



CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

招商局中國基金有限公司

(Incorporated in Hong Kong with limited liability)

Interim Report

For the six months ended 30 June 2001

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 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2001

	NOTES	Six months ended 30 June	
		2001 (unaudited) US\$	2000 (unaudited) US\$
Turnover	3	2,881,152	3,843,033
Gain on disposal of listed investments in securities		728,970	732,579
Other revenue		4,392	15
Administrative expenses		(1,257,040)	(1,211,633)
Unrealised holding loss on listed investments in securities		(1,740)	(1,198,833)
Profit from operations		2,355,734	2,165,161
Share of results of associates		542,524	(12,671)
Profit before taxation		2,898,258	2,152,490
Taxation	5	(75,647)	(62,201)
Profit attributable to shareholders		2,822,611	2,090,289
Earnings per share	6	0.021	0.015
Interim dividend declared of US¢ 0.5 per share		685,728	685,728

There were no recognised gains and losses other than the net profit for the period. Details of the prior period adjustment in respect of the dividend declared on adoption of the Statement of Standard Accounting Practice No. 9 (Revised) “Events after the Balance Sheet Date” are set out in note 9.

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2001

	NOTES	30 June 2001 (unaudited) US\$	31 December 2000 (restated) US\$
Non-current assets			
Interests in associates		11,779,476	11,300,735
Contractual joint ventures		18,938,325	18,938,325
Investments in securities		54,059,696	50,314,765
		84,777,497	80,553,825
Current assets			
Accounts and other receivables	7	1,866,059	1,819,392
Investments in securities		4,414,728	–
Cash and bank balances		34,686,865	40,519,160
		40,967,652	42,338,552
Current liabilities			
Accrued charges		672,502	640,293
Dividend payable		1,097,165	–
Taxation payable		30,819	32,867
		1,800,486	673,160
Net current assets		39,167,166	41,665,392
NET ASSETS		123,944,663	122,219,217
CAPITAL AND RESERVES			
Share capital	8	13,714,560	13,714,560
Share premium		81,525,984	81,525,984
Exchange reserves		130,190	130,190
Retained profits	9	27,888,201	25,751,318
Dividend reserve	9	685,728	1,097,165
		123,944,663	122,219,217
NET ASSET VALUE PER SHARE	10	0.904	0.891

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2001

	<hr/> Six months ended 30 June 2001 <i>(unaudited)</i> US\$ <hr/>
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,614,047
TAXATION	
PRC income tax paid	(12,226)
INVESTING ACTIVITIES	
Acquisition of listed investments in securities	(1,117,488)
Acquisition of unlisted investments in securities	(13,529,825)
Advance to associate	(1,686)
Proceeds from disposal of listed investments in securities	4,618,141
Proceeds from redemption of unlisted investments in securities	2,596,742
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(7,434,116)
NET CASH OUTFLOW BEFORE FINANCING	(5,832,295)
DECREASE IN CASH AND BANK BALANCES	(5,832,295)
CASH AND BANK BALANCES AS AT 1 JANUARY	40,519,160
CASH AND BANK BALANCES AS AT 30 JUNE	34,686,865

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants, except that, in this first year of implementation of the Standard, as permitted by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, no comparative amounts have been presented for the condensed cash flow statement.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Company’s and its subsidiaries’ (the Group’s) annual financial statements for the year ended 31 December 2000, except as described below.

In the current period, the Group has adopted, for the first time, SSAP No. 9 (Revised) issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following revised accounting policy:–

Dividends proposed or declared after the balance sheet date

In accordance with SSAP No. 9 (Revised) “Events after the Balance Sheet Date”, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity on the face of the balance sheet or in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment (see note 9).

3. TURNOVER

Turnover represents the amounts received and receivable on investments for the six months ended 30 June 2001, were as follows:

	Six months ended 30 June	
	2001 US\$	2000 US\$
Interest income	1,087,121	942,146
Income from contractual joint ventures	750,000	737,484
Dividend income from unlisted investments in securities	938,367	2,107,368
Dividend income from listed investments in securities	105,664	56,035
	2,881,152	3,843,033

4. SEGMENTAL INFORMATION

The Group's turnover and contribution to operating profit for the six months ended 30 June 2001, analysed by principal activity and geographical markets, were as follows:

	Six months ended 30 June			
	2001		2000	
	Turnover US\$	Contribution to profit from operations US\$	Turnover US\$	Contribution to profit from operations US\$
Deposits and short-term notes	1,087,121	1,087,121	942,146	942,146
Contractual joint ventures	750,000	750,000	737,484	737,484
Unlisted investments in securities	938,367	938,367	2,107,368	2,107,368
Listed investments in securities	105,664	832,894	56,035	(410,219)
	2,881,152	3,608,382	3,843,033	3,376,779
Other revenue		4,392		15
Administrative expenses		(1,257,040)		(1,211,633)
Profit from operations		2,355,734		2,165,161

4. SEGMENTAL INFORMATION (continued)

	Six months ended 30 June			
	2001		2000	
	Turnover US\$	Contribution to profit from operations US\$	Turnover US\$	Contribution to profit from operations US\$
By geographical market:				
Hong Kong	511,633	1,244,463	407,266	(557,337)
Other regions in the People's Republic of China ("PRC")	2,236,593	2,236,593	3,435,767	3,934,116
Other	132,926	127,326	–	–
	<u>2,881,152</u>	<u>3,608,382</u>	<u>3,843,033</u>	<u>3,376,779</u>
Other revenue		4,392		15
Administrative expenses		(1,257,040)		(1,211,633)
Profit from operations		<u>2,355,734</u>		<u>2,165,161</u>

5. TAXATION

	Six months ended 30 June	
	2001	2000
	US\$	US\$
The profits tax for the period comprises:		
Company and its subsidiaries:		
Hong Kong	–	(889)
Other regions in the PRC	10,178	4,273
	<u>10,178</u>	<u>3,384</u>
Share of taxation on results of associates:		
Other regions in the PRC	65,469	58,817
	<u>75,647</u>	<u>62,201</u>

5. TAXATION (continued)

No Hong Kong profits tax has been provided in the financial statements 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.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	Six months ended 30 June	
	2001	2000
Earnings for the purpose of basic earnings per share (US\$)	2,822,611	2,090,289
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600

7. ACCOUNTS AND OTHER RECEIVABLES

	30 June	31 December
	2001	2000
	<i>US\$</i>	<i>US\$</i>
Amount accrued but not yet due	807,292	1,146,616
0 – 6 months	766,225	19,380
6 – 12 months	20,285	241,616
Total accounts receivable	1,593,802	1,407,612
Interest receivable	257,330	381,931
Deposits and prepayments	14,927	29,849
	1,866,059	1,819,392

The aging of accounts receivable is analysed as follows:

8. SHARE CAPITAL

There were no movements in the share capital of the Company in either the current or the prior interim reporting period.

9. RETAINED PROFITS AND DIVIDEND RESERVE

	30 June 2001 US\$	31 December 2000 US\$
At beginning of period/year as previously reported	25,751,318	23,881,484
Effect of adopting SSAP No. 9 (Revised)	1,097,165	1,097,165
At beginning of period/year as restated	26,848,483	24,978,649
Final dividend for the previous year declared/paid	(1,097,165)	(1,097,165)
Profit for the period/year	2,822,611	3,652,727
Interim dividend paid	-	(685,728)
At end of period/year	<u>28,573,929</u>	<u>26,848,483</u>
Analysed by:		
Retained profits	27,888,201	25,751,318
Dividend reserve	685,728	1,097,165
	<u>28,573,929</u>	<u>26,848,483</u>

10. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the following data:

	<u>30 June</u> <u>2001</u>	<u>31 December</u> <u>2000</u>
Net asset value (US\$)	<u>123,944,663</u>	<u>122,219,217</u>
Number of ordinary shares outstanding	<u>137,145,600</u>	<u>137,145,600</u>

11. LEASE COMMITMENTS

At 30 June 2001, the Group and the Company had no commitment under non-cancellable operating leases (31 December 2000: Nil).

12. COMMITMENTS

At 30 June 2001, the Group had the following commitments:

	<u>30 June</u> <u>2001</u> <u>US\$</u>	<u>31 December</u> <u>2000</u> <u>US\$</u>
Commitments in respect of investment in unlisted securities:		
– contracted for but not provided in the financial statements	723,000	–
– authorised but not contracted for	<u>8,237,000</u>	–
	<u>8,960,000</u>	–

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**Deloitte
Touche
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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 9.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 ("SSAP 25") "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. However, the Listing Rules permit departure from SSAP 25 in that comparative figures are not required for the cash flow statement included in the first interim financial report relating to accounting periods ended on or after 1 July 2000. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards SAS 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2001.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 20 September 2001

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2001, the turnover of China Merchants China Direct Investments Limited and its subsidiaries (the "Group") was US\$2.88 million, representing a 25% decrease against the same period of 2000. The Group achieved profit attributable to shareholders of US\$2.82 million for the period, representing a 35% increase over the same period last year. The drop in turnover was due to the decrease in dividend income from unlisted investments in securities. The decrease in loss on and provisions for investments contributed to the Group's growing net profit for the period. As of 30 June 2001, the net assets of the Group were US\$124 million, with net asset value per share of US\$0.904.

As of 30 June 2001, the Group had total investments of approximately US\$89.19 million, including US\$86.95 million of unlisted investments and US\$2.24 million of listed investments. The major unlisted investment projects are spread through the sectors of financial services (accounting for 41.3% of the Group's net assets); manufacturing (10.7%); infrastructure (8.1%); and real estate (6.0%). The Group had cash and bank balances of US\$34.69 million, accounting for 28.0% of the Group's net assets.

Most of the Group's investments are located in China where the official currency is RMB, which remained stable in the reporting period.

REVIEW OF UNLISTED INVESTMENTS

Financial Services Investments

Financial Services is one of the core investment sectors of the Group. This sector brings stable cash flow and significant capital appreciation to the Group. Since this sector in China is a developing industry with high growth potential, the Group will continue to explore investment opportunities and will likely increase its presence in this sector.

The Group's Financial Services investments are concentrated in the banking and securities industries.

China Merchants Bank Company, Limited ("CMB"), a registered commercial bank in the PRC, is the first joint-stock commercial bank established by mainland enterprises. CMB has over 230 branches and offices across the country. The Group invested US\$13.77 million to acquire a 1.62% stake in CMB. In the first half of 2001, CMB recorded a profit before taxation of RMB780 million, in line with the corresponding period of 2000. CMB has accelerated steps toward an IPO. In order to satisfy all regulations governing the IPO, CMB has started to restructure its business and expects to complete this effort in the near future. We expect an IPO to result in significant capital appreciation. No dividends were distributed for the year 2000, due to a resolution of the 2001 Annual General Meeting.

Fujian Industrial Bank Company, Limited (“FIB”) is a commercial bank registered in the PRC, with over 230 offices throughout the country. The Group first invested in FIB in 1998, in cooperation with the China Merchants Group. In the first half of 2001, the Group acquired an additional 20,000,000 shares, bringing its cumulative stake in FIB to US\$17.6 million, or 2.8%. For the first half of 2001, FIB recorded a profit before taxation of RMB500 million, representing an 87% increase over the same period of 2000. FIB is expanding its business and studying the feasibility of listing its shares. The Group received dividends for 2000 in the amount of US \$0.81 million.

Industrial Securities Company, Limited (“ISCL”) is a comprehensive securities company registered in the PRC. It has 16 offices located in major cities throughout the country, including Beijing, Shanghai, Shenzhen, Wuhan, Fuzhou and Xiamen. The Group invested US\$1.03 million to acquire a 0.74% stake in ISCL. For the first six months of this year, ISCL recorded a profit after taxation of RMB56 million, representing a 67% decrease over the same period of 2000. The Group received dividends for the year 2000 of approximately US\$120,000.

Transportation and Infrastructure Investments

Transportation and Infrastructure is another core investment sector of the Group. These investments continued to generate stable cash flow. As a long-term investment strategy, the Group will continue to explore investment opportunities in this sector, and will invest in projects with strong potential for profit growth and capital appreciation.

Maoming Tongfa Highway Company Limited (“Tongfa”) is a contractual joint venture. The Group invested US\$ 10 million to acquire a 35% stake in Tongfa. In the past few years, Tongfa has generated stable cash flow for the Group. Return on investment has reached 15%.

Manufacturing Investments

Official sources revealed that China experienced GDP growth of 7.8% in the first half of 2001. Although this figure declined slightly from the previous year, it remained much more favorable than for many other countries. The Group’s industrial projects benefited from China’s continuing strong economic growth.

Zhaoyuan Jinbao Electronics Company Limited (“Jinbao”) recorded a turnover of RMB160 million for the first half of 2001, an increase of 2.6% over the same period last year. Profit after taxation was RMB13.25 million, representing year-to-year growth of 11.3%. This improvement was attributed primarily to a combination of increasing turnover and effective cost controls. Also during this period, BOC China Fund, a minor shareholder, sold its entire stake of 15% to Shandong High-Tech Investment Corporation. However, the Group’s stake in Jinbao remains unchanged.

Chengde Wanli Steel Tubes Company Limited (“Wanli”) is another manufacturing holding of the Group. Under the co-operative joint venture contract, the Chinese party was obligated to make payments of US\$5.5 million to the Group through 2001. However, due to financial hardship, the Chinese party had made payments of only US\$3.47 million. Efforts to collect the overdue amount were not successful, and in October 2000, the Investment Manager initiated talks with the Chinese party in order to dispose of the Group’s stake in Wanli. An agreement was reached in July 2001, and the Chinese party consented to buy back the Group’s entire stake in the joint venture for US\$4.76 million-to be paid in three installments-representing an internal rate of return of approximately 12%. The first installment of US\$1.18 million was received on 14 September.

Real Estate Investments

Real Estate is another investment sector of the Group, with holdings distributed among Beijing, Shanghai, Shenzhen and Shandong.

In the first half of 2001, Real Estate has trailed the performance of the Group’s other investment sectors. Although all of the Group’s investments are located in developed and prosperous regions of the PRC, they have lost significant value due to the sluggish real estate market over the past few years. Therefore, the Group has decided to divest from this sector, and to adopt a more conservative approach to potential real estate investments in future.

Beijing Longbao Mansion (“Longbao”) is situated near the Third Ring of Chaoyang District in Beijing. It comprises two 17-storey apartment buildings and an office complex. The Group invested US\$4.98 million for a 35% interest under an agreement with the developer to jointly manage the property. The Group has taken steps, including sale and lease arrangements, to recover its investment cost as soon as possible, but progress has been slow. We expect Beijing’s real estate market to improve since the government will be making large investments in the city in preparation for the 2008 Olympic Games. According to an independent surveyor’s report, the market value of the property at the end of 2000 was higher than the Group’s investment cost.

Shenzhen Mankam Square (“Mankam”) is a 33-storey commercial complex on North Wen Jin Road, Shenzhen. The Group invested US\$4.3 million through a 35% holding in Hansen Enterprises Limited (“Hansen”) to purchase 5,262 sq. m. of retail space on the third floor of Mankam Square. Hansen has taken possession of the property. The Group has already launched a series of sale and lease programs in order to recover its investment cost as soon as possible.

REVIEW OF LISTED INVESTMENTS

Driven by the opening of the B-share market and improvements in corporate earnings, the China Enterprise Index and the Red Chip Index rose by 42% and 12%, respectively, while Hang Seng Index decreased 14% in the first half of 2001. The Group continued to adopt a conservative investment posture and disposed of some China-concept shares during this period. For the first half of the year, the Group recorded a profit of US\$0.83 million from listed investments. In the second half of the year, the Group sees no quick recovery for the local stock market since Hong Kong relies heavily on exports to the U.S., where the economy remains weak. However, China’s anticipated entry into the WTO and its sustained economic growth will help Red Chips and the stocks of some Chinese enterprises outperform the market. As of 30 June 2001, the Group had listed investments valued at US\$2.24 million.

PROSPECTS

In the first half of the year 2001, the global economy has been slowing, the stock market fluctuated, and most industries faced difficulties and challenges. Therefore, the Group adopted a more conservative strategy to new investment projects. The Group will consolidate its investments to improve profitability. Meanwhile, China will enter into the WTO, which will vigorously increase China’s economic activity and initiate a new era of economic development. During this period, we believe that Financial Services, Biotech, Communications and Infrastructure will experience the most rapid growth. We will therefore actively seek investment opportunities in the above sectors. With the China Merchants Group’s full support and assistance, the Group has committed to invest in two securities companies and a newly established insurance brokerage company. Meanwhile, the Group also plans to participate in an intelligent transportation ticketing system project. The above investments are in the approval process of the relevant authorities in the PRC. The total investment amount is about US\$8 million.

We anticipate that the second half of year 2001 will see an even more fluctuating economy worldwide. We will adopt a more active, though conservative, attitude in seeking new investment opportunities that will emphasize higher growth industries that are well positioned to take full advantage of China’s entry into the WTO.

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of US¢0.5 or HK¢3.9 (2000: US¢0.5) per share for the year ending 31 December 2001, which will be paid on 2 November 2001 to shareholders whose names appear on the Register of Members on 12 October 2001.

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 22 October 2001. 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, 10 October 2001 to Friday, 12 October 2001 (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, 9 October 2001.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the period ended 30 June 2001, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

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") as at 30 June 2001, 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 ended 30 June 2001.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company.

Name	Number of ordinary shares
HKSCC Nominees Limited	47,477,760
HSBC Nominees (Hong Kong) Limited	31,301,040
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.

CODE OF BEST PRACTICE

The Company has complied throughout the period from 1 January 2001 to 30 June 2001 with those paragraphs of 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 non-executive directors are not appointed for specific term(s).

By order of the Board
Zhang Yun Kun
Executive Director

Hong Kong, 20 September 2001