board
Fu Yuning
Chairman

Hong Kong, 22 April 2004

As at the date hereof, the Board of Directors of the Company comprises of eleven Directors, of which five are Executive Directors, namely Dr. Fu Yuning, Dr. Huang Dazhan, Mr. Chu Lap Lik, Victor, Ms. Zhou Linda L. and Mr. Tse Yue Kit; and three are Non-Executive Directors, namely Mr. Wang Xingdong, Mr. Gong Jianzhong and Mr. Hiew Yoon Khong; and three are Independent Non-Executive Directors, namely The Hon. Li Kwok Po, David, Mr. Yee Ying Hay and Mr. Poon Kwok Lim, Steven. In addition, Ms. Kan Ka Yue, Elizabeth is the alternate Director to Mr. Chu Lap Lik, Victor, Mr. Li Kai Cheong, Samson is the alternate Director to The Hon. Li Kwok Po, David and Mr. Tan Cheong Hin is the alternate Director to Mr. Hiew Yoon Khong.

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.