CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

招商局中國基金有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 133)

ANNOUNCEMENT OF 2006 INTERIM RESULTS

FINANCIAL 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 2006 as follows:

CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	US$	*US$*
Turnover *(Note 3)*	**1,988,805**	2,754,882
Net gain on disposal of financial assets at fair value through profit and loss	**539,329**	18,421
Increase in fair value of financial assets at fair value through profit and loss	**20,054,251**	3,512,551
Other income	**392,211**	5,603
Administrative expenses	**(1,748,891)**	(1,535,550)
Share of results of associates	**936,409**	295,993
Profit before taxation	**22,162,114**	5,051,900
Taxation *(Note 4)*	**(2,967,326)**	(664,206)
Profit attributable to shareholders	**19,194,788**	4,387,694
Earnings per share *(Note 5)*	**0.140**	0.032

CONSOLIDATED BALANCE SHEET

	30 June	31 December
	2006	2005
	(unaudited)	(audited)
	US$	*US$*
Non-current assets		
Interests in associates	**16,580,930**	16,062,662
Financial assets at fair value through profit and loss	**136,705,168**	118,263,568
Other investments in financial assets	**5,698,357**	5,698,157
	158,984,455	140,024,387
Current assets		
Other receivables	**589,050**	81,143
Cash and bank balances	**20,567,621**	17,354,211
	21,156,671	17,435,354
Current liabilities		
Other payables	**1,669,344**	1,302,222
Taxation payable	**31,547**	65,477
	1,700,891	1,367,699
Net current assets	**19,455,780**	16,067,655
Total assets less current liabilities	**178,440,235**	156,092,042
Non-current liability		
Deferred taxation	**12,353,174**	9,421,080
Net assets	**166,087,061**	146,670,962
Capital and Reserves		
Share capital	**13,714,560**	13,714,560
Reserves	**152,372,501**	132,956,402
Total Capital and Reserves	**166,087,061**	146,670,962
Net asset value per share *(Note 6)*	**1.211**	1.069

Notes:

1. **Basis of Preparation**

   The interim financial report has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

   The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

   In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

   Potential impact arising from the recently issued accounting standards

   The Group has not early applied the following new HKFRSs that have been issued but are not yet effective and are pertinent to the operations of the Group. The Group considers that it is not yet in a position to reasonably ascertain how the following new HKFRSs may affect the preparation and presentation of the results of operations and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK (IFRIC) – INT 9	Reassessment of embedded derivatives[2]

   [1] Effective for accounting periods beginning on or after 1 January 2007.

   [2] Effective for accounting periods beginning on or after 1 June 2006.

3. **Turnover**

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

	Six months ended 30 June	
	2006	2005
	US$	*US$*
Interest income	**334,299**	489,836
Dividend income	**1,654,506**	2,265,046
	1,988,805	2,754,882

4. **Taxation**

	Six months ended 30 June	
	2006	2005
	US$	*US$*
The tax charge for the period comprises:		
The Company and its subsidiaries		
Current tax		
Hong Kong	**–**	–
Other regions in the PRC	**35,232**	–
	35,232	–
Deferred taxation	**2,932,094**	664,206
	2,967,326	664,206

   No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries had no assessable profits for both periods.

   PRC profits tax is calculated at 15% on the estimated assessable profits for the period and there were no PRC assessable profits in prior year.

5. The calculation of earnings per share is based on the profit attributable to shareholders for the period of US$19,194,788 (2005: US$4,387,694) and 137,145,600 (2005: 137,145,600) ordinary shares currently in issue.

6. The calculation of net asset value per share is based on the net asset value of US$166,087,061 (31 December 2005: US$146,670,962) and 137,145,600 (31 December 2005: 137,145,600) ordinary shares currently in issue.

7. **Movements in reserves**

	Six months ended 30 June	
	2006	2005
	US$	*US$*
At 1 January	**132,956,402**	125,315,978
Exchange difference on translation of financial statements of foreign entities not recognised in income statement	**221,311**	(29,921)
Profit for the period	**19,194,788**	4,387,694
Prior year final dividends	**–**	(960,019)
At 30 June	**152,372,501**	128,713,732

REVIEW AND PROSPECTS

Overall Performance

The Group recorded a profit attributable to shareholders of US$19.19 million for the six months ended 30 June 2006, representing an increase of 337% over the same period of 2005. This was attributable to a significant increase in the fair value of financial assets at fair value through profit and loss (the "financial assets"). As of 30 June 2006, the net assets of the Group were US$166 million (31 December 2005: US$147 million), with a net asset value per share of US$1.211 (31 December 2005: US$1.069).

Total turnover for the period decreased by 28% to US$1.99 million (2005: US$2.75 million). This was due to the decrease in dividend income from Industrial Bank.

During the period under review, the increase in fair value of the financial assets amounted to US$20.05 million (2005: US$3.51 million). This was attributable to the favourable revaluation of both China Merchants Bank and Industrial Bank whose values increased by US$6.44 million and US$13.03 million respectively.

Material Acquisitions and Disposals of Investments

During the period under review, the Group had no material acquisitions of investments.

On 30 June 2006, the Group entered into a share transfer agreement to dispose of its 10% equity interest in Houlder China Insurance Brokers Limited to China Merchants Financial Services Limited, a connected person of the Company, at a consideration of US$625,039 in cash. The transaction was then completed on 31 July 2006. The Group recorded a loss of approximately US$26,282 from the transaction.

On 25 July 2006, the Group entered into a share transfer agreement with two independent third parties to dispose of its 30% equity interest in Chenzhou Heshang Environmental Protection Company Limited at a total consideration of RMB18.5 million. In addition, as part of the transaction, the Group will receive a full repayment of shareholder's loan of RMB10.5 million. The transaction is expected to be completed in October 2006.

Liquidity, Financial Resources, Gearing and Capital Commitments

Cash and bank balances increased by 19% from US$17.35 million as of 31 December 2005 to US$20.57 million as of 30 June 2006. The increase was due to the reduction in listed investments.

As of 30 June 2006, the Group had no outstanding bank loans or capital commitments.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Starting from middle of 2005, China has changed its exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The RMB is no longer pegged solely to the USD. It is expected that gradual appreciation of the RMB would continue. Since most of the Group's investments and assets are located in China and denominated in the RMB, the appreciation of the RMB is expected to continue benefiting the Group.

Employees

Other than a qualified accountant whose remuneration is borne by the Investment Manager, the Group has no employees. The Investment Manager handles the portfolio and day-to-day administration of the Group.

The Portfolio

As of 30 June 2006, the Group had total investments of US$158.98 million which consisted of US$150.55 million (90.6% of the Group's net assets) in unlisted investment projects, US$1.76 million (1.1%) in listed shares, and US$6.67 million (4.0%) in bonds/notes. The majority of the Group's unlisted investment projects resides in financial services (80.6% of the Group's net assets), with the rest in manufacturing, real estate, educational facilities and environmental protection facilities (totalling 10.0%). As of 30 June 2006, net cash amounted to US$20.57 million, accounting for 12.4% of the Group's net assets.

Prospects

In the first half of 2006, China recorded a year on year economic growth of 10.9%, representing an increase of 0.9 percentage points over the same period last year. It is anticipated that the positive effects of the macro-economic control measures continue to materialise in the second half of the year, and China economy will keep its growing trend. As China is experiencing a persistent and promising economic growth and the domestic stock market is pursuing a persistent reform, all of those could boost the performance of the Group's financial services projects, which already accounted for a significant portion of the Group's portfolio. On the other hand, the Group continues to strive for seeking investment projects with low risk and stable returns. Also, the Group will make effort to increase its distributable profits.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the year ending 31 December 2006 (2005: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the period ended 30 June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE

The interim results have been reviewed by the Company's external auditors in accordance with Statement of Auditing Standards 700, "Engagements to Review Interim Financial Reports", issued by the HKICPA, whose independent review report is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Company's Audit Committee.

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the reporting period except as stated below:

According to the Investment Management Agreement, the portfolio and day-to-day administration of the Company are handled by the Investment Manager. The Company also has no salaried employees. Thus, no remuneration committee has been established by the Company and it is appropriate to remain holding board meeting twice a year at a minimum.

Further, the Chairman, Dr. Fu Yuning, has given an apology for not hosting the Annual General Meeting of the Company held on 30 May 2006, due to an overseas business trip.

The Company has adopted codes of conduct regarding securities transactions by Directors set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. On specific enquiries made, all Directors have confirmed that, in respect of the reporting period, they have complied with the required standard set out in the Model Code regarding Directors' securities transactions.

By order of the Board
Xie Kuixing
Executive Director

Hong Kong, 21 September 2006

As at the date hereof, the Board of Directors of the Company comprises ten Directors, of which five are Executive Directors, namely Dr. Fu Yuning, Dr. Huang Dazhan, Mr. Chu Lap Lik, Victor, Mr. Xie Kuixing and Mr. Tse Yue Kit; and two are Non-executive Directors, namely Mr. Wang Xingdong and Mr. Gong Jianzhong; and three are Independent Non-executive Directors, namely Dr. The Hon. David Li Kwok-po, Mr. Kut Ying Hay and Dr. Poon Kwok Lim, Steven. In addition, Ms. Kan Ka Yee, Elizabeth is the Alternate Director to Mr. Chu Lap Lik, Victor, Mr. Li Kai Cheong, Samson is the Alternate Director to Dr. The Hon. David Li Kwok-po, and Mr. Mok Hay Hoi is the Alternate Director to Dr. Poon Kwok Lim, Steven.