



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)

Interim Report

For the six months ended 30 June 2006

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Dr. FU Yuning* (*Chairman*)
 Dr. HUANG Dazhan*
 Mr. CHU Lap Lik, Victor*
 Mr. XIE Kuixing*
 Mr. TSE Yue Kit
 Ms. KAN Ka Yee, Elizabeth*
 (*alternate to Mr. CHU Lap Lik, Victor**)

Independent Non-executive Directors:

Dr. The Hon. David LI Kwok-po
 Mr. KUT Ying Hay
 Dr. POON Kwok Lim, Steven
 Mr. LI Kai Cheong, Samson
 (*alternate to Dr. The Hon. David LI Kwok-po*)
 Mr. MOK Hay Hoi
 (*alternate to Dr. POON Kwok Lim, Steven*)

Non-executive Directors:

Mr. WANG Xingdong*
 Mr. GONG Jianzhong*

* members of Investment Committee

AUDIT COMMITTEE

Dr. The Hon. David LI Kwok-po
 Mr. KUT Ying Hay
 Mr. WANG Xingdong

INVESTMENT MANAGER

China Merchants China Investment Management Limited

1803 China Merchants Tower,
 Shun Tak Centre,
 168-200 Connaught Road Central,
 Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
 (Asia) Limited
 China Merchants Bank Company, Limited
 Bank of China (Hong Kong) Limited
 Dah Sing Bank, Limited

COMPANY SECRETARY

Mr. Peter Y. W. Lee

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Linklaters
 Victor Chu & Co

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

46th Floor, Hopewell Centre,
 183 Queen's Road East,
 Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1803 China Merchants Tower,
 Shun Tak Centre,
 168-200 Connaught Road Central,
 Hong Kong

Stock Code: 0133.HK
 Web-site: www.cmcdi.com.hk

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)	<i>(unaudited)</i>
	NOTES	US\$	US\$
Turnover	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	5	22,162,114	5,051,900
Taxation	6	(2,967,326)	(664,206)
Profit attributable to shareholders		19,194,788	4,387,694
Earnings per share	7	0.140	0.032

CONSOLIDATED BALANCE SHEET

		30 June 2006 (unaudited) US\$	31 December 2005 (audited) US\$
	NOTES		
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	9	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	10	12,353,174	9,421,080
NET ASSETS		166,087,061	146,670,962
CAPITAL AND RESERVES			
Share capital	11	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	12	1.211	1.069

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)					
	Share capital US\$	Share premium US\$	Exchange equalisation US\$	General reserve US\$	Retained profits US\$	Total US\$
Balance at 1 January 2006	13,714,560	81,525,984	1,388,039	1,276,864	48,765,515	146,670,962
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	-	-	68,718	-	-	68,718
Share of changes in reserve of associate	-	-	152,593	-	-	152,593
Net income recognised directly in equity	-	-	221,311	-	-	221,311
Profit for the period	-	-	-	-	19,194,788	19,194,788
Total recognised income for the period	-	-	221,311	-	19,194,788	19,416,099
Balance at 30 June 2006	<u>13,714,560</u>	<u>81,525,984</u>	<u>1,609,350</u>	<u>1,276,864</u>	<u>67,960,303</u>	<u>166,087,061</u>
Balance at 1 January 2005	13,714,560	81,525,984	617,622	1,091,885	42,080,487	139,030,538
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	-	-	(17,408)	-	-	(17,408)
Share of changes in reserve of associate	-	-	(12,513)	-	-	(12,513)
Net expense recognised directly in equity	-	-	(29,921)	-	-	(29,921)
Profit for the period	-	-	-	-	4,387,694	4,387,694
Total recognised income and expenses for the period	-	-	(29,921)	-	4,387,694	4,357,773
Final dividend paid for 2004	-	-	-	-	(960,019)	(960,019)
Balance at 30 June 2005	<u>13,714,560</u>	<u>81,525,984</u>	<u>587,701</u>	<u>1,091,885</u>	<u>45,508,162</u>	<u>142,428,292</u>

The general reserve represents the general reserve fund set aside by a subsidiary in accordance with relevant laws and regulations of the People's Republic of China ("PRC"), which is not available for distribution.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006 <i>(unaudited)</i> US\$	2005 <i>(unaudited)</i> US\$
Net cash from operating activities	491,580	1,364,108
Net cash from (used in) investing activities		
Dividend received from associates	-	251,342
Repayment from (advances to) associates	124,972	(12,764)
Acquisition of financial assets at fair value through profit and loss	(930,607)	(18,138,121)
Proceeds from disposal of financial assets at fair value through profit and loss	3,400,123	174,780
	2,594,488	(17,724,763)
Net cash used in financing activities		
Dividend paid	-	(960,019)
Net increase (decrease) in cash and bank balances	3,086,068	(17,320,674)
Cash and bank balances as at 1 January	17,354,211	33,879,726
Effect of foreign exchange rate changes	127,342	25,042
Cash and bank balances as at 30 June	20,567,621	16,584,094
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	20,567,621	16,584,094

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

The condensed consolidated financial statements have 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. PRINCIPAL ACCOUNTING POLICIES

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. SEGMENTAL INFORMATION

During the period, the Group was principally involved in investing in companies with significant business involvement in the PRC. Accordingly, no analysis of segmental information by principal activity or by geographical location is presented.

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2006	2005
	US\$	US\$
Profit before taxation has been arrived at after charging (crediting):		
Share of taxation on results of associates Other regions in the PRC	260,527	34,656
Net foreign exchange (gains) losses	(382,578)	40,844
Investment manager's fee	1,555,567	1,346,517

6. 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	-

Deferred taxation (*Note 10*)

	35,232	-
	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 period.

7. EARNINGS PER SHARE

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

Six months ended 30 June		
2006	2005	
Earnings for the purpose of basic earnings per share (US\$)	19,194,788	<u>4,387,694</u>
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	<u>137,145,600</u>

8. INTERIM DIVIDEND

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

9. OTHER RECEIVABLES

	30 June 2006 US\$	31 December 2005 US\$
Dividend receivable	450,022	–
Interest receivable	115,813	58,363
Other receivable	23,215	22,780
	<u>589,050</u>	<u>81,143</u>

10. DEFERRED TAXATION

The Group's deferred tax liability relates to the taxation on capital gains for investments in the PRC. The following is the deferred tax liability recognised by the Group and movements thereon during the current and prior periods:

	<u>US\$</u>
Balance at 1 January 2005	7,450,539
Charge to the income statement for the period	664,206
Balance at 30 June 2005	8,114,745
Charge to the income statement for the period	1,306,335
Balance at 31 December 2005	9,421,080
Charge to the income statement for the period	2,932,094
Balance at 30 June 2006	<u>12,353,174</u>

11. SHARE CAPITAL

There were no movements in the share capital of the Company in both periods.

12. NET ASSET VALUE PER SHARE

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

	30 June 2006	31 December 2005
Net asset value (US\$)	<u>166,087,061</u>	<u>146,670,962</u>
Number of ordinary shares in issue	<u>137,145,600</u>	<u>137,145,600</u>

13. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under a non-cancellable operating lease with a wholly-owned subsidiary of the Company's substantial shareholder which fall due as follows:

	30 June 2006 US\$	31 December 2005 US\$
Within one year	<u>13,072</u>	<u>–</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Lease and rentals are negotiated for a term of one year.

14. RELATED PARTY TRANSACTIONS

The Company has appointed China Merchants China Investment Management Limited as the Investment Manager for both listed and unlisted investments. Certain Directors of the Company are also Directors and/or shareholders of the Investment Manager.

During the six months ended 30 June 2006, management fees totalling US\$1,555,567 (2005: US\$1,346,517) were paid or payable to the Investment Manager, which is calculated based on a fixed percentage on the value of the Group's assets as stipulated in the Investment Management Agreement. The amounts due to the Investment Manager of US\$900,383 as at 30 June 2006 (31 December 2005: US\$789,099) were included in other payables in the consolidated balance sheet.

On 26 May 2006, the Group entered into an operating lease agreement in respect of the office properties with a wholly-owned subsidiary of a substantial shareholder of the Company, please refer to Note 13 for details.

On 30 June 2006, the Group entered into an agreement with a substantial shareholder of the Company to dispose of its entire interest in an investment, please refer to Note 15(a) for details.

15. EVENTS AFTER BALANCE SHEET DATE

On and subsequent to 30 June 2006, the Group entered into the following transactions:

- (a) On 30 June 2006, the Group entered into an agreement with China Merchants Financial Services Limited, a substantial shareholder of the Company, to dispose of its 10% equity interest in Houlder China Insurance Brokers Limited at a consideration of US\$625,039. The transaction was then completed on 31 July 2006. The Group recorded a loss of approximately US\$26,282 from the transaction.
- (b) On 25 July 2006, the Group entered into an 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 RMB18,500,000. The transaction is expected to be completed in October 2006.

Deloitte.

德勤

INDEPENDENT REVIEW REPORT

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

INTRODUCTION

We have been instructed by China Merchants China Direct Investments Limited to review the interim financial report set out on pages 2 to 10.

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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public 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 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 21 September 2006

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\$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 Fund 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 Fund had no material acquisitions of investments.

On 30 June 2006, the Fund 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 Fund, at a consideration of US\$625,039 in cash. The transaction was then completed on 31 July 2006. The Fund recorded a loss of approximately US\$26,282 from the transaction.

On 25 July 2006, the Fund 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 Fund 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 Fund 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 Fund's investments and assets are located in China and denominated in the RMB, the appreciation of the RMB is expected to continue benefiting the Fund.

EMPLOYEES

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

THE PORTFOLIO

As of 30 June 2006, the Fund had total investments of US\$158.98 million which consisted of US\$150.55 million (90.6% of the Fund'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 Fund's unlisted investment projects resides in financial services (80.6% of the Fund'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 Fund's net assets.

REVIEW OF UNLISTED INVESTMENTS

China Merchants Bank Company, Limited ("CMB"), a registered commercial bank in the PRC, is the first joint-stock commercial bank established by mainland enterprises and the shares of which were first listed on the Shanghai Stock Exchange in 2002. CMB now has over 400 branches and offices across the country. The Fund totally invested US\$14.06 million and held a 0.998% stake in CMB at the balance sheet date. For the first half of 2006, CMB recorded an unaudited profit after taxation of RMB2.777 billion, which was increased by 44% as compared with the same period last year. A special cash dividend of RMB0.18 per share was approved by the shareholders meeting held on 19 August, 2006. The Fund will then be entitled to receive a special cash dividend of RMB22.06 million in the year.

The H-share listing application of CMB has been approved by The Stock Exchange of Hong Kong Limited. Because of its investment restriction, the Fund has not subscribed for any CMB's H shares. The Fund's percentage interest in CMB has thus been diluted.

Industrial Bank Company, Limited ("IBCL") is a joint-stock commercial bank registered in the PRC with over 300 branches and offices throughout the country. Since 1998, the Fund has cumulatively invested RMB146 million (equivalent to US\$17.62 million) in IBCL and currently holds a 2.1% equity interest in IBCL. In view of its relatively fast growing business and thus a relatively large demand of capital, IBCL has dedicated much effort to expand sources of long term capital. In the first half of 2006, IBCL issued 5-year corporate bonds of RMB5 billion and is prepared to issue medium to long term fixed coupon securities in due course.

Furthermore, since the mainland's A-share market has turned buoyant and reopened for IPO, IBCL is actively proceeding with its A-share listing plan. The listing application has been submitted to the China Securities Regulatory Commission ("CSRC") for approval. The specific listing timetable will be subject to the market conditions of A-share market and when the application is approved.

China Credit Trust Company, Limited (“CCT”) was established in 1995 and formerly known as China Coal Trust Company, Limited. Its principal activities are trust management, fund management, investments and loan financing. The Fund invested US\$15.31 million and held a 6.8167% stake in 2005. The Fund received a cash dividend for 2005 of US\$0.4029 million from CCT in the reporting period.

CCT’s unaudited revenue and profit after taxation for the first half of 2006 were RMB109 million and RMB54.83 million, representing an increase of respectively 313% and 265% over the same period last year. The increases were attributable to the encouraging growth of fee incomes from trust management business.

Industrial Securities Company, Limited (“ISCL”) is a comprehensive securities company registered in the PRC. Its businesses include IPO sponsorship, securities underwriting, brokerage, proprietary trading and investment consulting. The Fund invested RMB8.51 million (equivalent to US\$1.03 million) to acquire a 0.74% equity interest in ISCL in 1999. Full provision for this investment was made in the financial year of 2005. In the first half of 2006, the domestic stock market bounced back drastically and the market turnover also grew by about 170% over the same period last year. ISCL was thus benefited and its brokerage income jumped more than two-fold as compared with the same period last year, resulting in an unaudited profit after taxation of RMB154 million for the first half of 2006 while a loss of RMB61.40 million was sustained for the same period last year. Nevertheless, due to the huge losses incurred in previous financial years, the unaudited accumulated losses as at 30 June 2006 stood at RMB850 million.

The shareholders meeting of ISCL held in June 2006 approved the proposal of issuing subordinated bonds of RMB800 million in two phases in order to supplement its net capital.

China Merchants Securities Company, Limited (“CMSC”) is a comprehensive securities company registered in the PRC. Its businesses include IPO sponsorship, securities underwriting, brokerage, proprietary trading and investment consulting. The Fund invested RMB13.05 million (equivalent to US\$1.58 million) to acquire a 0.52% equity interest in CMSC in 2001. Benefiting from the buoyant stock market, CMSC’s brokerage income rose tremendously in the first half of 2006. Furthermore, gain from proprietary trading also contributed much to the profit growth for the first half year. CMSC’s unaudited profit after taxation for the first half of 2006 amounted to RMB425 million while that for the same period last year was RMB2.99 million.

The shareholders meeting of CMSC held in June 2006 approved the capital enlargement proposal. And the proposal was subsequently approved by the CSRC in August 2006. Under the proposal, CMSC would issue new shares solely to its existing shareholders to raise a new share capital of not exceeding RMB1.5 billion, making up its share capital to RMB3.2 billion. Since the Fund has not subscribed for the new shares, the Fund’s percentage equity interest in CMSC would be diluted from 0.52% to 0.28% upon completion of the proposal.

Jutian Securities Company, Limited (“Jutian Securities”) is one of the earliest comprehensive securities companies established in the PRC. Jutian Securities has 16 offices throughout the country. In 2001, the Fund invested RMB35.36 million (equivalent to US\$4.27 million) in Jutian Securities, representing an equity interest of 4.66%. Full provision for this investment was made in the financial year of 2005. Benefiting from the buoyant stock market, Jutian Securities’s brokerage income increased by 209% over the same period last year. Jutian Securities’s unaudited consolidated profit after taxation for the first six months of 2006 reached RMB4.88 million while a loss of RMB21.65 million was recorded for the same period last year.

The CSRC issued two notices in April and July 2006 successively to suspend certain businesses of Jutian Securities such as IPO sponsorship, securities underwriting, account opening agency services, etc.. The CSRC also ordered Jutian Securities to replenish all the clients’ deposits appropriated and to increase the net capital to the statutory required level before 31 August 2006, otherwise, the operating license shall be withdrawn. Pursuant to an agreement duly signed by all shareholders of Jutian Securities in August 2006, one of the major shareholders has agreed to extend support for Jutian Securities by injecting new capital. And it is pending for the approval of the CSRC. If both the approval and new capital are successfully obtained, Jutian Securities will be able to replenish all the clients’ deposits appropriated and resume full operations.

Jutian Fund Management Company, Limited (“JFM”), established in 2003 with a registered capital of RMB100 million. The Fund invested RMB10 million (equivalent to US\$1.21 million) to acquire a 10% equity interest in JFM in 2003. JFM sustained an unaudited loss of RMB1.27 million in the first half of 2006 while that for the same period last year was RMB0.97 million.

The two funds managed by JFM performed very well in the first half of 2006 and the unit net asset value of both funds grew more than 40%. The encouraging performance however triggered a wave of redemption by unit holders to garner profit. The size of the two funds totaled RMB1.1 billion at the beginning of the year but falling to approximately RMB500 million as of 30 June 2006. The management fee income thus plunged significantly in the first half of 2006. On the other hand, gain from proprietary trading has compensated part of the loss due to the reduction in management fee income.

With the authorisation of the CSRC, JFM successfully launched the Jutian Money Market Fund with the initial size of RMB1.3 billion in early August 2006.

Zhaoyuan Jinbao Electronics Company, Limited (“Jinbao”) was established in 1993 in Zhaoyuan City of Shandong Province as a manufacturer of copper-foil and laminates. The Fund owns a 30% equity interest in Jinbao and has made a cumulative investment of US\$7.85 million. In the first half of 2006, because of the product prices going up in a rate higher than the raw materials costs and the product sales recording a satisfactory growth, Jinbao’s unaudited revenue and profit after taxation amounted to RMB510 million and RMB24.82 million, representing an increase of respectively 59% and 358% over the same period last year.

The board meeting of Jinbao held on 8 July 2006 resolved to promote the listing of Jinbao on the mainland’s A-share market. Currently, the preparation work for listing is undergoing.

Langfang Oriental Education Facilities Development Company, Limited (“Oriental”) is a Sino-foreign cooperative joint venture established in Langfang City of Hebei Province. The total project cost is US\$20 million, with a 20-year contractual period. In June 2002, the Fund invested US\$5 million for an equity interest of 25%.

Oriental is engaged in the operation and management of the Phase I dormitories of Oriental University City of Langfang City. Current capacity of the Phase I dormitories is 17,000 students. In the school year of 2005/2006, it accommodated over 14,000 students, which showed a distinct increase of more than 2,000 students as compared to the last school year. Due to the upward adjustment of property management fee, Oriental's unaudited profit after taxation for the first six months of 2006 was RMB1.63 million, a drop of 45% from the same period last year.

Shenzhen Mankam Square (“Mankam”) is a 33-storey commercial complex on North Wen Jin Road, Shenzhen. In 1994, the Fund invested US\$4.30 million through a 35% holding in Hansen Enterprises Limited to purchase 5,262 square metres of retail space on the third floor of Mankam. Full provision for this investment was made in the financial year of 2005. The Fund is continuously seeking sales opportunity for Mankam.

REVIEW OF LISTED INVESTMENTS

The stock market of Hong Kong experienced much volatility in the first half of 2006. The Hang Seng Index hit a 5-year high in early May 2006 before undergoing a quick and deep correction by more than 2,000 points. Although the market was anxious that the rising pressure of US inflation would urge the US Federal Reserve to keep its tight monetary policy, the Hong Kong stock market performed satisfactorily in the reporting period. On the other hand, as the gross domestic product of China continues growing at a relatively faster pace, showing no signs of slowdown, it is expected that China-related stocks continue to be the investment focus. The Fund recorded a net income of US\$0.85 million from listed shares in the first half of 2006. As of 30 June 2006, the value of listed shares held by the Fund was US\$1.76 million.

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 Fund's financial services projects, which already accounted for a significant portion of the Fund's portfolio. On the other hand, the Fund continues to strive for seeking investment projects with low risk and stable returns. Also, the Fund will make effort to increase its distributable profits.

Xie Kuixing

Managing Director

China Merchants China Investment Management Limited

Hong Kong, 21 September 2006

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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2006, 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 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Number of shares	Capacity	Nature of interest	Percentage of total issued share
Mr. Victor Lap-Lik Chu	14,400,000	Interest of controlled corporation	Corporate	10.50%

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 or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 30 June 2006, 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 its associated corporations, or had exercised any such right during the period ended 30 June 2006.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the following persons, other than a director or chief executive of the Company, had interests in the shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name	Capacity	Number of ordinary shares interested	Percentage of total issued share
China Merchants Group Limited (<i>Note 3</i>)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Steam Navigation Company Limited (<i>Note 3</i>)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Holdings (Hong Kong) Company Limited (<i>Note 1</i>)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Finance Holdings Company Limited (<i>Note 2</i>)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Financial Services Limited (<i>Note 3</i>)	Interest of controlled corporation	33,989,760	24.78%
Good Image Limited	Beneficial owner	33,989,760	24.78%
China Bright Holdings Limited	Beneficial owner	14,400,000	10.50%
Deutsche Bank Aktiengesellschaft	Security Interest	9,422,000	6.87%
QVT Financial GP LLC (<i>Note 5</i>)	Interest of controlled corporation	8,034,000	5.85%
QVT Financial LP	Investment Manager	8,034,000	5.85%
Temasek Holdings (Private) Limited (<i>Note 3</i>)	Interest of controlled corporation	7,200,000	5.25%
Hong Lim Fund Investments Pte Ltd.	Beneficial owner	7,200,000	5.25%
Central Huijin Investment Company Limited (<i>Note 3</i>)	Interest of controlled corporation	7,200,000	5.25%
Bank of China Limited (<i>Note 3</i>)	Interest of controlled corporation	7,200,000	5.25%
Bank of China Group Investment Limited	Beneficial owner	7,200,000	5.25%
China Minmetals Corporation (<i>Note 3</i>)	Interest of controlled corporation	7,200,000	5.25%
China Minmetals H.K. (Holdings) Limited (<i>Note 3</i>)	Interest of controlled corporation	7,200,000	5.25%
June Glory International Limited (<i>Note 4</i>)	Interest of controlled corporation	7,200,000	5.25%
ONFEM Holdings Limited (<i>Note 3</i>)	Interest of controlled corporation	7,200,000	5.25%
ONFEM Investments Limited	Beneficial owner	7,200,000	5.25%
Swiss Reinsurance Company	Beneficial owner	7,200,000	5.25%

Note 1: The company is deemed to have corporate interests in the shares by virtue of its controlling shareholding (i.e. 99.32%) in the company whose name is set out immediately under it.

Note 2: The company is deemed to have corporate interests in the shares by virtue of its entire shareholding in Everlink Limited and the company whose name is set out immediately under it.

Note 3: The company is deemed to have corporate interests in the shares by virtue of its entire shareholding in the company whose name is set out immediately under it.

Note 4: The company is deemed to have corporate interests in the shares by virtue of its controlling shareholding (i.e. 53.95%) in the company whose corporate name is set out immediately under it.

Note 5: The company is deemed to have corporate interests in the shares by virtue of its interest in the company whose corporate name is set out immediately under it.

Save as disclosed above, there was no person, other than a director or chief executive of the Company, who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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 this interim report. 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

Dr. Huang Dazhan

Executive Director

Hong Kong, 21 September 2006