

## 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 2000 were as follows:

	<b>For the six months ended 30 June 2000 US\$</b>	For the six months ended 30 June 1999 US\$
Turnover		
Interest income	<b>942,146</b>	1,621,591
Income from contractual joint ventures	<b>737,484</b>	1,733,839
Dividend income from unlisted other investments	<b>2,107,368</b>	2,212,421
Dividend income from listed other investments	<b>56,035</b>	44,012
	<b>3,843,033</b>	5,611,863
Other revenue (Note 1)	<b>732,594</b>	1,777,465
Administrative expenses	<b>(1,211,633)</b>	(1,064,549)
Loss on investments/provision (Note 2)	<b>(1,198,833)</b>	(3,440,942)
Profit from operations	<b>2,165,161</b>	2,883,837
Finance costs	-	(14,323)
Share of results of associates	<b>(12,671)</b>	291,922
Profit before taxation	<b>2,152,490</b>	3,161,436
Taxation (Note 3)	<b>(62,201)</b>	(36,222)
Profit attributable to shareholders	<b>2,090,289</b>	3,125,214
Dividends	<b>(685,728)</b>	(685,728)
Retained profit for the period	<b>1,404,561</b>	2,439,486
Per share:		
Earnings (Note 4)	<b>0.015</b>	0.023
Interim dividend	<b>0.005</b>	0.005
Net asset value (Note 5)	<b>0.880</b>	0.815

Notes:

	<b>Six months ended 30 June</b>	
	<b>2000 US\$</b>	1999 US\$
<b>1. Other revenue:</b>		
Gain on disposal of listed other investments	<b>732,579</b>	798,930
Unrealised holding gain on listed other investments	-	975,415
Sundry income	<b>15</b>	3,120
	<b>732,594</b>	1,777,465

## 2. Loss on investments/provision:

Unrealised holding loss on listed other investments	1,198,833	–
Loss on disposal of debt securities	–	37,275
Provision for diminution in value of investments	–	3,403,667
	<u>1,198,833</u>	<u>3,440,942</u>

## 3. Taxation comprises:

Profits tax for the period		
Hong Kong	(889)	(3,953)
Other regions in the People's Republic of China ("PRC")	4,273	4,577
Taxation attributable to the Company and its subsidiaries	3,384	624
Share of taxation on results of associates		
Other regions in the PRC	58,817	35,598
	<u>62,201</u>	<u>36,222</u>

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.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

- The calculation of earnings per share is based on the unaudited consolidated profit attributable to shareholders for the period of US\$2,090,289 (1999: US\$3,125,214) and 137,145,600 (1999: 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\$120,650,489 (1999: US\$111,726,690) and 137,145,600 (1999: 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\$0.885
- Certain comparative figures have been reclassified and additional line items have been included on the face of the consolidated income statement due to the new requirements under the revised Statement of Standard Accounting Practice 1.

## INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of US¢0.5 or HK¢3.9 (1999: US¢0.5) per share for the year ending 31 December 2000, which will be paid on 3 November 2000 to shareholders whose names appear on the Register of Members on 13 October 2000.

Shareholders who wish to receive the interim 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 23 October 2000. Shareholders who have previously submitted a dividend election form do not need to re-submit this form.

## BOOK CLOSURE

The Register of Members of the Company will be closed from Wednesday, 11 October 2000 to Friday, 13 October 2000 (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, 10 October 2000.

## 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. According to Article 105 of the Articles of Association of the Company, non-executive directors are not subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30 June 2000, 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 2000, 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 the securities of its associated companies, or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2000, 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:

<b>Name</b>	<b>Number of ordinary shares</b>
HKSCC Nominees Limited	45,824,880
HSBC Nominees (Hong Kong) Limited	31,325,040
China Merchants Holdings Company Limited ( <i>Note</i> )	33,989,760
China Merchants Steam Navigation Company Limited ( <i>Note</i> )	33,989,760
China Merchants Holdings (Hong Kong) Company Limited ( <i>Note</i> )	33,989,760
China Merchants Finance Holdings Company Limited ( <i>Note</i> )	33,989,760
China Merchants Financial Services Limited ( <i>Note</i> )	33,989,760
Good Image Limited	33,989,760

*Note:*

The company is deemed to have interests in the shares opposite to its name by virtue of its controlling shareholding in the company whose name is set out immediately under it.

## INVESTMENT REVIEW

For the six months ended 30 June 2000, the Group achieved an unaudited net profit of US\$2,090,289 (equivalent to HK\$16,304,254), representing a decrease of 33% over the same period last year. The decrease was mainly attributable to the drop in interest income, the delay in return payments from contractual joint ventures and the decrease in revaluation value of listed investments.

As at 30 June 2000, the Group invested approximately US\$74.18 million (accounting for 61.5% of the Group's net assets) in 12 unlisted investments in China and approximately US\$8.97 million (7.4% of the Group's net assets) in listed securities. The unlisted investments are diversified in the sectors of financial services (accounting for 31.5% of the Group's net assets), manufacturing (10.7%), infrastructure (8.3%) and real estate (11%).

### Unlisted Investments

#### *China Merchants Bank*

China Merchants Bank is the first joint-stock commercial bank set up by corporations in China. The bank's total assets increased to RMB216.6 billion as at the end of June 2000, while profit before taxation for the first half of the year was RMB784 million, representing an increase of 8.8% over the same period of last year. China Merchants Bank is preparing for listing on one of the domestic stock exchanges. The listing is expected to bring a large capital gain for the Group. The Group holds an interest of 1.62% in the bank.

#### *Fujian Industrial Bank*

Fujian Industrial Bank was among the first batch of joint-stock commercial banks approved by the People's Bank of China. The Group owns a 3.2% stake in the bank. Based in Fujian Province, the bank has 15 branches and 67 sub-branches spreading over the major cities of China. The bank's total revenue and net profit for the first six months of this year were RMB1.481 billion and RMB267 million respectively, representing an increase of 29% and 45% over the same period last year.

Fujian Industrial Bank is endeavouring to enlarge its business scale. A resolution for the issue of new shares was approved at a shareholders' meeting in March 2000, enabling the bank to increase its share capital from RMB1.5 billion to RMB3 billion. The new issue has received a favourable response from domestic institutions. The bank will apply for listing once the share placement has been finalized.

#### *Industrial Securities Company Limited ("ISCL")*

Benefiting from the rally of China's stock markets and its high trading volume, ISCL recorded a net profit of RMB150 million for the first half of 2000, representing 2.3 times the profit for the whole of 1999.

ISCL is a comprehensive securities company with total assets of RMB6.5 billion, the Group has an interest of 0.74% in the company.

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*Zhaoyuan Jinbao Electronics Company Limited ("Jinbao")*

As a result of continued strong demand for electronic products in the PRC and overseas markets, Jinbao's sales for the first half of 2000 was RMB157 million, representing an increase of 26% over the same period of last year, while its net profit increased to RMB11.9 million from last year's RMB7.2 million. However, due to increasing market competition, sales prices started to decline from the peak of last year, resulting in a decrease of the gross profit margin compared with that of last year. Jinbao is endeavouring to increase production so as to enhance profits. The Group's investment in Jinbao represents an interest of 30%.

*Chengde Wanli Steel Tubes Company Limited ("Wanli")*

Wanli's joint venture partner, Chengde Iron and Steel Group, continued to remit the third return payment due in 1999 by instalment. To date, Wanli has paid USD0.80 million, representing 64% of the payment. Payment of the fourth year's return, due in March this year and totalling USD1.25 million, has not yet commenced. The investment manager is negotiating with the Chinese partner for an early settlement. Necessary action, including legal proceedings, will be taken to enforce the terms of the joint venture agreement. The Group holds an equity stake of 35% in Wanli.

*Tangshan Kintil Ceramics Limited ("Kintil")*

Negotiations for disposal of the Group's entire interest of 15% in Kintil continue. More time is expected to be required as foreign partners of the joint venture have not yet reached an agreement with the Chinese partners on the transfer price.

*Maoming Tongfa Highway Company Limited ("Tongfa")*

The Group has obtained approval in principle from its Investment Committee to continue negotiations in respect of the proposal of Tongfa's Chinese partner to purchase the Group's entire interest of 34.7% in Tongfa. The Group, in accordance with the joint venture agreement, has been pursuing the outstanding return payments from Tongfa. In September the Group received the return payment of US\$0.72 million due in March 2000.

*Weifang Yin Yuan Aviation Industry Company Limited ("Yin Yuan")*

Yin Yuan's Chinese partner last year requested that its foreign partners waive their claims on the balance of the return payments after the receipt of the fifth payment. After taking into consideration the operation of Yin Yuan, the Chinese partner's payment ability and the effectiveness of taking legal action, the Group, together with another foreign partner, accepted the waiver proposal. The Chinese partner will raise funds and remit the return payments to the Group by instalments. The Group's investment in Yin Yuan, representing an interest of 31.3%, was fully provided in 1999.

*China Merchants Plaza (Shanghai) Property Company Limited ("Property Co.")*

The property market of Shanghai has stabilised since the first half of this year. To date, Property Co. has leased 16,409 square metres and sold 6,349 square metres of China Merchants Plaza, together representing 38% of the total gross floor area. The Group's investment in the project represents an effective holding of 19.8%.

### *Beijing Longbao Mansion*

The property market in Beijing has showed signs of recovery, benefiting from China's expected entry into the World Trade Organization and the rapid development of its information technology industry. The current occupancy ratio of the property is about 25%. The investment manager has seconded a representative to oversee its leasing and sales activities. The Group has a 35% interest in the joint operation project.

### *Shenzhen Mankam Square*

It has now been a year since the re-trial by the Superior People's Court of Guangdong Province in respect of the termination of the sales and purchase agreement of Shenzhen Mankam Square in July 1999. But judgement of the re-trial has not yet been delivered. The investment manager, together with the joint-venture partner, City Chiu Chow (Holdings) Limited, continue to demand, through various channels, a final verdict from the court. The Group has an effective holding of 35% in the property.

### *Weifang Zhaoyin Real Estate Development Limited ("Zhaoyin")*

The Group has not yet reached an agreement with Zhaoyin's Chinese partner on a new scheme for distributing returns after repeated negotiations. The Group will continue to pursue all feasible approaches to resolve this issue. The Group holds an 18% stake in Zhaoyin.

## **Listed Investments**

During the first half of 2000, hi-tech and internet stocks consolidated, affecting the world's major financial markets. In addition, the stock performance of Hong Kong's red chips and state-owned enterprises was lacklustre. The Group recorded losses amounting to some US\$0.41 million on its listed investments during the period. As at the end of June 2000, the Group had listed shares and debt securities valued at US\$8.97 million.

## **PROSPECTS**

Entering into 2000, China's economy has showed encouraging growth, with consumption also improving. Strong growth in exports, coupled with the development of its hi-tech sector, will provide the major momentum for economic growth in the new century, which in turn will bring new investment opportunities to the Group. While continuing to closely monitor the existing projects, the Group will place its future investment priority in the financial services and hi-tech sectors so as to create better results for the shareholders of the Group.

By Order of the Board  
**Zhang Yun Kun**  
*Executive Director*

Hong Kong, 25 September 2000



**CHINA MERCHANTS CHINA DIRECT  
INVESTMENTS LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**INTERIM REPORT**

For the six months ended 30 June 2000

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