



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 2002

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 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

		2002 (unaudited) US\$	2001 (unaudited) US\$
	<i>NOTES</i>		
Turnover	3	1,842,363	2,881,152
Net gain on disposal of listed investments in securities		43,155	728,970
Unrealised holding loss on listed investments in securities		(199,646)	(1,740)
Unrealised holding gain on unlisted investments in securities		8,652,086	–
Write back of impairment loss of contractual joint venture		100,153	–
Other revenue		5,561	4,392
Administrative expenses		(1,334,642)	(1,257,040)
Profit from operations		9,109,030	2,355,734
Finance cost		(107,475)	–
Share of results of associates		135,905	542,524
Profit before taxation		9,137,460	2,898,258
Taxation	5	(26,590)	(75,647)
Profit attributable to shareholders		<u>9,110,870</u>	<u>2,822,611</u>
Earnings per share	6	<u>0.066</u>	<u>0.021</u>
Interim dividend declared of US¢0.5 per share		<u>685,728</u>	<u>685,728</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2002

		30 June 2002 <i>(unaudited)</i> US\$	31 December 2001 <i>(audited)</i> US\$
	<i>NOTES</i>		
Non-current assets			
Interests in associates		16,053,857	11,863,673
Contractual joint ventures		4,980,000	14,980,000
Investments in securities		73,302,300	61,574,453
		<u>94,336,157</u>	<u>88,418,126</u>
Current assets			
Trade and other receivables	7	2,821,993	3,188,563
Pledged bank deposits	12	500,000	2,800,000
Cash and bank balances		39,760,556	40,631,746
		<u>43,082,549</u>	<u>46,620,309</u>
Current liabilities			
Trade and other payables		765,906	3,141,055
Taxation payable		–	17,216
Bank loans, secured		2,114,267	6,451,925
Dividend payable		1,097,165	–
		<u>3,977,338</u>	<u>9,610,196</u>
Net current assets		<u>39,105,211</u>	<u>37,010,113</u>
NET ASSETS		<u>133,441,368</u>	<u>125,428,239</u>
CAPITAL AND RESERVES			
Share capital	8	13,714,560	13,714,560
Reserves		119,726,808	111,713,679
		<u>133,441,368</u>	<u>125,428,239</u>
NET ASSET VALUE PER SHARE	9	<u>0.973</u>	<u>0.915</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*FOR THE SIX MONTHS ENDED 30 JUNE 2002*

	(Unaudited)				
	Share premium	Exchange equalisation	General reserve	Retained profits	Total
	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2002	81,525,984	131,253	744,702	29,311,740	111,713,679
Exchange difference on translation of financial statements of foreign entities	-	(531)	(45)	-	(576)
Net losses not recognised in the income statement	-	(531)	(45)	-	(576)
Net profit for the period	-	-	-	9,110,870	9,110,870
Final dividend declared for 2001	-	-	-	(1,097,165)	(1,097,165)
Balance at 30 June 2002	<u>81,525,984</u>	<u>130,722</u>	<u>744,657</u>	<u>37,325,445</u>	<u>119,726,808</u>
Balance at 1 January 2001	81,525,984	130,190	-	26,848,483	108,504,657
Net profit for the period	-	-	-	2,822,611	2,822,611
Final dividend declared for 2000	-	-	-	(1,097,165)	(1,097,165)
Balance at 30 June 2001	<u>81,525,984</u>	<u>130,190</u>	<u>-</u>	<u>28,573,929</u>	<u>110,230,103</u>

The general reserve represents the General Reserve Fund set aside by a subsidiary in accordance with relevant laws and regulations of the PRC, which is not available for distribution.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	2002 <i>(unaudited)</i> US\$	2001 <i>(unaudited)</i> US\$
OPERATING ACTIVITIES		
Cash (used in) generated by operations	(1,145,671)	1,614,047
Income taxes paid	(3,246)	(12,226)
Interest paid	(105,129)	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(1,254,046)</u>	<u>1,601,821</u>
INVESTING ACTIVITIES		
Advance to an associate	(940)	(1,686)
Acquisition of investment in an associate	(5,000,000)	–
Acquisition of listed investments in securities	(217,527)	(1,117,488)
Acquisition of unlisted investments in securities	(7,732,667)	(13,529,825)
Proceeds from disposal of listed investments in securities	260,683	4,618,141
Proceeds from disposal of contractual joint venture	10,653,765	–
Proceeds from disposal of unlisted investments in securities	4,457,260	2,596,742
Decrease in pledged deposits	2,300,000	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>4,720,574</u>	<u>(7,434,116)</u>
FINANCING ACTIVITIES		
Bank loan repaid	(4,820,820)	–
Bank loan raised	483,261	–
NET CASH USED IN FINANCING ACTIVITIES	<u>(4,337,559)</u>	<u>–</u>
NET DECREASE IN CASH AND BANK BALANCES	(871,031)	(5,832,295)
CASH AND BANK BALANCE AT 1 JANUARY	40,631,746	40,519,160
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(159)	–
CASH AND BANK BALANCE AT 30 JUNE	<u><u>39,760,556</u></u>	<u><u>34,686,865</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2002

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain 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 2001, except as described below.

SSAP 1 (Revised)	Presentation of Financial Statements
SSAP 11 (Revised)	Foreign Currency Translation
SSAP 15 (Revised)	Cash Flow Statements

The new and revised standards have introduced revised disclosure requirements which have been adopted in the condensed consolidated financial statements. Comparative amounts for prior period have been restated in order to achieve a consistent presentation. The adoption of the above standards has had no significant effect on the results for the current or prior accounting periods.

3. TURNOVER

Turnover represents the amounts received and receivable on investments during the period as follows:

	Six months ended 30 June	
	2002	2001
	<i>US\$</i>	<i>US\$</i>
Interest income	449,471	1,087,121
Income from contractual joint ventures	–	750,000
Dividend income from unlisted investments in securities	1,367,695	938,367
Dividend income from listed investments in securities	25,197	105,664
	<u>1,842,363</u>	<u>2,881,152</u>

4. SEGMENTAL INFORMATION

During the period, the Group was principally involved in investing in companies with significant business involvement in the People's Republic of China ("PRC"). Accordingly, no analysis of segment information by principal activity is presented. The Group's turnover and contribution to operating profit analysed by geographical locations, were as follows:

	Hong Kong US\$	The PRC US\$	Unallocated and other locations US\$	Consolidated US\$
For the six months ended 30 June 2002				
TURNOVER				
Group turnover	<u>249,644</u>	<u>1,523,323</u>	<u>69,396</u>	<u>1,842,363</u>
RESULT				
Segment result	93,154	10,275,562	69,396	10,438,112
Other revenue	-	-	5,561	5,561
Unallocated corporate expenses	-	-	(1,334,643)	(1,334,643)
Profit from operations	<u>93,154</u>	<u>10,275,562</u>	<u>(1,259,686)</u>	<u>9,109,030</u>
Finance cost	-	(107,475)	-	(107,475)
Share of results of associates	-	135,905	-	135,905
Profit before taxation	<u>93,154</u>	<u>10,303,992</u>	<u>(1,259,686)</u>	<u>9,137,460</u>
Taxation	(3,246)	(23,344)	-	(26,590)
Profit attributable to shareholders	<u>89,908</u>	<u>10,280,648</u>	<u>(1,259,686)</u>	<u>9,110,870</u>
OTHER INFORMATION				
Write back of impairment loss of contractual joint venture	-	100,153	-	100,153
For the six months ended 30 June 2001				
TURNOVER				
Group turnover	<u>511,633</u>	<u>2,236,593</u>	<u>132,926</u>	<u>2,881,152</u>
RESULT				
Segment result	1,238,863	2,236,593	132,926	3,608,382
Other revenue	-	-	4,392	4,392
Unallocated corporate expenses	-	-	(1,257,040)	(1,257,040)
Profit from operations	<u>1,238,863</u>	<u>2,236,593</u>	<u>(1,119,722)</u>	<u>2,355,734</u>
Finance cost	-	-	-	-
Share of results of associates	-	542,524	-	542,524
Profit before taxation	<u>1,238,863</u>	<u>2,779,117</u>	<u>(1,119,722)</u>	<u>2,898,258</u>
Taxation	-	(75,647)	-	(75,647)
Profit attributable to shareholders	<u>1,238,863</u>	<u>2,703,470</u>	<u>(1,119,722)</u>	<u>2,822,611</u>

5. TAXATION

The profits tax charge (credit) for the period comprises:

	Six months ended 30 June	
	2002	2001
	<i>US\$</i>	<i>US\$</i>
Company and its subsidiaries:		
Hong Kong	3,246	–
Other regions in the PRC	(17,215)	10,178
	(13,969)	10,178
Share of taxation on results of associates:		
Other regions in the PRC	40,559	65,469
	26,590	75,647

Hong Kong profits tax is calculated at 16% (2001:16%) of the estimated 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	
	2002	2001
Earnings for the purpose of basic earnings per share (US\$)	9,110,870	2,822,611
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600

7. TRADE AND OTHER RECEIVABLES

An aging analysis of trade receivables is shown as follows:

	30 June 2002 US\$	31 December 2001 US\$
0–6 months	1,365,391	500,000
7–12 months	–	170,027
Over 12 months	–	20,284
Total trade receivables	1,365,391	690,311
Interest receivable	89,075	120,138
Other receivables	1,367,527	2,378,114
	<u>2,821,993</u>	<u>3,188,563</u>

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. NET ASSET VALUE PER SHARE

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

	30 June 2002	31 December 2001
Net asset value (US\$)	<u>133,441,368</u>	<u>125,428,239</u>
Number of ordinary shares outstanding	<u>137,145,600</u>	<u>137,145,600</u>

10. LEASE COMMITMENTS

At 30 June 2002, the Group and the Company had no commitment under non-cancellable operating leases (31 December 2001: Nil).

11. COMMITMENTS

At 30 June 2002, the Group had the following commitments:

<u>30 June</u> <u>2002</u> <u>US\$</u>	<u>31 December</u> <u>2001</u> <u>US\$</u>
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Commitments in respect of investment in unlisted securities:

authorised but not contracted for	<u><u>1,000,000</u></u>	<u><u>1,000,000</u></u>
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12. BANK LOANS WITH ASSET PLEDGED

At 30 June 2002, the Group's bank deposit of US\$500,000 (31 December 2001: US\$2,800,000) was pledged to a bank for securing a bank loan of RMB4,000,000 (31 December 2001: RMB22,400,000) granted to the Group.

At 30 June 2002, 12,470,000 (31 December 2001: 12,470,000) shares of China Merchants Bank was pledged to a bank for securing a bank loan of RMB13,500,000 (31 December 2001: RMB31,000,000) granted to the Group.

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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. 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 2002.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 19 September 2002

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") recorded a profit attributable to shareholders of US\$9.11 million for the six months ended 30 June 2002, representing an increase of 223% over the same period of 2001. This was attributable to a significant increase in unrealized holding gains on unlisted investments in securities, following the successful listing of an investee company's shares on a PRC stock exchange. As of 30 June 2002, the net assets of the Fund were US\$133 million, with a net asset value per share of US\$0.973, representing a 6.4% increase over the year end value of 2001.

Total turnover for the period fell by 36% to US\$1.84 million (2001: US\$2.88 million). Interest income decreased by 59% due to the successive interest rate cuts of last year. In addition, following the disposal of a contractual joint venture in February of this year, there was no income from this investment for the period (2001: US\$0.75 million).

Unrealized holding gains on unlisted investments in securities for the period were US\$8.65 million (2001: nil), as a result of the successful listing of a Fund's investment – China Merchants Bank – on the Shanghai Stock Exchange on 9 April 2002.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

On 5 February 2002, the Fund disposed of its entire interest in Maoming Tongfa Highway Company Limited for a consideration of RMB88.30 million (equivalent to approximately US\$10.67 million), which was received in full during the period by the Fund.

On 29 May 2002, the Fund entered into an agreement with Orient University City Development Company to form a joint venture in Langfang Development Zone, Hebei Province, PRC, to provide Phase 1 dormitory facilities for students studying in the university city located in the zone. The Fund has injected US\$5 million into the joint venture for an interest of 25%.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

The Fund's working capital increased by 6% to US\$39.11 million as of 30 June 2002 (including net cash of US\$38.15 million), from US\$37.01 million as of 31 December 2001 (including net cash of US\$36.98 million). The increase was due mainly to proceeds from divestments, which exceeded capital outlays for new investments in the period.

During the period, the Fund repaid bank loans of RMB35.90 million (equivalent to US\$4.34 million), reducing the bank loan balance to RMB17.50 million (equivalent to US\$2.11 million). As of 30 June 2002, the Fund's gearing ratio, defined as total borrowing as a percentage of total shareholders' equity, was 1.6% (2001: 5.1%).

As of 30 June 2002, the Fund's capital commitments amounted to US\$1.0 million (2001: US\$1.0 million). This sum is reserved for an investment that has been authorized, but not yet contracted for.

CHARGES ON ASSETS

The Fund's short-term bank loans of RMB4.0 million (equivalent to US\$0.48 million) and RMB13.50 million (equivalent to US\$1.63 million) were secured, respectively, by a pledge of its time deposits of US\$0.50 million and 12.47 million shares of China Merchants Bank.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Fund's investments are located in China where the official currency is Yuan, which remained stable in the reporting period. To partially hedge against currency exchange rate risk, the Fund has arranged for loans in Yuan to fund Yuan-denominated investments.

EMPLOYEES

The Fund has no employees. The Investment Manager handles its portfolio and day-to-day administration.

THE PORTFOLIO

As of 30 June 2002, the Fund had total investments of US\$94.34 million, with US\$93.61 million in unlisted investments and US\$0.73 million in listed investments. The major unlisted investment projects reside in three industry sectors: financial services (accounting for 51.5% of the Fund's net assets), manufacturing (6.5%), and real estate (9.3%). As of 30 June 2002, working capital amounted to US\$39.11 million (including net cash of US\$38.15 million), and accounted for 29.3% of the Fund's net assets.

REVIEW OF UNLISTED INVESTMENTS

Financial Services Investments

Financial services is one of the core investment sectors of the Fund. Recently, Initial Public Offerings ("IPO") have become a trend for financial services companies as a way to raise capital and expand their scale of business. The Fund will continue to explore more financial services investment opportunities, in order to capture the significant capital appreciation brought about by the successful listing of these companies.

The Fund's financial services investments are concentrated in the banking, securities, and insurance brokerage industries.

China Merchants Bank Company, Limited ("CMB") is the first joint-stock commercial bank established by mainland enterprises. CMB has over 301 branches and offices across the country. The Fund invested US\$13.77 million and currently holds a 1.19% stake in CMB (Note: The shareholdings decreased from the original 1.62% due to the dilution effect arising from the bank's IPO). CMB became the fourth mainland bank to go public when it issued 1.5 billion "A" shares at RMB7.30 per share on the Shanghai Stock Exchange on 9 April 2002. In the second-largest A-share IPO in China, CMB's subscription was well received and raised over RMB10 billion. The average stock price of CMB since its listing was over RMB9 per share. The closing price of CMB on 30 June 2002 was RMB11.55 per share. With reference to an independent valuation report on CMB's non-freely-traded shares and for prudence purposes, the Fund recorded an unrealized gain of US\$8.65 million for the period, with a value per share of RMB5.57 as of 30 June 2002. For the first half of 2002, CMB recorded a profit after taxation of RMB915 million, representing a 41.5% increase over the same period of 2001. The Fund received dividends for 2001 in the amount of US\$1.36 million.

Subsequent to its IPO, CMB upgraded its Hong Kong representative office to a branch on 28 August 2002 in a strategic move toward globalization. As the sixth mainland commercial bank with approval to establish business in Hong Kong, CMB is to focus on the wholesale banking business.

Fujian Industrial Bank Company, Limited (“FIB”) is a commercial bank registered in China, with over 252 offices throughout the country. In 1998, the Fund, in cooperation with the China Merchants Group, made an initial investment in FIB, and since then has increased its stake to US\$17.6 million, or 2.80%. For the first half of 2002, FIB recorded a profit before taxation of RMB443 million, representing an 11.2% decrease against the same period of 2001. However, FIB continues to expect that its annual profits for 2002 will be higher than the previous year. It is preparing for an IPO application.

Industrial Securities Company, Limited (“ISCL”) is a comprehensive securities company registered in China, with a presence in securities underwriting, brokerage, proprietary trading and investment consulting. It has over 16 offices in major cities throughout the country, including Beijing, Shanghai, Shenzhen, Wuhan, Fuzhou and Xiamen. The Fund invested US\$1.03 million to acquire a 0.74% stake in ISCL. For the first half of 2002, due to a significant drop in the volume of stock trading and depressed market conditions, the overall performance of mainland securities companies was, in general, unsatisfactory. ISCL recorded a loss of RMB58 million for the period.

China Merchants Securities Company, Limited (“CMSC”), formerly China Communication Securities Company, Limited, changed its name in July 2002. CMSC is a comprehensive securities company registered in China with over RMB2.4 billion in capital. Its businesses include securities underwriting, brokerage, proprietary trading and investment consulting. The Fund invested US\$1.57 million to acquire 12.43 million shares, or a 0.52% stake in CMSC. For the first half of 2002, CMSC recorded a profit after taxation of RMB33.37 million. CMSC’s board of directors is actively preparing to list the company’s shares on a domestic stock exchange.

Jutian Securities Company, Limited (“Jutian”) was formerly Shenzhen Economic Special Zone Securities Company, Limited, and was renamed in April 2002 to conform with the requirements of the Shenzhen Municipal Industrial & Commercial Administrative Bureau. In 2001, the Fund invested US\$4.26 million in the company, representing an interest of 4.66%. Due to a market downturn and lower trading volume on mainland stock markets, Jutian recorded a loss of RMB106 million for the first half of the year. For the same period last year, Jutian had a profit of RMB52.27 million. In response to this decrease, the management is seeking ways to diversify the company’s revenue base.

Houlder China Insurance Brokers Limited (“Houlder”) commenced operations in mid-2001. In addition to completing its internal rules and policies, the management has been striving to explore market opportunities and has obtained a number of important business contracts. For the first six months of this year, Houlder’s revenues were RMB3.83 million, including commissions income of RMB2.42 million. Net profit reached RMB0.18 million. Houlder is expecting better results as the business matures. The Fund invested US\$0.6 million in Houlder in 2001 to acquire a stake of 10%.

Manufacturing Investments

The Fund currently holds a single investment in the manufacturing sector. It is expected that additional investment opportunities will arise now that China has joined the WTO. The Fund will continue to search for investments with growth potential in this sector.

Zhaoyuan Jinbao Electronics Company Limited (“Jinbao”) was substantially affected by a decline in the electronics market. It realized a net profit of RMB3.54 million for the first six month of 2002, representing a decrease of 73% from the same period last year. Gross margin decreased from 26% to 10%. Although market conditions were not as favorable as expected, Jinbao is still exploring the potential of several products to generate future revenue growth. At the same time, Jinbao is seeking additional investors so that its equity structure will fulfill the requirements of conversion to a joint-stock company – a necessary step in order to list at a later stage. The Fund invested US\$7 million in Jinbao, for an interest of 30% in the joint venture.

Real Estate Investments

In response to China's entrance into the WTO and Beijing's hosting of 2008 Olympic Games, the real estate markets in some major mainland cities are showing signs of recovery. However, the Fund is still pursuing a more conservative approach in this sector. It has focused on real estate investments with no construction risk and with stable income. In the reporting period, the Fund invested in a company providing education-facility services.

Langfang Oriental Education Facilities Development Company, Limited ("Oriental") is a Sino-foreign cooperative joint venture. The total investment is US\$20 million with a 20-year contractual period. In June 2002, the Fund invested US\$5 million, for an equity stake of 25%. Oriental is engaged in the operation and management of the Phase 1 dormitories of Oriental University City. The Phase 1 dormitories can accommodate about 15,000 students. Oriental University City is a modern education, science, and technology city with the purpose of "bringing prosperity to the country through science and education." By the time Phase 2 construction is completed in September 2002, Oriental University City will be able to accommodate about 50,000 students.

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 Fund invested US\$4.98 million in 1997 for a 35% interest under an agreement with the developer to jointly manage the property for three years. According to the joint management agreement, the developer was obligated to pay a fixed investment return semi-annually to the Fund during the three-year contractual period. However, the developer failed to make payments in the second year of the contract. Hence, the Fund has filed an application with the relevant authorities to take possession of certain units at Longbao in order to safeguard the interests of the Fund. In the meantime, the Fund is seeking opportunities to liquidate its interest in Longbao and to recover its investment.

Shenzhen Mankam Square ("Mankam") is a 33-storey commercial complex on North Wen Jin Road, Shenzhen. In 1994, the Fund 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. Hansen has encountered delays in selling or leasing the property because the first two floors of Mankam have not yet been brought into use.

REVIEW OF LISTED INVESTMENTS

The world economy stabilized early in the year, following a period of volatility after the 9-11 incident in the US. Subsequently, a wave of accounting scandals at major US corporations drove investors away from stock markets worldwide. Under these market conditions, Hong Kong's Hang Seng Index and Growth Enterprise Index fell by 7% and 11%, respectively, from the beginning to the middle of the year. As a result, the Fund recorded a provision of US\$0.2 million against its listed investments to reflect current market values. For the six months ended 30 June, the net gain from disposal of listed investments was US\$43,000 and dividend income was US\$25,000. Due to the uncertain economic environment, the Fund will continue to pursue a cautious investment strategy, seeking competitive returns while minimizing investment risk. As of 30 June 2002, the Fund had listed shares valued at US\$0.73 million.

PROSPECTS

China's economy is expected to grow by more than 7% this year. However, due to uncertainties in the world economy and an increasingly open domestic market, competition within many industries in the PRC is increasing. In addition, there are few signs of recovery in the PRC's stock markets. With the exception of banking investments, we are cautious about the Fund's performance in the second half of the year. We are therefore seeking new investment opportunities with a primary focus on boosting the Fund's recurring cash income. At the same time, we will continue to look for opportunities to consolidate the existing real estate projects in an effort to improve asset quality and investment returns.

Linda L. Zhou

Managing Director

China Merchants China Investments Management Limited

Hong Kong, 19 September 2002

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of US¢0.5 or HK¢3.9 (2001: US¢0.5) per share for the year ending 31 December 2002, which will be paid on 1 November 2002 to shareholders whose names appear on the Register of Members of 11 October 2002.

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 21 October 2002. 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, 9 October 2002 to Friday, 11 October 2002 (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, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Tuesday, 8 October 2002.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the period ended 30 June 2002, 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

As at 30th June, 2002, the interests of the Directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

<u>Name of Director</u>	<u>Number of shares</u>	<u>Category of Interest</u>
Mr. Victor Lap-Lik Chu	14,400,000	Corporate

Note : Mr. Victor Lap-Lik Chu is deemed to have interest in 14,400,000 shares of the Company in which China Bright Holdings Limited is interested.

Save as disclosed above, 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 SDI Ordinance as at 30 June 2002, 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 2002.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, 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.

<u>Name</u>	<u>Number of Ordinary shares</u>
China Merchants Group 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
China Bright Holdings Limited	14,400,000

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

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not during the period from 1 January 2002 to 30 June 2002 in compliance 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

Huang Dazhan

Executive Director

Hong Kong, 19 September 2002