



**CHINA MERCHANTS CHINA DIRECT
INVESTMENTS LIMITED**

(Incorporated in Hong Kong with limited liability)

INTERIM REPORT

For the six months ended 30th June, 1997

FINANCIAL RESULTS

The Board of Directors is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30th June, 1997, were as follows:

| | For the six months ended 30th June, 1997 US\$ | For the six months ended 30th June, 1996 US\$ |
|---|--|--|
| Gross revenue | | |
| Income from contractual joint ventures | 2,200,016 | 1,541,124 |
| Dividend income from listed investments | 13,823 | 7,816 |
| Interest income | 1,353,469 | 1,809,660 |
| | <u>3,567,308</u> | <u>3,358,600</u> |
| Operating profit before exceptional items | 2,413,986 | 2,527,125 |
| Exceptional items (Note 1) | 1,452,076 | 555,866 |
| Profit from ordinary activities | 3,866,062 | 3,082,991 |
| Share of profits less losses of associated companies | 180,187 | 89,910 |
| Profit before taxation | 4,046,249 | 3,172,901 |
| Taxation (Note 2) | - | - |
| Profit after taxation | 4,046,249 | 3,172,901 |
| Dividend | 1,428,600 | 952,400 |
| Retained profit for the period | <u>2,617,649</u> | <u>2,220,501</u> |
| Per share: | | |
| Earnings (Note 3) | <u>0.042</u> | <u>0.033</u> |
| Interim dividend | <u>0.015</u> | <u>0.010</u> |
| Net asset value (Note 4) | <u>1.088</u> | <u>1.059</u> |

Notes:

1. The exceptional items represent:

| | 1997 US\$ | 1996 US\$ |
|---|------------------|----------------|
| Gain on disposal of a subsidiary | - | 555,866 |
| Gain on disposal of listed investments less revaluation loss | 1,452,076 | - |
| | <u>1,452,076</u> | <u>555,866</u> |

2. No Hong Kong profits tax has been provided as there are no assessable profits for the period.

No deferred taxation has been provided as there are no significant timing differences arising between profits as computed for taxation purposes and profits as stated in the financial statements.

3. The calculation of earnings per share is based on the earnings for the period of US\$4,046,249 and 95,240,000 ordinary shares in issue during the period.
4. The calculation of net asset value per share is based on the net asset value of US\$103,620,203 and 95,240,000 ordinary shares in issue as at 30th June, 1997. The net asset value per share has been adjusted for the payment of interim dividend. Net asset value per share before the adjustment is US\$1.103.

INTERIM DIVIDEND

The Board of Directors declared the payment of a dividend of US\$0.015 (1996: US\$0.01) per share for the period ended 30th June, 1997, which will be paid on 26th September, 1997 in cash to shareholders whose names appear on the Register of Members on 12th September, 1997.

BOOK CLOSURE

The Register of Members of the Company will be closed from Wednesday, 10th September, 1997 to Friday, 12th September, 1997 (both dates inclusive), during which period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrars, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Tuesday, 9th September, 1997.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the financial period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non-executive directors are not appointed for a specific term as they are subject to retirement at the next Annual General Meeting following their appointment in accordance with Article 101 of the Company's Articles of Association.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30th June, 1997, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS

As at 30th June, 1997, none of the Directors or their associates were interested, beneficially or otherwise, in any listed securities of the Company or its associated corporations as recorded in the register required under Section 29 of the Securities (Disclosure of Interests) Ordinance.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June, 1997, the register kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance showed that the Company had been notified of the following interests, being 10% or more of the Company's issued share capital:

| Name | Number of ordinary shares | Percentage of total issued shares |
|--|---------------------------|-----------------------------------|
| HSBC (Nominees) Limited | 27,367,500 | 28.74% |
| China Merchants Holdings Company Limited (Note 1) | 23,252,000 | 24.41% |
| China Merchants Steam Navigation Company Limited (Note 2) | 23,252,000 | 24.41% |
| China Merchants Holdings (Hong Kong) Company Limited (Note 3) | 19,072,000 | 20.03% |
| Hong Kong William Investment Company Limited | 4,180,000 | 4.39% |
| China Merchants International Finance Company Limited (Note 4) | 3,122,000 | 3.28% |
| Grand Spot Limited | 3,122,000 | 3.28% |

Notes:

1. Duplication of China Merchants Steam Navigation Company Limited's holding.
2. Duplication of China Merchants Holdings (Hong Kong) Company Limited's and Hong Kong William Investment Company Limited's holdings.
3. Including China Merchants International Finance Company Limited's holding.
4. Duplication of Grand Spot Limited's holding.

INVESTMENT REVIEW

For the six months ended 30th June, 1997, the Group achieved an unaudited net profit of US\$4,046,249 (equivalent to HK\$31,346,291) representing an increase of 27.5% over that of the same period last year.

As of 30th June, 1997, the Group invested approximately USD 74.7 million (72.1% of the Group's net asset value) in 12 unlisted projects in China and approximately USD 7.79 million (7.5% of the Group's net asset value) in listed securities. The unlisted investments are diversified into infrastructure (48.4%), real estate (20.7%), manufacturing (19.3%) and financial services (11.6%).

Unlisted Investments

Luomei Highways Company Limited & Zhangzhou Tongda Road Development Company Limited

As approved by an extra-ordinary general meeting on 29th May, 1997, the Group has sold all its interests in the above two joint ventures to China Merchants Holdings (International) Co. Ltd. Substantial profit was obtained. Since the transactions were not completed until mid-July, the profit will be reported in the final results of the year.

Maoming Tongfa Highway Co. Ltd. ("Tongfa")

The Group signed a contract in February 1997 to invest USD 10 million in Tongfa and took a 34.7% interest. Tongfa is a Sino-foreign joint venture company newly formed to build and operate a 40-km section of the Provincial Highway No. 1987 in Maoming, Guangdong. There is a toll station already in operation. The Group expects to fund the project by the end of August once all the conditions precedent have been fulfilled.

Weifang Yin Yuan Aviation Industry Company Limited

Flights and passenger turnover have been continuously increasing since the airport's grand opening. As scheduled, the joint venture distributed its third return payment in May. As of today, 78% of the Group's investment in this project has been paid back.

Yantai Huashang Power Co. Ltd.

The project progresses smoothly. In June, the Group received the first payment of US\$841,000 from the joint venture.

Shenzhen Man Kam Square

The completion of the property has been delayed for over two years. A legal claim was submitted to the Shenzhen court in January. Judgement of the first trial was given in mid-July, granting the Group and City Chiu Chow (Holdings) Ltd. the right to rescind the contracts and to obtain refund with interest and penalty. The developer has filed an appeal to the Guangdong provincial court. The Group is confident that its first instance judgement will be upheld.

China Merchants Plaza (Shanghai) Property Co. Ltd.

The plaza is now undergoing works on decoration and equipment installation. As at the end of June 1997, about 80% of the construction were completed. Due to the prevalence of a weak property market in Shanghai, the plaza's pre-sale and leasing faced some difficulties. However, the joint venture will try their best to locate potential buyers and tenants.

Weifang Zhaoyin Real Estate Development Limited

The project runs as planned, and the third profit payment is to be distributed in August.

Tangshan Kintil Ceramics Limited

With the expansion of distribution network, net profit in the first six months of the year reached RMB1.70 million which represents an increase of 127% over the corresponding period last year. The joint venture is also exploring overseas markets and building up outlets in Russia, Malaysia and some Southeast Asian countries.

Zhaoyuan Jinbao Electronics Company Limited

Having experienced a stagnant market in 1996, the joint venture's production and sales gained remarkable improvement in the first half of 1997, with turnover and net profit increased to RMB137 million and RMB6 million respectively. As the market recovery prevails, it is expected that the joint venture will contribute significant profit to the Group in the whole year.

Chengde Wanli Steel Tubes Co. Ltd.

The production line is still under installation and is expected to complete in late 1997. The Group's first assured return of US\$750,000 was received in March 1997.

China Merchants Bank

In 1996, the bank's total assets and pre-tax profit grew by 45% and 38% to RMB103 billion and RMB2.4 billion respectively. It was ranked the first in China and the twelfth in the world based on profit on average capital by the "Bankers" magazine in July. In the third Three-Year Plan, the bank targeted to attain a total asset of RMB300 billion and a pre-tax profit of RMB4.8 billion by the year 2001.

Beijing Long Bao Mansion

The Group signed a contract on 24th July, 1997 to invest USD4.98 million in a property rental business in Beijing. The property is located at Long Bao Mansion in Chao Yang District, next to Liang Ma River, Lufthansa Centre and China Great Wall Hotel. It is composed of 15,000 square metres of apartments and offices, which were completed in late 1995. The Group owns a 35% interest in the project. This investment was not accounted for in the interim results.

Listed Investments

In the first half of 1997, in view of the general optimism on the China and Hong Kong stock markets, the Group increased its holding of listed investments considerably from USD2.78 million at year-end of 1996 to USD7.79 at the end of June, 1997. Profits from listed investments amounted to USD1.45 million in the first half of 1997, a sizeable increase from the corresponding period of last year. The Group will continue its prudent approach in selecting premium stocks and expected that listed investments will generate good returns in the whole year.

PROSPECTS

The Group continues to focus on investments in utility and infrastructure projects and explores opportunities in high growth potential service industry. In order to achieve a balanced strategy, greater effort will be spent on corporate finance activities in addition to the recurring investment operation. Further profit growth will be generated from the eventual realization of matured projects through various exit channels. The Board is optimistic about the Group's profit prospects.

By Order of the Board
Zhang Yun Kun
Executive Director

Hong Kong, 25th August, 1997