CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

(Incorporated in Hong Kong with Limited Liability)

Interim Report

For the six months ended 30th June, 1999

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 30 June 1999, were as follows:

	For the six Months ended 30 June 1999 US$	For the six Months ended 30 June 1998 US$
Turnover		
Interest income	**1,417,906**	1,422,237
Income from contractual joint ventures	**1,733,839**	2,216,450
Dividend income from Other investments	**2,212,421**	1,556,552
Dividend income from listed investments	**44,012**	2,925
	5,408,178	5,198,164
Operating profit *(Note 1)*	**2,869,514**	3,369,369
Share of result of associated companies	**291,922**	206,141
Profit from ordinary activities before taxation	**3,161,436**	3,575,510
Taxation *(Note 2)*	**(36,222)**	-
Profit attributable to shareholders	**3,125,214**	3,575,510
Dividends	**(685,728)**	(1,485,744)
Retained profit for the period	**2,439,486**	2,089,766
Per share *(Note 3)*:		
Earnings *(Note 4)*	**0.023**	0.026
Interim dividend	**0.005**	0.011
Net asset value *(Note 5)*	**0.815**	0.784

Notes:

1. Operating profit has been arrived at after crediting/(charging):

	Six months ended 30 June 1999 US$	1998 US$
Gain on disposal of listed investments plus/less revaluation gains/(losses), net	**1,774,345**	(746,885)
Provision for diminution in value of investments	**(3,403,667)**	-

The Group adopted the new Statement of Standard Accounting Practice no. 24 "Accounting for investments in securities" commencing from 1 January 1999. Debt securities intended to be held to maturity are stated in the balance sheet at amortized cost less any provision for diminution in value. Investments in other than held-to-maturity securities are accounted for using the benchmark treatment, under which the investments are stated at their fair values in the balance sheet with unrealized gains or losses included in the profit and loss account for the period. The effect of such change in accounting policy resulted in an increase in profit for the period by US$481,000. The comparative amounts for 1998 have not been restated as the effect of the change was not material.

2. **Taxation comprises:**

	Six months ended 30 June 1999 US$	1998 US$
Company and subsidiaries		
Overseas taxation	**4,577**	-
Overprovision for Hong Kong profits tax in prior years	**(3,953)**	-
	624	-
Associated companies		
Overseas taxation	**35,598**	-
	36,222	-

No Hong Kong profits tax has been provided as there are no significant assessable profits for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

3. Pursuant to the resolutions passed at the Annual General Meeting of the Company held on 23 June 1999 and the confirmation given by The Stock Exchange of Hong Kong Limited, 22,857,600 shares of US$0.10 each were issued as bonus shares to shareholders whose names appeared on the Register of Members on 23 June 1999. The calculation of per share figures is based on 137,145,600 (1998: 137,145,600) ordinary shares currently in issue. All the comparative figures for the corresponding period have been adjusted retrospectively.

4. The calculation of earnings per share is based on the unaudited consolidated profit attributable to shareholders for the period of US$3,125,214 (1998: US$3,575,510) and 137,145,600 (1998:137,145,600) ordinary shares currently in issue.

5. The calculation of net asset value per share is based on the net asset value of US$111,726,690 (1998: US$107,481,316) and 137,145,600 (1998: 137,145,600) ordinary shares currently in issue. 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$0.820.

INTERIM DIVIDEND

The Board of Directors declared the payment of a dividend of US¢0.5 or HK¢3.88 (1998: US¢1.08) per share for the period ended 30 June 1999, which will be paid on 17 November 1999 to shareholders whose names appear on the Register of Members on 15 October 1999.

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 interim report to shareholders, and return the same to the Share Registrars on or before 27 October 1999. Shareholders who have previously submitted the election form do not need to re-submit this form.

BOOK CLOSURE

The Register of Members of the Company will be closed from Wednesday, 13 October 1999 to Friday, 15 October 1999 (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, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Tuesday, 12 October 1999.

CORPORATE GOVERNANCE

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. On 17 March 1999, the Company established an Audit Committee comprised Mr. Kut Ying Hay, The Hon. Li Kwok Po, David and Mr. Cui Guisheng. In establishing the terms of reference for this Committee, the Directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

YEAR 2000 ISSUE

The Year 2000 problem arises from the inability of some computer systems to make a proper transition from the year 1999 to the year 2000 resulting in inaccurate data processing and information recording. To be Year 2000 compliant, systems must be able to properly recognize date information and should not produce erroneous data when the year changes to 2000 and beyond.

In common with most other similar entities, the Company is reliant on the systems of its investment manager. According to the investment manager, it has carried out an in-depth study into this issue and program enhancements covering all of its computer systems and applications were completed in May 1998. The investment manager believes that its computer systems are now Year 2000 compliant and it has agreed not to charge to the Company for any costs incurred or might be incurred in the future in respect of the Year 2000 program enhancements.

The investment manager expressed that it had prepared contingency plans to deal with the impact of any potential disruptions to business and operations of the Company in the unlikely event that any of the critical systems should fail.

In the opinion of the Directors, as a result of the completion of the program enhancements by the investment manager, the degree of exposure to the Year 2000 issue is insignificant.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30 June 1999, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 1999, none of the Directors or chief executives, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), and none of the Directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 1999, the register kept by the Company under Section 16(1) of the SDI 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**
HKSCC Nominees Limited	40,264,200
HSBC (Nominees) Limited	26,080,200
China Merchants Holdings Company Limited (Note)	28,982,400
China Merchants Steam Navigation Company Limited (Note)	28,982,400
China Merchants Holdings (Hong Kong) Company Limited (Note)	18,422,400
China Merchants Financial Services Limited (Note)	18,300,000
Good Image Limited	18,300,000

Note:

China Merchants Holdings Company Limited is deemed to have interests in these shares by virtue of its controlling shareholding in China Merchants Steam Navigation Company Limited. China Merchants Steam Navigation Company Limited's interests in the Company include those shares held by China Merchants Holdings (Hong Kong) Company Limited by virtue of its controlling shareholding in China Merchants Holdings (Hong Kong) Company Limited. China Merchants Holdings (Hong Kong) Company Limited's interests in the Company include those shares held by China Merchants Financial Services Limited by virtue of its controlling shareholding in China Merchants Financial Services Limited. China Merchants Financial Services Limited's interests in the Company include those shares held by Good Image Limited by virtue of its controlling shareholding in Good Image Limited.

INVESTMENT REVIEW

For the six months ended 30 June 1999, the Group achieved an unaudited net profit of US$3,125,214 (equivalent to HK$24,376,669), representing a decrease of 12.6% over that of the same period last year. The decrease was mainly attributable to an increase in provisions for the diminution in value of certain investments.

As at 30 June 1999, the Group had invested approximately US$69.13 million (accounting for 61.9% of the Group's net assets) in 12 unlisted investments in China and approximately US$5.31 million (4.8% of the Group's net assets) in listed securities. The unlisted investments are diversified, in the sectors of infrastructure (accounting for 9.9% of the Group's net assets), real estate (15.5%), manufacturing (11.8%) and financial services (24.7%).

Unlisted Investments

Weifang Yin Yuan Aviation Industry Company Limited

The Group fully recovered its investment principal in 1998. Due to the impact of Asian financial crisis, coupled with the abolition of a city construction development fund, the joint venture has suffered severe liquidity problems and was unable to distribute the fifth return payment of US$0.62 million in May 1999. The Chinese partner is looking for channels of financing to facilitate the payment. The Group is also actively forwarding various proposals to press the Chinese partner for an early settlement.

Maoming Tongfa Highway Company Limited

Due to a slowdown in economic activities in the region of Maoming, traffic volume has been negatively affected. Toll revenue in the first half of 1999 amounted to RMB8.02 million, representing a 3% drop from that of the same period last year. The third return payment of US$0.75 million was received as scheduled in March 1999.

Shenzhen Man Kam Square

Although the Group received favourable rulings in both the first and second trials in the Intermediate and High Courts respectively on the termination of the pre-sale contract of Man Kam Square, the Guangdong Provincial High Court decided in June 1999 to proceed with a re-trial. The first hearing was held on 28 July 1999. Such a re-trial would normally be completed within three months. The Group is awaiting the result of the re-trial.

China Merchants Plaza (Shanghai) Property Company Limited

In the first six months of the fiscal year, a floor area of 3,656 sq.m. was let. Total occupied space increased to 13,902 sq.m., representing about 23% of the project's total gross floor area. Progress in sales and leasing was unsatisfactory due to the continued stagnant property market in Shanghai. The joint venture is redecorating the podium area as an exhibition centre for motor vehicle parts and accessories in order to attract more new tenants to the building.

Weifang Zhaoyin Real Estate Development Limited

The Group is continuing its negotiations with all parties concerning the delay in return payments. All possible means, including a lawsuit, are being considered to procure repayment of the Group's investment.

Beijing Longbao Mansion

As a result of the sluggish property market in China, competition in Beijing's property leasing market has been fierce. Owing to a decrease in rental income, the Chinese partner was unable to remit the third and the fourth payments due to the Group in February and August 1999 respectively. The Group is involved in ongoing negotiations with the Chinese partner to resolve the problem.

Tangshan Kintil Ceramics Limited

Due to intense competition in the market for construction materials, the price of ceramic tiles dropped substantially. In the first half of 1999, the joint venture suffered a loss of RMB9.89 million. The Group is undergoing a series of negotiations with other joint venture partners with regard to the company's liquidity and restructuring. In anticipation of substantial losses resulting from operational and financial difficulties within the company, the Group provided US$2 million for the diminution in value of the investment.

Zhaoyuan Jinbao Electronics Company Limited

A strong global demand for high-tech products and a decrease in the price of major raw materials resulted in sales and net profit of RMB125 million and RMB7.2 million respectively for the first half of 1999. This represents an increase of 1% and 16% respectively over the same period last year. All three joint venture partners have agreed to capitalize their shareholders' loans in the company in order to strengthen its capital structure. This will result in a lower gearing ratio, strengthening the company's ability to raise funds, which will in turn provide resources to increase production capacity to a greater level of economic efficiency.

Chengde Wanli Steel Tubes Company Limited

The joint venture is still at the trial-run stage. Currently, highway fence products are producing satisfactory sales, while the production process for seamless-like steel tubes requires further fine tuning, expected to complete by the 4th quarter of this year. Under the terms of the joint venture agreement, the Chinese party is due to repay US$1.25 million to the Group this year. A sum of US$0.3 million has already been received, while the payment date for the balance of US$0.95 million has been deferred to October 1999.

China Merchants Bank

As at the end of June 1999, the bank's total assets stood at RMB154.5 billion. Profit before taxation for the first six months of 1999 decreased 7% over the same period last year. Nevertheless, the bank's interest margin has increased as a result of recent substantial adjustments by the People's Bank of China ("PBOC") in the RMB borrowing and lending rates and the bank therefore expects the operating environment to improve in the second half of the year.

Last year's capital expansion program was approved by the PBOC. The Group now holds 68.08 million shares in the bank, representing 1.62% of the bank's issued capital.

Fujian Industrial Bank ("FIB")

FIB is a joint stock commercial bank based in Fujian Province, providing a full range of banking services. It also has branches in Shanghai, Shenzhen and Changsha.

Due to an increase in write-offs for bad loans and the after effects of repeated interest rates cuts, FIB's first half pre-tax profit declined 22% to RMB180 million. The net asset value decreased by 3% from the start of year to RMB3.42 billion. The bank is expending great efforts to broaden the loan portfolio and is seeking good quality lending targets to raise its loan-to-deposit ratio, to more effectively utilize liquid funds.

Fujian Industrial Securities Corporation ("FISC")

FISC was originally the securities arm of FIB. As required by the PBOC, FIB transferred 70% of its shares in the FISC to FIB's shareholders and the remaining 30% of shares to new investors in 1998. The Group subscribed to 6.72 million shares, in proportion to its shareholding in FIB. The subscription cost of US$1.03 million was settled by FIB's 1998 dividend payment. FISC plans to expand its capital base to RMB600 million and apply to become a comprehensive securities company. Following the capital expansion, the Group will hold 1.12% of FISC's issued capital.

Listed Investments

Due to the return of foreign capital, most Asian financial markets including Hong Kong, Shanghai and Shenzhen rebounded in the first half of 1999. The Group's listed investments benefited from the rally. Over the reporting period, listed investments contributed US$1.77 million to Group profits. At the end of June 1999, the Group's listed investments were valued at US$5.31 million, or 4.8% of the Group's net assets.

PROSPECTS

As the effects of the Asian financial crisis persist, widespread deflation is adversely affecting the operating environment in China. A number of the Group's joint venture investments did not perform as expected and experienced difficulties in meeting schedules for return payments. To counteract this, the Group has implemented various measures designed to protect its interests, including adopting an active role in monitoring the management in its investments. In the meantime, the Group will take a more cautious approach to evaluating potential new investments, which may slow down the pace of acquisitions. While continuing its investment in urban infrastructure and financial services, the Group is also taking an active approach to exploring investments in the hi-tech industry, with the aim of capitalizing on the exciting growth potential of the sector.

By Order of the Board
Zhang Yun Kun
Executive Director

Hong Kong, 27 September 1999