



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 2005 INTERIM RESULTS

FINANCIAL RESULTS

The Board of Directors of China Merchants China Direct Investments Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 as follows:

CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June 2005 (unaudited) US\$	2004 (unaudited) US\$
Turnover (<i>Note 3</i>)	2,754,882	2,244,083
Net gain on disposal of financial assets at fair value through profit and loss	18,421	–
Increase in fair value of financial assets at fair value through profit and loss	3,512,551	–
Net gain on disposal of listed investments in securities	–	60,728
Unrealised holding loss on listed investments in securities	–	(393,017)
Unrealised holding gain on unlisted investments in securities	–	247,716
Other operating income	5,603	5,330
Administrative expenses	(1,535,550)	(1,436,695)
Profit from operations	4,755,907	728,145
Share of profit of associates	295,993	295,102
Profit before taxation	5,051,900	1,023,247
Taxation (<i>Note 4</i>)	(664,206)	(40,251)
Profit attributable to shareholders	4,387,694	982,996
Earnings per share (<i>Note 5</i>)	0.032	0.007
Interim dividend	–	–

CONSOLIDATED BALANCE SHEET

	30 June 2005 (unaudited) US\$	31 December 2004 (audited) US\$
Non-current assets		
Interests in associates	17,954,322	17,909,420
Investments in securities	–	95,502,365
Held-to-maturity financial assets	5,697,960	–
Financial assets at fair value through profit and loss	111,256,447	–
	134,908,729	113,411,785
Current assets		
Dividend and other receivables	99,093	123,917
Cash and bank balances	16,584,094	33,879,726
	16,683,187	34,003,643
Current liabilities		
Other payables	1,035,003	920,462
Taxation payable	13,876	13,889
	1,048,879	934,351
Net current assets	15,634,308	33,069,292
Total assets less current liabilities	150,543,037	146,481,077
Non-current liability		
Deferred taxation	8,114,745	7,450,539
Net assets	142,428,292	139,030,538
Capital and Reserves		
Share capital	13,714,560	13,714,560
Reserves	128,713,732	125,315,978
	142,428,292	139,030,538
Net asset value per share (<i>Note 6</i>)	1.039	1.014

Notes:

- The interim results have been reviewed by the Company's Audit Committee. Moreover, the interim results have been reviewed by the Company's auditors, and the independent review report has been included in the interim report which will be despatched to shareholders.
- The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004, except as described below.
 - In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement and balance sheet. In particular, the presentation of share of tax of associates has been changed. The change in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Other investments and held-to-maturity investments classified under investments in securities with carrying amount of US\$89,804,598 and US\$5,697,767 were reclassified to financial assets at fair value through profit or loss and held-to-maturity financial assets on 1 January 2005 respectively.

B. Summary of the effects of the changes in accounting policies

The effects of the application of the new HKFRSs for the six months ended 30 June 2004 are summarised below:

	1.1.2004 to 30.6.2004 (originally stated) US\$	Adjustment US\$	1.1.2004 to 30.6.2004 (restated) US\$
Income statement items			
Share of profit of associates	333,698	(38,596)	295,102
Taxation	(78,847)	38,596	(40,251)
Change in profit for the period		–	

3. Turnover

Turnover represents the amounts received and receivable on investments during the period as follows:

	Six months ended 30 June 2005 US\$	2004 US\$
Interest income	489,836	322,123
Dividend income from financial assets at fair value through profit and loss	2,265,046	–
Dividend income from listed investments in securities	–	45,994
Dividend income from unlisted investments in securities	–	1,875,966
	2,754,882	2,244,083

4. Taxation

	Six months ended 30 June 2005 US\$	2004 US\$
The tax charge for the period comprises: The Company and its subsidiaries		
Current tax		
Hong Kong	–	–
Other regions in the PRC	–	2,894
	–	2,894
Deferred taxation	664,206	37,357
	664,206	40,251

No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries had no assessable profits for both periods.

No provision for PRC profits tax has been made in the financial statements as the Company and its subsidiaries had no assessable profits for the six months ended 30 June 2005.

- The calculation of earnings per share is based on the profit attributable to shareholders for the period of US\$4,387,694 (2004: US\$982,996) and 137,145,600 (2004: 137,145,600) ordinary shares currently in issue.

- The calculation of net asset value per share is based on the net asset value of US\$142,428,292 (31 December 2004: US\$139,030,538) and 137,145,600 (31 December 2004: 137,145,600) ordinary shares currently in issue.

7. Movements in reserves

	Six months ended 30 June 2005 US\$	2004 US\$
At 1 January	125,315,978	125,139,325
Exchange difference on translation of financial statements of foreign entities not recognised in income statement	(29,921)	2,966
Profit for the period	4,387,694	982,996
Prior year final dividends	(960,019)	(1,097,165)
	128,713,732	125,028,122
At 30 June	128,713,732	125,028,122

REVIEW AND PROSPECTS

Overall performance

China Merchants China Direct Investments Limited and its subsidiaries (the "Group") recorded a profit attributable to shareholders of US\$4.39 million for the six months ended 30 June 2005, representing an increase of 346% over the same period of 2004. This was attributable to a significant increase in the fair value of financial assets at fair value through profit and loss (the "financial assets"). As of 30 June 2005, the net assets of the Group were US\$142 million (31 December 2004: US\$139 million), with a net asset value per share of US\$1.039 (31 December 2004: US\$1.014).

Total turnover for the period increased by 23% to US\$2.75 million (2004: US\$2.24 million). This was due mainly to an increase both in dividend income from China Merchants Bank and interest income.

For the reporting period, the fair value of the financial assets increased by US\$3.51 million (2004: decreased by US\$0.15 million). The significant increase in the fair value was attributed to the favourable valuation of both China Merchants Bank and Industrial Bank whose values increased by US\$1.87 million and US\$2.56 million respectively against the end of 2004.

Material Acquisitions of Investments

In September 2004, the Group entered into an agreement with Yong Cheng Mei Dian (Group) Limited to acquire a 6.8167% stake in China Credit Trust Co., Ltd. at a consideration of US\$15.3 million. The acquisition was approved by the China Banking Regulatory Commission in May 2005 and the Group then paid the acquisition price to the transferor in June 2005. The acquisition is about to be completed.

Liquidity, Financial Resources, Gearing and Capital Commitments

Cash decreased by 51%, from US\$33.88 million as of 31 December 2004 to US\$16.58 million as of 30 June 2005. The decrease was due mainly to a capital injection into an unlisted investment project and an increase in listed share investments.

As of 30 June 2005, the Group had no outstanding bank loans or capital commitments.

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 Renminbi ("RMB"), which remained stable in the reporting period. Subsequent to the reporting date, the People's Bank of China announced the reform of the RMB exchange rate regime and simultaneously revalued the RMB against the US dollar by approximately 2% in July 2005. It is expected that the movement of the RMB will be modest in the near future. In addition, the RMB revaluation has a positive impact on the Group since the Group holds a considerable amount of net assets denominated in the RMB.

Employees

Other than a qualified accountant whose remuneration is borne by the Investment Manager, the Group has no employees. The Investment Manager handles the portfolio and day-to-day administration of the Group.

The Portfolio

As of 30 June 2005, the Group had total investments of US\$134.91 million – US\$124.38 million (87.3% of the Group's net assets) in unlisted investment projects, US\$3.86 million (2.7%) in listed shares, and US\$6.67 million (4.7%) in bonds/notes. The majority of the Group's unlisted investment projects resides in financial services (74.7% of the Group's net assets), with the rest in manufacturing, real estate, educational facilities and environmental protection facilities (totalled 12.6%). As of 30 June 2005, cash amounted to US\$16.58 million, accounting for 11.6% of the Group's net assets.

Prospects

For the first half of 2005, China recorded an economic growth of 9.5% while the consumer price index rose mildly by 2.3%. The figures showed that under the macroeconomic control, China's economy seems likely to have entered into a new round of stable growth. Under this kind of favourable economic environment, the Group's investments, particularly the banking projects, should benefit from it. On the other hand, we continue to strive for better returns for the Group's investment projects and cash.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the year ending 31 December 2005 (2004: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the period ended 30 June 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the reporting period except as stated below:

According to the Investment Management Agreement, the portfolio and day-to-day administration of the Company are handled by the Investment Manager. The Company also has no salaried employees. Thus, no remuneration committee has been established by the Company and it is appropriate to remain holding board meeting twice a year at a minimum.

Further, owing to the flight delay, the Chairman, Dr. Fu Yuning, has given an apology for not hosting the annual general meeting of the Company which was held on 31 May 2005.

CHANGES IN DIRECTORSHIP

With effect from 26 September 2005, Ms. Linda L. ZHOU and Mr. HIEW Yoon Khong resigned as Executive Director and Non-executive Director of the Company respectively. Mr. XIE Kuixing and Mr. Jimmy PHOON Siew Heng were appointed as Executive Director and Non-executive Director of the Company respectively on the same day. At the same time, Mr. TAN Cheong Hin ceased as an alternate Director to Mr. HIEW Yoon Khong and was appointed as an alternate Director to Mr. Jimmy PHOON Siew Heng.

Mr. XIE Kuixing, aged 40, is currently the Managing Director of the Investment Manager. Prior to joining the Investment Manager, he worked with China Merchants Securities Company Limited (whose ultimate holding company is a substantial shareholder of the Company), where he held senior posts in various divisions for 13 years. Mr. XIE has extensive experience in securities business, corporate finance, risk management as well as investment. Mr. XIE obtained his Bachelor's Degree in Economics from the Hunan Institute of Finance & Economics and Master's Degree in Economics from the Dongbei University of Finance & Economics. Mr. XIE once gave his finance lecture at the Zhongnan University of Finance & Economics. Save as disclosed above, Mr. XIE did not hold any directorship in other listed public companies in the last three years and did not hold any position with the Company and other members of the Group.

There is no service contract between the Company and Mr. XIE. He has no fixed term of service with the Company and will retire at the next annual general meeting in 2006 pursuant to the articles of association of the Company at which time he will be eligible for re-election. Thereafter, he will be subject to the rotational retirement and re-election requirements at annual general meetings pursuant to the articles of association of the Company. The director's fee payable to Mr. XIE as an Executive Director is determined by shareholders of the Company in general meeting. At the annual general meeting of the Company held on 31 May 2005, it was approved that the directors' fee for the year ending 31 December 2005 be determined by the Board. Save as disclosed above, Mr. XIE is and was not connected with any directors, senior management or substantial or controlling shareholders of the Company. As at the date hereof, Mr. XIE does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Jimmy PHOON Siew Heng, aged 42, is currently a Senior Managing Director of Strategic Development of Temasek Holdings (Pte) Ltd. ("Temasek") which is the holder of 5.25% of the issued shares of the Company. Mr. PHOON is responsible for overseeing Temasek's investments in several sectors. Prior to joining Temasek, Mr. PHOON was an Executive Director of Standard Chartered Merchant Bank Asia Limited ("SCMBA"), the investment banking arm of Standard Chartered Bank. In his eight years with SCMBA, Mr. PHOON managed several initial public offers, public takeovers, mergers and acquisitions, and corporate restructurings. He was a Deputy Director in the Ministry of Finance of Singapore from 1988 to 1992 before he left for SCMBA. In the Ministry of Finance, he was responsible for the formulation of corporate and international tax policies. He holds a Bachelor of Economics (Honours) degree from Monash University, Australia. Save as disclosed above, Mr. PHOON did not hold any directorship in other listed public companies in the last three years and did not hold any position with the Company and other members of the Group.

There is no service contract between the Company and Mr. PHOON. He has no fixed term of service with the Company and will retire at the next annual general meeting in 2006 pursuant to the articles of association of the Company at which time he will be eligible for re-election. Thereafter, he will be subject to the rotational retirement and re-election requirements at annual general meetings pursuant to the articles of association of the Company. The director's fee payable to Mr. PHOON as a Non-executive Director is determined by shareholders of the Company in general meeting. At the annual general meeting of the Company held on 31 May 2005, it was approved that the directors' fee for the year ending 31st December, 2005 be determined by the Board. Save as disclosed above, Mr. PHOON is and was not connected with any directors, senior management or substantial or controlling shareholders of the Company. As at the date hereof, Mr. PHOON does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. TAN Cheong Hin, aged 42, is the Director (Asia) in the Private Equity Funds Investment Unit of Temasek 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) from the National University of Singapore in 1988 and a Master of Science (Management) from the same university in 1991. He attended the Advanced Management Program at INSEAD (Fontainebleau) in 2001. Mr. TAN is a Chartered Financial Analyst (CFA) charterholder. Previously, Mr. Tan worked in the International Relations Department of a listed public company, Singapore Airlines from 1988 to 1995 and as a lecturer at the Nanyang Technological University from 1991 to 1995. Since 1995, he has been in Temasek in its Direct Investment Division (1995-2000) and Private Equity Funds Investment Unit (2000 onwards). Mr. TAN was the alternate Director to Mr. HIEW Yoon Khong from 22 April 2004 to 26 September 2005. Save as disclosed above, Mr. TAN did not hold any directorship in other listed public companies in the last three years and did not hold any position with the Company and other members of the Group.

There is no service contract between the Company and Mr. TAN. He has no fixed term of service with the Company. In accordance with the articles of association of the Company, Mr. TAN shall cease to be an alternate Director if his appointer Mr. Jimmy PHOON Siew Heng ceases to be a director. Mr. TAN will not receive any remuneration from the Company for acting as an alternate Director to Mr. Jimmy PHOON Siew Heng. Save as disclosed above, Mr. TAN is and was not connected with any directors, senior management or substantial or controlling shareholders of the Company. As at the date hereof, Mr. TAN does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Save as disclosed above, the Board is not aware of any other matters relating to the aforesaid appointments that need to be brought to the attention of the shareholders of the Company.

Ms. ZHOU and Mr. HIEW have confirmed that they have no disagreement with the Board and there is no matter relating to their resignation that needs to be brought to the attention of the shareholders of the Company.

The Board would like to express sincere gratitude to Ms. ZHOU and Mr. HIEW for their contribution to the Company in the past and would like to take this opportunity to welcome Mr. XIE, Mr. PHOON and Mr. TAN for joining the Company.

By order of the Board
Dr. Huang Dazhan
Executive Director

Hong Kong, 26 September 2005

As at the date hereof, the Board of Directors of the Company comprises eleven Directors, of which five are Executive Directors, namely Dr. Fu Yuning, Dr. Huang Dazhan, Mr. Chu Lap Lik, Victor, Mr. Xie Kuixing and Mr. Tse Yue Kit; and three are Non-executive Directors, namely Mr. Wang Xingdong, Mr. Gong Jianzhong and Mr. Jimmy Phoon Siew Heng; and three are Independent Non-executive Directors, namely Dr. Li Kwok Po, David, Mr. Kut Yung Hay and Mr. Poon Kuok Lim, Steven. In addition, Ms. Kan Ka Yee, Eltzabeth is the alternate Director to Mr. Chu Lap Lik, Victor, Mr. Li Kai Cheong, Samson is the alternate Director to Dr. Li Kwok Po, David, Mr. Tan Cheong Hin is the alternate Director to Mr. Jimmy Phoon Siew Heng and Mr. Mok Hay Hoi is the alternate Director to Mr. Poon Kuok Lim, Steven.