MANAGEMENT DISCUSSION AND ANALYSIS

The directors of China Merchants Holdings (International) Company Limited (the "Company") are pleased to present the Interim Report and condensed financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001. The consolidated results, consolidated cash flow statement and consolidated statement of recognised gains and losses for the Group for the six months ended 30 June 2001, and the consolidated balance sheet as at 30 June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 13 to 26 of this report.

REVIEW OF OPERATIONS

The Group is positioned to develop its transportation and infrastructure business with the port-related business at the core. The Group's principal business comprises port and port-related business, toll roads business and industrial manufacturing business.

During the first half of 2001, the economy of Hong Kong was recovering slowly whereas the macroeconomic environment in mainland China had largely maintained last year's growth momentum. Due to the economic slowdown in the US, Japan and Europe, in particular in the second quarter of 2001, the growth momentum in import and export of the mainland had been slowing down. Growth in throughput at Shenzhen's ports had decelerated, whereas there was no growth in throughput in Hong Kong. In view of this adverse market environment, the Group was still able to achieve satisfactory results through various active measures, including in particular, continuously acquiring high quality assets, integrating existing port resources, improving asset quality, alleviating business risks, consolidating internal management, and broadening sources of income and reducing expenditure. For the first half of this year, the Group recorded a consolidated profit after tax and minority interests of HK$561,900,000, representing an increase of 41.2% as compared to HK$398,000,000 in the first half of last year. The turnover for the first half of this year was HK$641,400,000, representing a decrease of 13.5% as compared to HK$741,200,000 in the first half of last year. Earnings per share for the first half of 2001 was HK 27.38 cents, representing an increase of 40.3% as compared to HK 19.51 cents for the same period last year.

The substantial increase in consolidated profit for the first half of 2001 was primarily attributable to two factors: first, profit contribution had increased considerably as market opportunities on existing projects were captured and proactively explored under strengthened management. Moreover, the Group had successfully acquired and invested in various new projects since January of last year, some of which had made immediate contributions to the profit growth of the Group.

The series of acquisitions and investments made by the Group from January 2000 to the first half of this year (as set out below) were all related to the core business of the Group and have thus reinforced the strengths of the Group in port and toll road assets. These projects have not only made contributions to the Group's profits, but have also helped to lay a strong foundation for the Group's future development:

1. In January 2000, the Group acquired a 20.8% interest in China Merchants Shekou Holdings Co. Ltd. ("Shekou Holdings"). As Shekou Holdings issued an additional 80 million A shares last year, the interest currently held by the Group in Shekou Holdings dropped to 18.6%;

2. In February 2000, the Group acquired, through its joint venture with Modern Terminals Limited ("MTL"), a 20% interest in Shenzhen Kaifeng Terminals Limited ("Kaifeng Terminals");

3. In June 2000, the Group acquired a 13% interest in each of Western Harbour Tunnel Co. Ltd. and Hong Kong Tunnels and Highways Management Co. Ltd. and at the same time disposed of a 15.25% interest in China Southern Glass Holdings Co. Ltd.;

4. In June 2000, the Group acquired a 60% interest in Zhejiang Yuyao Expressway;

5. In July 2000, the Group and Shenzhen Chiwan Wharf Holdings Ltd. jointly won the tender for Berth No. 8 of Shenzhen Mawan Port, in which the Group held a 49% interest;

6. In October 2000, the Group completed its acquisition of a 49% interest in Zhangzhou China Merchants Port Co. Ltd. ("Zhangzhou CM Port");

7. In February 2001, the Group acquired an additional 1.8% interest in MTL;

8. In mid-April 2001, the Group successfully completed the acquisition of a 23.9% interest in China Everbright Pacific Limited and, as a result, the Group now strategically holds a 33% interest in Shenzhen Mawan Haixing Harbour; and

9. At the end of June 2001, the Group successfully completed the privatisation of Ming Wah Universal (Bermuda) Co. Ltd. ("Ming Wah Bermuda"), a company listed in Singapore, in which the Group held a 75% interest. The privatisation has helped to enhance the Group's equity interest.

In addition, the Group has invested in CMF Technology Fund I Ltd. in March 2001, in which the Group has a 46.5% interest.

Details of the operation management and operation results of the Group's various businesses are as follows:

Port and port-related business

Turnover for the port and port-related business of the Group for the first half of 2001 was HK$272,500,000, representing an increase of 20.1% from HK$227,000,000 in the first half of 2000. Consolidated profit after tax and minority interests for the first half of this year was HK$311,400,000, representing an increase of 26.9% from HK$245,400,000 in the first half of 2000.

The Group's port and port-related business includes: port service business which consists of container terminal business, bulk and general cargo terminal business, port transportation and air freight business; and shipping business which primarily comprises transportation business undertaken by the Aframax oil tankers. Their respective results are described below:

Port service business

The Group's port service business is mainly operated by MTL, China Nanshan Development (Group) Incorporation ("CND"), Shekou Container Terminal Limited ("SCTL"), Shekou Holdings, Kaifeng Terminal, Zhangzhou CM Port and Asia Airfreight Terminal Company Limited ("AAT"), etc. Consolidated profit after tax and minority interests of this business in the first half of 2001 was HK$169,800,000, representing an increase of 7.9% as compared with consolidated profit of HK$157,300,000 for the same period of last year. The increase in consolidated profit was primarily attributable to the additional interest held by the Group in MTL and an increased profit contribution from projects including Shekou Holdings and AAT, etc. The volume of containers handled by the Group's Shenzhen western ports showed an overall increase of 22.8% as compared with the same period last year, representing approximately 45% of the market share.

For the six months ended 30 June 2001, the Group held a 22.1% interest in MTL, making the Group the second largest shareholder of MTL. MTL is mainly engaged in providing container-handling services. During the first half of 2001, MTL handled 1,595,000 TEUs in terms of container throughput, representing an increase of 12.9% as compared to 1,413,000 TEUs during the same period last year. Due to MTL's vigorous initiatives in market exploration and the top quality service it provides, MTL has witnessed growth in its container-handling volume despite the overall stagnant Hong Kong port market. This growth has allowed MTL to gradually enlarge its market share in the Hong Kong port market.

For the six months ended 30 June 2001, the Group held a 32.5% interest in SCTL, making the Group the largest shareholder of SCTL. SCTL engages in container loading and unloading, freight forwarding agency, container land transport, barges and feeder services. During the first half of this year, the Group achieved a container throughput of 389,000 TEUs, representing an increase of 23.1% over that of 316,000 TEUs during the same period last year.

For the six months ended 30 June 2001, the Group held a 28.5% interest in CND, making the Group the largest shareholder of CND. CND mainly engages in port loading and unloading services, warehousing and transportation, petroleum services and real estate development. In the first half of this year, CND has handled 369,000 TEUs in terms of container throughput, representing an increase of 20.2% compared with 307,000 TEUs in the same period last year.

For the six months ended 30 June 2001, the Group held a 18.6% interest in Shekou Holdings. As the Group's flagship company listed in mainland China, Shekou Holdings is involved in a wide range of businesses, including port business, public utilities business such as the provision of water and power, real estate development and petroleum and chemicals businesses, etc. During the first half of this year, the container terminals operated by Shekou Holdings achieved a throughput of 161,000 TEUs, representing an increase of 10.9% as compared with 145,000 TEUs during the same period last year.

For the six months ended 30 June 2001, the Group held a 49% interest in Zhangzhou CM Port, and is responsible for the operation and management of the Zhangzhou Port. Being the port located closest to Taiwan, Zhangzhou port is of significant strategic importance and has significant economic potential after the adoption of the "Three Links" policy between the mainland and Taiwan. During the first half of this year, the cargo throughput of the port increased greatly when compared with that of last year, reflecting a satisfactory growing trend.

For the six months ended 30 June 2001, the Group held a 20% interest in AAT. AAT is one of the only two exclusive licensees appointed by The Hong Kong Airport Authority to provide airfreight cargo terminal services at the Hong Kong International Airport. AAT provides carriers with services including customs management and clearance, physical goods handling, document preparation, special cargo handling services. Due to the impact on Hong Kong's airfreight market by the economic slowdown of the United States, the cargo handling volume of AAT dropped for the first time. The cargo handled by AAT during the first half of this year amounted to 169,000 tonnes, representing approximately 20% of market share in Hong Kong and a decrease of 5% as compared to 178,000 tonnes of last year.

Shipping business

The Group's shipping business is operated by Ming Wah Bermuda. As the Group privatised Ming Wah Bermuda in the first half of 2001, the Group held 100% interest in Ming Wah Bermuda as at 30 June 2001 which currently owns 7 Aframax oil-tankers with a total tonnage of 660,000 tonnes.

Turnover for the Group's shipping business amounted to HK$272,500,000 for the first half of this year, representing an increase of 20.1% from HK$227,000,000 for the same period last year. Consolidated profit after tax and minority interests amounted to HK$141,600,000, representing an increase of 60.8% over the consolidated profit of HK$88,000,000 for the first half of last year. The increase in both turnover and profit for the oil-tanker business was primarily attributable to the increase in charter fees in oil-tankers. Due to the Company's reasonably attractive arrangement of short-term and long-term charters, the Group is not only able to secure steady revenue of charter fees in times of sluggish market demand, but is also able to benefit from the rising rentals when the market picks up. Moreover, appropriate cost control and interest cuts have also contributed to the profit growth and the privatisation completed in June has increased the ratio of profit sharing.

Toll road business

Turnover for the Group's toll road business was HK$15,200,000 for the first half of this year, representing a decrease of 89.0% as compared to HK$137,900,000 for the first half of last year. Consolidated profit after tax and minority interests for the first half of 2001 amounted to HK$118,800,000, representing an increase of 49.0% as compared to HK$79,700,000 for the first half of last year. The decrease in turnover for the Group's toll road business was mainly attributable to the fact that Guiliu Joint Ventures and Guihuang Joint Ventures were recorded in the Group's accounts as jointly controlled entities under the new terms of the joint venture contracts. The newly acquired Zhejiang Yuyao Expressway also credits its profit as a jointly controlled entity of the Group under terms of its joint venture contract and its turnover is not consolidated in the Group's accounts. Hence, the significant downfall in turnover of the toll road business was due mainly to this different accounting handling method. Generally speaking, the traffic volume for the Group's toll roads showed an average increase of 11.5% over that of last year, and there was an average increase of 15.2% in turnovers. The growth in profit was due mainly to an increased profit contribution from Guiliu and Guihuang. The new profit sharing arrangement had increased the share of profit of the Group and at the same time, had enlarged the profit contributions of Zhejiang Yuyao Expressway.

The Group currently holds certain interests in eight toll roads and a number of bridges in mainland China, amounting to a total mileage of 482 kilometres. The Group has substantially resolved the problem of guaranteed returns and has thus greatly reduced the related risks. The emphasis should be on the strengthening of the toll road business management and the exploration of high quality projects. At the same time, the following effective measures adopted by the Group have greatly enhanced and upgraded the management efficiency and budget controls: recapturing the managing panel and the appointment of senior executives to impose direct supervision on various projects; exercising tighter controls over operating costs by strengthening budgetary controls in order to increase income and reduce expenditure; recruiting more talented professionals with expertise for road management; introducing the practice of professional management; establishing and perfecting various regulatory systems and incentive mechanisms; improving the automatic surveillance systems; and strengthening internal audit capability. These measures have led to a steady growth in the traffic volume for these roads, thus raising their incomes to a great extent and improving the economic efficiency of these projects and the overall efficiency of the Group's toll road business.

Industrial manufacturing business

The Group's turnover for industrial manufacturing operations was HK$339,900,000 for the first half of this year, a decrease of 5.9% from HK$361,300,000 for the corresponding period of last year. Consolidated profit after tax and minority interests for the first half of this year was HK$109,700,000, showing an increase of 8.0% when compared with HK$101,500,000 for the first half of last year.

The industrial manufacturing business of the Group comprises paint manufacturing business and container manufacturing business, which are reviewed below respectively:

Paint Manufacturing Business

The turnover of the Group's paint manufacturing business was HK$339,900,000 for the first half of this year, representing a decrease of 5.9% from HK$361,300,000 for the same period of last year. Consolidated profit after tax and minority interests for the first half of this year was HK$22,400,000, representing a decrease of 38.8% over HK$36,600,000 in the first half of last year. The decline in turnover and profit was due mainly to the decrease in container production in mainland China, which reduced the demand for container paint.

Container Manufacturing Business

The Group's container manufacturing business recorded a consolidated profit after tax and minority interests of HK$87,300,000 for the first half of this year, representing an increase of 63.3% from HK$53,400,000 in the first half of last year.

As at 30 June 2001, the Group held a 27.3% interest in China International Marine Containers (Group) Ltd. ("CIMC"). CIMC has been the world's largest container manufacturer for five consecutive years. CIMC sold a total number of 264,000 standard 20 feet containers in the first half this year, a decrease of 14.8% as compared to the 310,000 containers sold in the first half of last year. The demand for containers in the first six months of 2001 has decreased due to the economic slowdown in the US and the slow growth of the import and export business of mainland China. As the orders fulfilled last year were generally at a good price, CIMC was still able to record great profit growth despite such an adverse market environment by means of effective cost control and increasing the market share for high value-added frozen containers and special purpose containers, which recorded profit increases of 41.0% and 41.2% respectively and have become CIMC's new source of profit growth.

PROSPECTS

Looking forward to the second half of this year, though the economy of Hong Kong will still remain on a slow recovery path, the economy of mainland China will maintain a satisfactory growth, particularly after its successful bid to hold the 2008 Olympic Games and its possible entry to the WTO by the second half of this year. All these favorable factors will facilitate the increase in internal demand and healthy economic growth of mainland China, which will bring more opportunities to the Group's various business sectors. Although the Group's ports will be affected by the US economic downturn and the decrease in the rate of growth in import and export business, such impact will not be significant since the ports of the Group are already operating in full capacity and the terminals under construction will only become operational in one to two years' time. The Board of Directors expects in the second half of this year, the Group's port and port-related business growth will slow down; industrial manufacturing business will perform slightly worse than last year; toll road business will be able to maintain steady growth and bring encouraging cash returns to the Group. At the same time, the Group will continue to capitalise on its broad connections in Hong Kong, mainland China and foreign countries to actively explore new projects and acquire high quality related assets based on the Group's clear business positioning, with a view to expanding its assets infrastructure and obtaining sustained profit growth. With the assimilation of risks and other uncertain factors brought by guaranteed returns from toll road projects, the Group is now heading for a healthy development path. The Group is committed to seizing the great opportunities brought by mainland China's sustainable economic growth and its possible accession to the WTO will help to provide shareholders with added value and investors with good returns.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Company has issued 2,054,172,388 shares as at 30 June 2001. During the period, 4,150,000 shares were issued on exercise of share options from which HK$21,000,000 was received.

As at 30 June 2001, the Group's outstanding bank loans were HK$728,000,000, of which HK$410,000,000 was made up of bank loans due within one year and short-term credits. The Group's bank loans were reduced by HK$217,000,000 compared to with the year end of last year as the Group has repaid a portion of its bank loans. Of the Group's outstanding loans, HK$222,000,000 was secured by the Group's ships and the income derived from such ships and their insurance. The remaining outstanding loans, HK$506,000,000, was made up of unsecured and unguaranteed bank loans.

The outstanding convertible bonds which carry a fixed rate of 7% p.a. and due in April 2004 amounted to HK$310 million. No convertible bonds have been exercised during the period.

The net debt equity ratio of the Group remained at the same net cash level as at the end of 2000. The Group's gross debt ratio is 9.5%, a significant decrease from 12% of last year.

The bank loans and convertible bonds are dominated either in HK dollar or US dollar and therefore the Company has no financial instruments to hedge those liabilities with stable currency.

The Group's daily operations and investments were funded by cash generated from internal operations, dividends paid by associates and cash returns. In view of the Group's available cash flow and operating capital, the Board believes that the Group has adequate internal funds for business operations and for the repayment of due loans.

EMPLOYEES AND REMUNERATION POLICIES

For the six months ended 30 June 2001, the Group has a total of 700 full time staff, of whom 80 are working in Hong Kong and the other 620 in mainland China. The Group regularly reviews the remuneration and pay rises of its employee in line with the labour market and the local economic situation. The Group also provides employees with internal training and rewards them with bonuses according to their performance and the Group's profitability, so as to reward and encourage staff to make contributions to the Group.

The Group has also set up a share option scheme pursuant to which employees of the Group can be granted options to subscribe for the Company's shares. Details of the share option scheme were set out in the Group's 2000 annual report.

PAYMENT OF INTERIM DIVIDEND

The directors have declared an interim dividend of HK7.0 cents per share (2000: HK5.0 cents per share) for the six months ended 30 June 2001, payable on 23 October 2001 to shareholders whose names appear on the Register of Members of the Company on 19 October 2001.

CLOSURE OF REGISTER

The Register of Members will be closed from 15 October 2001 to 19 October 2001 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers and the relevant share certificates must be lodged with the Company's Registrars, Central Registration Hong Kong Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 12 October 2001.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30 June 2001, the interests of the directors and the chief executive of the Company in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

(a) The following directors hold ordinary shares of HK$0.10 each in the Company:

	Number of Shares
Mr. Zhao Huxiang	30,000
Mr. Wu Shi Rong	350,000
Mr. Lee Yip Wah Peter	60,000

(b) The following directors hold options to subscribe for shares in the Company pursuant to the share option scheme adopted by the Company on 26 June 1992:

			Exercisable period		Exercise price per share	Number of shares subject to Options		
Name		Date of grant	From	To	*(HK$)*	Granted	Exercised	Balance as at 30/6/2001
1.	Dr. Fu Yuning	01/03/2000	8 January 2001	25 June 2002	5.054	2,500,000	500,000	**2,000,000**
2.	Mr. Wu Shi Rong	01/03/2000	1 March 2000	25 June 2002	5.054	1,950,000	350,000	**1,600,000**
3.	Mr. Zhou Qifang	19/09/2000	not applicable#	not applicable#	5.615	350,000	0	**350,000**
4.	Mr. Zhao Huxiang	01/03/2000	1 March 2000	25 June 2002	5.054	2,000,000	530,000	**1,470,000**
5.	Mr. To Wing Sing	01/03/2000	1 March 2000	25 June 2002	5.054	1,150,000	830,000	**320,000**
6.	Mr. Yu Liming	01/03/2000	8 January 2001	25 June 2002	5.054	350,000	0	**350,000**

Under the terms of the share option scheme, a director or employee may only exercise share options granted after he has completed two years' full-time service with the Group. As Mr. Zhou Qifang would not have completed the required term of service by the expiry date of the share option scheme on 25 June 2002, Mr. Zhou Qifang will not be able to exercise the share options granted under the existing terms of the share option scheme.

Other than the shares and the share options set out above, none of the directors or the chief executive of the Company had any interest in the securities of the Company or any associated corporation (within the meaning of the SDI Ordinance) which (i) would be required to be entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance; or (ii) would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the interests of every person, other than a director of the Company, in the issued shares of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance were as follows:

	Ordinary Shares held	Percentage of total issued shares
Cheer Far Development Limited	510,513,584	24.85%
China Merchants Holdings (Hong Kong) Company Limited	1,026,429,584 *	49.97%
China Merchants Steam Navigation Company Limited	1,026,429,584 **	49.97%
China Merchants Holdings Company Limited	1,072,589,351 ***	52.22%

* *The 1,026,429,584 shares beneficially held by China Merchants Holdings (Hong Kong) Company Limited ("CMHK") represent the aggregate of 510,513,584 shares held by Cheer Far Development Limited ("Cheer Far"), 153,533,590 shares held by Blue Sky International Investments Limited ("Blue Sky"), 141,942,410 shares held by China Merchant Union (BVI) Limited ("CMU"), 120,000,000 shares held by Shinning Hope Limited ("Shinning Hope"), 100,000,000 shares held by Bluewater International Investments Limited ("Bluewater") and 440,000 shares held by Hoi Tung Marine Machinery Suppliers Limited ("Hoi Tung"). Cheer Far, CMU, Blue Sky, Shinning Hope, Bluewater and Hoi Tung are all wholly-owned subsidiaries of CMHK. By virtue of the SDI Ordinance, CMHK was deemed to be interested in 1,026,429,584 shares of the Company.*

** *CMHK is a wholly-owned subsidiary of China Merchants Steam Navigation Company Limited ("CMSN"). By virtue of the SDI Ordinance, CMSN was deemed to be interested in 1,026,429,584 shares of the Company.*

*** *The 1,072,589,351 shares in which China Merchants Holdings Company Limited ("CMH") had an interest represent the aggregate of 1,026,429,584 shares in which CMSN had an interest and 46,159,767 shares held by Orienture Holdings Company Limited ("Orienture"). CMSN and Orienture are both wholly-owned subsidiaries of CMH. By virtue of the SDI Ordinance, CMH was deemed to be interested in 1,072,589,351 shares of the Company.*

Apart from the foregoing, as at 30 June 2001, no person or corporation had any interest in the shares of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance as having an interest in 10 per cent. or more of the issued shares of the Company.

PRACTICE NOTE 19 TO THE LISTING RULES

The Group has certain bank loan facilities, throughout the continuance of which, CMH, the controlling shareholder of the Company holding 52.22% of the issued shares of the Company as at 30 June 2001, is required to maintain directly or indirectly a particular percentage of the issued voting shares of the Company. Details of the bank loan facilities utilised as at 30 June 2001 and the performance obligation of CMH are disclosed below in accordance with paragraph 3.9 of Practice Note 19 to the Listing Rules:

Bank loan facility	**Percentage of the issued voting share capital of the Company required to be held by CMH**
US$15,000,000 wholly repayable on 5 October 2001	At least 51%
US$20,000,000 wholly repayable on 7 March 2002	More than 50%
US$18,300,000 repayable by 8 equal semi-annual instalments commencing 31 December 2001	More than 50%

Save as disclosed above, there is no other disclosure required to be made by the Company pursuant to Practice Note 19.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 June 2001.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2001 with the directors.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30 June 2001, the Company and its subsidiaries did not purchase, sell or redeem any of its securities.

On behalf of the Board
Dr. Fu Yuning
Chairman

Hong Kong, 18 September 2001