

**CHINA MERCHANTS CHINA DIRECT
INVESTMENTS LIMITED**

(Incorporated in Hong Kong with limited liability)

INTERIM REPORT

For the six months ended 30th June, 1998

FINANCIAL RESULTS

The Board of Directors of China Merchants China Direct Investments Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 1998, were as follows:

	For the six months ended 30th June, 1998 US\$	For the six months ended 30 th June, 1997 US\$
Turnover	<u>5,198,164</u>	<u>3,567,308</u>
Operating profit excluding exceptional item	<u>4,116,254</u>	2,413,986
Exceptional item (<i>Note 1</i>)	<u>(746,885)</u>	<u>1,452,076</u>
Profit from ordinary activities	<u>3,369,369</u>	3,866,062
Share of profits less losses of associated companies	<u>206,141</u>	<u>180,187</u>
Profit before taxation	<u>3,575,510</u>	4,046,249
Taxation (<i>Note 2</i>)	<u>-</u>	<u>-</u>
Profit attributable to shareholders	<u>3,575,510</u>	4,046,249
Dividends	<u>(1,485,744)</u>	<u>(1,428,600)</u>
Retained profit for the period	<u>2,089,766</u>	<u>2,617,649</u>
Per share:		
Earnings (<i>Note 3</i>)	<u>0.031</u>	<u>0.035</u>
Interim dividend	<u>0.013</u>	<u>0.015</u>
Net asset value (<i>Note 4</i>)	<u>1.129</u>	<u>1.088</u>

Notes :

1. The exceptional item represents:

	1998 US\$	1997 US\$
Gain on disposal of listed investments		
Less revaluation losses, net	<u>(746,885)</u>	<u>1,452,076</u>

2. No Hong Kong profits tax has been provided as there are no significant assessable profits for the period.
No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

3. Pursuant to the resolutions passed at the annual general meeting of the Company held on 29th June, 1998 and the confirmation given by The Stock Exchange of Hong Kong Limited, 19,048,000 shares of US\$0.10 each were issued as bonus shares on 16th July, 1998. The calculation of earnings per share is based on the unaudited consolidated profit attributable to shareholders for the period of US\$3,575,510 (1997: US\$4,046,249) and the new number of 114,288,000 (1997: 114,288,000) ordinary shares currently in issue. The comparative earnings per share for the corresponding period has been adjusted retrospectively.
4. The calculation of net asset value per share is based on the net asset value of US\$107,481,316 and 95,240,000 ordinary shares in issue as at 30th June, 1998. 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\$1.144.

INTERIM DIVIDEND

The Board of Directors declared the payment of a dividend of US\$0.013 or HK\$0.10 (1997: US\$0.015 – before bonus issue adjustment) per share for the period ended 30th June, 1998, which will be paid on 17th September, 1998 to shareholders whose names appear on the Register of Members on 31st August, 1998.

Shareholders who wish to receive the dividend in Hong Kong Dollars has to complete a Hong Kong Dollar dividend election form and return the same to the Share Registrars on or before 7th September, 1998.

BOOK CLOSURE

The Register of Members of the Company will be closed from Friday, 28th August, 1998 to Monday, 31st August, 1998 (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 on later than 4:00 p.m. on Thursday, 27th August, 1998.

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.

YEAR 2000 ISSUE

The Directors of the Company noted the problems associated with the Year 2000 issue. In common with most other similar entities, the Company is reliant on the systems of its investment manager. According to the investment manager, it carried out an in-depth study into this issue and completed program enhancements in May 1998, such that its systems will be Year 2000 compliant.

In the opinion of the Directors, as a result of the completion of the program enhancements by the investment manager, the Company's degree of exposure to the Year 2000 issue is not significant.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30th June, 1998, 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, 1998, 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, 1998, 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	24,233,500	25.44%
China Merchants Holdings Company Limited (<i>Note</i>)	24,050,000	25.25%
China Merchants Steam Navigation Company Limited (<i>Note</i>)	24,050,000	25.25%
China Merchants Holdings (Hong Kong) Company Limited	15,250,000	16.01%
Hong Kong William Investment Company Limited	5,130,000	5.38%
Grand Spot Limited	3,122,000	3.28%
Fair Oaks Development Limited	548,000	0.58%

Note:

Duplication of holdings of China Merchants Holdings (Hong Kong) Company Limited, Hong Kong William Investment Company Limited, Grant Spot Limited and Fair Oaks Development Limited.

INVESTMENT REVIEW

For the six months ended 30th June, 1998, the Group achieved an unaudited net profit of US\$3,575,510 (equivalent to HK\$27,699,476), representing a decrease of 12% over that of the same period last year. The decrease was mainly attributable to the outstanding performance of listed investment in the same period last year.

As of 30th June, 1998, the Group invested approximately US\$75.22 million (70.0% of the Group's net asset value) in 12 unlisted projects in China and approximately US\$1.16 million (1.1% of the Group's net asset value) in listed securities. The unlisted investments were diversified into infrastructure (19.2% of the Group's net asset value), real estate (17.0%), manufacturing (13.9%) and financial services (19.9%).

Unlisted Investments

Weifang Yin Yuan Aviation Industry Company Limited

The Group received the fourth distribution in May. The Group's investment principal for this project has been fully recovered.

Yantai Huashang Power Co. Ltd.

Due to the decline in electricity demand in Shandong Province and the government's requirement for cancellation of Power Development Fund, the joint venture lost reliable long-term funding sources to support its annual payments to the Group. After a series of negotiations with the joint venture's Chinese partner, an agreement was reached such that the Group disposed all of its interest in the joint venture to the Chinese partner at a consideration of US\$11,87 million. In late July, US\$6.841 million was received. If the balance of the consideration is received by the end of August, the project's IRR will be around 13% p.a..

Maoming Tongfa Highway Co. Ltd.

Toll revenue in the first half of 1998 amounted to RMB8.3 million, about 1% below that of the same period last year. Due to the slow down in economy, traffic volume was expected to have a mild decrease for the whole year. Recently, the Guangdong government issued some statements to tighten the approval process of toll road projects and the return scheme offered to foreign investors. They affected some of the terms stipulated in the original joint venture contract. Meetings were held to discuss the modifications that might be required.

Shenzhen Man Kam Square

Based on the judgements of two consecutive trials held in Shenzhen Intermediate Court and Guangdong Provincial High Court respectively last year, the sales and purchase contracts should be rescinded and the Group has the right to get all deposits back with interest and compensations.

However, during the course of enforcement, the developer complained to the Supreme Court, which then ordered a suspension of execution and a re-examination by the Guangdong Provincial High Court. Nevertheless, the Group is confident that the original judgement can be upheld.

China Merchants Plaza (Shanghai) Property Co. Ltd.

Decoration and equipment installation works were nearly finished. Completion was scheduled in the third quarter of 1998. The progress of sales and leasing could then be accelerated. In order to pay the balance of construction costs, the Group may be required to inject as additional US\$1 million into the project.

Weifang Zhaoyin Real Estate Development Limited

The Group, together with other foreign investors, was discussing with the joint venture's Chinese partner to solve the joint venture's financial strains. A board meeting was held in July. All parties are now working out a feasible solution, and hope the issue can be resolved soon.

Beijing Longbao Mansion

The property market in Beijing was still in an over-supply condition. Average occupancy rates of apartments and Grade A office were about 70% and 66% respectively. The rental rates of the Group's properties in Longbao Mansion have dropped by 8% from that of late 1997. With the decrease of foreign investments, the declining trend of rental rates will persist.

Tangshan Kintil Ceramics Limited

Due to a sluggish market for ceramic tiles and keen competition in the sector, a loss of RMB0.39 million was recorded for the first half of this year. Sales for the period also dropped from RMB23.71 million of last year to RMB13.96 million. The joint venture is working in the fields including marketing, production coordination and quality control for a higher level of efficiency. The Group expected that the recently announced housing reform program would improve the future operating environment of the joint venture.

Zhaoyuan Jinbao Electronics Company Limited

A board meeting of the joint venture was held in March and it was resolved that the interest for shareholder's loan and profit for 1997 should be distributed. So far, the Group has received US\$0.36 million interest income. On the other hand, due to a drop in the prices of major raw materials, the joint venture's profit is improving. For this first half year, it achieved a profit of RMB7.08 million, representing a 3.2% increase over the same period of last year.

Chengde Wanli Steel Tubes Co, Ltd.

The production lines have started trial-run and full operation is expected to commence by the end of the year.

China Merchants Bank

The operation environment for commercial banks in China was unfavourable in the first half of 1998. As a result of unequal reduction of lending rates and deposit rates, banks' profit margins were squeezed. Other factors such as, new policy in bad and doubtful debts, reduction of interest rate on reserve fund, significant lay-offs and the weak economy, also adversely affected the performance of the banking sector. China merchants Bank recorded a 23% drop in per-tax profit for the first six months of 1998, even though the total assets grew by 12%.

Fujian Industrial Bank

Fujian Industrial Bank is a joint stock commercial bank based in Fujian Province. In late 1997, the bank expanded its capital base by issuing new shares. The Group, in co-operation with China Merchants Group, invested US\$12.72 million for a 3.2% stake of the bank's enlarged share capital. The investment will have income contribution in 1998.

Listed Investments

In view of the volatile stock markets in both China and Hong Kong, the Group maintained a low level of listed securities portfolio in the first half of 1998. At the end of June 1998, listed investments were valued at US\$1.16 million, compared to US\$0.99 at the end of 1997. With the continuation of Asian financial crisis worsened by troubled Japanese economy, the stock markets were still on the declining trend. In the period, the Group recorded a loss of US\$0.75 million in listed investments.

PROSPECTS

The environment for direct investments in China has changed remarkably since the second half of last year. Asian financial crisis has slowed down China's economic growth. The deflating economy and the pressure on currency devaluation have increased the risks of investment. The Group is therefore adopting a more cautious attitude towards investment assessment. Yet the Group is still confident in China's long-term economic prospect and will continue to invest in high quality projects. At the same time, great efforts will be made to enhance management of existing joint ventures. The Board expects the Group to have a satisfactory result for the year 1998.

By Order of the Board
Zhang Yun Kun
Executive Director

Hong Kong, 12th August, 1998