



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 2007

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Dr. FU Yuning* (*Chairman*)
 Mr. HONG Xiaoyuan* (*appointed on 22 June 2007*)
 Mr. CHU Lap Lik, Victor*
 Mr. XIE Kuixing*
 Mr. TSE Yue Kit
 Ms. KAN Ka Yee, Elizabeth*
 (*alternate to Mr. CHU Lap Lik, Victor**)
 Dr. HUANG Dazhan (*resigned on 22 June 2007*)

Independent Non-executive Directors:

Dr. The Hon. David LI Kwok-po
 Mr. KUT Ying Hay
 Mr. WANG Jincheng (*appointed on 27 March 2007*)
 Mr. LI Kai Cheong, Samson
 (*alternate to Dr. The Hon. David LI Kwok-po*)
 Dr. POON Kwok Lim, Steven
 (*resigned on 1 January 2007*)
 Mr. MOK Hay Hoi (*resigned on 1 January 2007*)
 (*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 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	NOTES	Six months ended 30 June	
		2007 (unaudited) US\$	2006 (unaudited) US\$
Turnover	3	7,079,431	1,988,805
Increase in fair value of financial assets at fair value through profit or loss		364,336,547	20,054,251
Net gain on disposal of financial assets at fair value through profit or loss		31,512	539,329
Other income		1,096,215	392,211
Administrative expenses		(48,150,000)	(1,748,891)
Share of results of associates		1,346,342	936,409
Profit before taxation	5	325,740,047	22,162,114
Taxation	6	(54,229,498)	(2,967,326)
Profit attributable to equity shareholders		<u>271,510,549</u>	<u>19,194,788</u>
Earnings per share	7	<u>1.845</u>	<u>0.140</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2007 (unaudited) US\$	31 December 2006 (audited) US\$
	NOTES		
Non-current assets			
Interests in associates		15,727,074	13,983,895
Financial assets at fair value through profit or loss		628,720,279	266,160,877
Other investments in financial assets		4,698,773	5,698,563
		649,146,126	285,843,335
Current assets			
Financial assets at fair value through profit or loss		2,753,001	–
Other receivables	9	2,095,041	106,766
Cash and bank balances		45,671,176	27,672,116
		50,519,218	27,778,882
Current liabilities			
Other payables		49,522,106	19,036,410
Taxation payable		65,331	51,533
		49,587,437	19,087,943
Net current assets		931,781	8,690,939
Total assets less current liabilities		650,077,907	294,534,274
Non-current liability			
Deferred taxation	10	85,812,509	31,662,164
NET ASSETS		564,265,398	262,872,110
CAPITAL AND RESERVES			
Share capital	11	14,914,560	13,714,560
Reserves		549,350,838	249,157,550
TOTAL CAPITAL AND RESERVES		564,265,398	262,872,110
NET ASSET VALUE PER SHARE	12	3.783	1.917

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US\$	Share premium US\$	Exchange reserve US\$	General reserve US\$	Retained profits US\$	Total US\$
Balance at 1 January 2007 (audited)	13,714,560	81,525,984	2,171,912	1,554,251	163,905,403	262,872,110
Issue of shares	1,200,000	27,967,200	-	-	-	29,167,200
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	-	-	320,525	-	-	320,525
Share of changes in reserve of associate	-	-	395,014	-	-	395,014
Net income recognised directly in equity	-	-	715,539	-	-	715,539
Profit for the period	-	-	-	-	271,510,549	271,510,549
Total recognised income for the period	-	-	715,539	-	271,510,549	272,226,088
Balance at 30 June 2007 (unaudited)	<u>14,914,560</u>	<u>109,493,184</u>	<u>2,887,451</u>	<u>1,554,251</u>	<u>435,415,952</u>	<u>564,265,398</u>
Balance at 1 January 2006 (audited)	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 (unaudited)	<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>

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	
	2007 <i>(unaudited)</i> US\$	2006 <i>(unaudited)</i> US\$
Net cash (used in) from operating activities	(12,647,548)	491,580
Investing activities		
(Advance to) repayment from associates	(1,823)	124,972
Acquisition of financial assets at fair value through profit or loss	(47,722)	(930,607)
Proceeds from disposal of financial assets at fair value through profit or loss	1,096,452	3,400,123
Net cash from investing activities	1,046,907	2,594,488
Cash from financing activities		
Proceeds from issue of share capital	29,167,200	–
Net increase in cash and bank balances	17,566,559	3,086,068
Cash and bank balances as at 1 January	27,672,116	17,354,211
Effect of foreign exchange rate changes	432,501	127,342
Cash and bank balances as at 30 June	45,671,176	20,567,621

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2007

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 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated 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 2006.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2007. The adoption of these new HKFRSs has no material effect on how the results or financial position of the Group for the current or prior accounting periods. 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 23 (Revised)	Borrowing Cost ¹
HKFRS 8	Operating Segments ¹
HK (IFRIC) - INT 11	HKFRS 2: Group and Treasury Share Transactions ²
HK (IFRIC) - INT 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

3. TURNOVER

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

	Six months ended 30 June	
	2007	2006
	US\$	US\$
Interest income	918,922	334,299
Dividend income	6,160,509	1,654,506
	<u>7,079,431</u>	<u>1,988,805</u>

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	
	2007	2006
	US\$	US\$
Profit before taxation has been arrived at after charging (crediting):		
Share of taxation on results of associates		
Other regions in the PRC	290,201	260,527
Investment manager's management fee	5,684,274	1,555,567
Investment manager's performance fee	42,084,626	-
Net foreign exchange gain	<u>(1,087,188)</u>	<u>(382,578)</u>

6. TAXATION

Six months ended 30 June	
2007	2006
US\$	US\$

The tax charge for the period comprises:

The Company and its subsidiaries

Current tax:

Other regions in the PRC	79,153	35,232
Deferred taxation (<i>Note 10</i>)	54,150,345	2,932,094
	54,229,498	2,967,326

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 periods. On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China, which will change the tax rate from 15% to 25% for a PRC subsidiary of the Group from 1 January 2008. The New Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Group will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

7. EARNINGS PER SHARE

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

Six months ended 30 June		
	2007	2006
Earnings for the purpose of basic earnings per share (US\$)	271,510,549	19,194,788
Weighted average number of ordinary shares for the purpose of basic earnings per share	147,145,600	137,145,600

8. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period ended 30 June 2007 (2006: nil).

9. OTHER RECEIVABLES

	30 June 2007 US\$	31 December 2006 US\$
Dividend receivable	1,931,347	–
Interest receivable	144,124	83,450
Other receivable	19,570	23,316
	<u>2,095,041</u>	<u>106,766</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 2006	9,421,080
Charge to the income statement for the period	<u>2,932,094</u>
Balance at 30 June 2006	12,353,174
Charge to the income statement for the period	<u>19,308,990</u>
Balance at 31 December 2006	31,662,164
Charge to the income statement for the period	<u>54,150,345</u>
Balance at 30 June 2007	<u><u>85,812,509</u></u>

11. SHARE CAPITAL

	<u>Number of shares</u>	<u>US\$</u>
Ordinary shares of US\$0.10 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 1 January 2007	150,000,000	15,000,000
Increase during the period	150,000,000	15,000,000
At 30 June 2007	<u>300,000,000</u>	<u>30,000,000</u>
Issued and fully paid:		
At 1 January 2006, 31 December 2006 and 1 January 2007	137,145,600	13,714,560
Issue of shares	12,000,000	1,200,000
At 30 June 2007	<u>149,145,600</u>	<u>14,914,560</u>

The Company issued 12,000,000 new shares on 6 February 2007 and increased its authorised share capital from 150,000,000 shares to 300,000,000 shares following the approval of the shareholders' meeting on 25 May 2007.

12. NET ASSET VALUE PER SHARE

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

	<u>30 June 2007</u>	<u>31 December 2006</u>
Net asset value (US\$)	<u>564,265,398</u>	<u>262,872,110</u>
Number of ordinary shares in issue	<u>149,145,600</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:

	<u>30 June 2007 US\$</u>	<u>31 December 2006 US\$</u>
Within one year	<u>15,097</u>	<u>6,693</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Lease and rental 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 2007, in accordance with the Investment Management Agreement, management fees payable to the Investment Manager totalled US\$5,684,274 (2006: US\$1,555,567), which is calculated based on a fixed percentage on the value of the Group's assets; and provision of performance fee totalled US\$42,084,626 (2006: nil), which is calculated based on a fixed percentage on change in the Group's net assets value over the stipulated level with prior period. The amounts due to the Investment Manager of US\$7,380,567 as at 30 June 2007 (31 December 2006: US\$18,933,294), which is unsecured, non-interest bearing and repayable on demand, and a provision of performance fee of US\$42,084,626 were included in other payables in the condensed consolidated balance sheet.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 2 to 11, which comprises the condensed consolidated balance sheet of China Merchants China Direct Investments Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Basis on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
14 September 2007

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\$271.51 million for the six months ended 30 June 2007, representing an increase of 1,315% over the same period of 2006. This was attributable to a significant increase in the fair value of financial assets at fair value through profit or loss (the "financial assets"). As of 30 June 2007, the net assets of the Fund were US\$564.27 million (31 December 2006: US\$262.87 million), with a net asset value per share of US\$3.783 (31 December 2006: US\$1.917).

Total turnover for the period increased by 256% to US\$7.08 million (2006: US\$1.99 million). This was due mainly to an increase in dividend income from Industrial Bank and China Credit Trust.

During the period under review, the increase in fair value of the financial assets amounted to US\$364.34 million (2006: US\$20.05 million). This was attributable to the substantial revaluation gains of both China Merchants Bank and Industrial Bank whose values increased by US\$129.98 million and US\$228.01 million respectively.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

The Fund actively explored new investment opportunities, and studied a certain number of potential investment projects during the reporting period. Some of the projects have been identified and are now under implementation.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

In January 2007, the Fund entered into a placing and subscription agreement to place 12 million ordinary shares by way of placing and top-up subscription and successfully raised an amount of US\$29.17 million.

The Fund's cash on hand increased by 65%, from US\$27.67 million as of the end of last year to US\$45.67 million as of 30 June 2007. The increase was mainly due to the completion of the fund raising exercise during the reporting period.

As of 30 June 2007, the Fund had no outstanding bank loans or capital commitments.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Since the People's Bank of China announced the reform of the Renminbi ("RMB") exchange rate regime in 2005, the exchange rate of RMB against USD has been appreciating gradually. As most of the Fund's investments are located in China where the official currency is the RMB, the continual appreciation of the RMB has been 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 2007, the Fund had total investments of US\$651.89 million which consisted of US\$643.47 million (91.96% of the Fund's total assets) in direct investment projects, US\$2.75 million (0.39%) in listed shares, and US\$5.67 million (0.81%) in bonds/notes. The majority of the Fund's direct investment projects resided in financial services which amounted to US\$627.71 million (89.71% of the Fund's total assets), with the rest in manufacturing, real estate and educational facilities which amounted to US\$15.76 million (totalling 2.25%). As of 30 June 2007, net cash amounted to US\$45.67 million, accounting for 6.52% of the Fund's total assets.

REVIEW OF DIRECT INVESTMENTS

China Merchants Bank Company, Limited ("CMB"), is the first joint-stock commercial bank established by enterprises in the PRC and the shares of which were first listed on the Shanghai Stock Exchange in 2002. CMB now has over 500 branches and offices across the country. The Fund invested US\$14.06 million and held a 0.83% stake in CMB at the balance sheet date. CMB has announced that its unaudited net profit for the first half of 2007 was RMB6.12 billion, up 120% over the same period of the previous year. The unaudited net asset value as of the end of June 2007 was RMB4.03 per share. In the first half of 2007, the Fund was entitled to receive a dividend for 2006 from CMB amounting to RMB14.71 million.

After completion of the share reform plan in February 2006, all of CMB's non-tradable shares have been converted into tradable shares. The lock-up period of the shares of CMB held by the Fund will expire in February 2008.

In May 2007, CMB announced that it will acquire a total of 33.4% of equity interests (of which 3.4% will be acquired from China Merchants Securities Company, Limited) in China Merchants Fund Company, Limited (a securities investment fund management company registered in the PRC) from four companies. Upon completion of the equity transfer, CMB will become the largest shareholder of China Merchants Fund Company, Limited.

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 held a 1.68% equity interest in IBCL at the balance sheet date. IBCL has announced that its unaudited net profit in the first half of 2007 was RMB3.64 billion, up 109% over the same period of the previous year. The unaudited net asset value as of the end of June 2007 was RMB6.92 per share. In the first half of 2007, the Fund received from IBCL a dividend of RMB21.84 million for 2006.

IBCL's A Shares were successfully listed on the Shanghai Stock Exchange on 5 February 2007, and a total of 1.001 billion new A Shares were simultaneously issued. The Fund's equity interest in IBCL was thus diluted from 2.10% to 1.68%. As stipulated by the Company Law of the PRC and the articles of association of IBCL, the Fund's equity interest in IBCL is subject to a lock-up period of one year from the date of listing.

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 now holds a 6.8167% stake in CCT by investing US\$15.31 million in 2005. CCT’s unaudited net profit for the first half of 2007 was RMB356 million, up 550% over the same period of the previous year. This was mainly attributable to the significant increase in income from securities investment. In the first half of 2007, the Fund received from CCT a dividend of US\$1.40 million for 2006.

In April 2007, a resolution was duly passed at the CCT’s shareholders meeting approving in principle the capital enlargement proposal and the introduction of a new investor as shareholder. In addition, the management of CCT was authorised to negotiate with the new investor. The relevant work is now in progress.

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, investment consulting and financial advisory. The Fund invested RMB13.05 million (equivalent to US\$1.58 million) in 2001 and held a 0.28% equity interest in CMSC at the balance sheet date. During the first half of 2007, the domestic stock market continued to flourish with significant increase in trading volume, and thus the unaudited operating income of CMSC grew tremendously to RMB4.39 billion, representing an increase of 415% over the same period of the previous year. CMSC’s unaudited net profit in the first half of 2007 was RMB2.40 billion, up 464% over the same period of the previous year.

According to the securities companies rankings per financial indicators of year 2006 published in May of 2007 by the Securities Association of China, amongst 103 securities companies, CMSC ranked the 8th in terms of operating income and the 7th in terms of net profit.

As approved by the regulatory authority, CMSC opened up securities sales offices in Beijing, Shanghai and Shenzhen during June 2007, designated for institutional clients, being the first securities company in the industry setting up sales offices exclusively for institutional clients.

CMSC held a shareholders meeting in June 2007, at which a resolution regarding the application for the listing of A Shares was duly passed. CMSC is now actively preparing for the listing of A Shares.

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) in 1999 and now holds a 0.74% equity interest in ISCL. Benefiting from the booming domestic stock market, ISCL’s unaudited net profit in the first half of 2007 was RMB990 million, representing an increase of 544% over the same period in the previous year. Since the huge accumulated losses sustained in previous years have been offset, the Fund revalued this investment during the reporting period and recorded a gain of US\$1.65 million.

With the approval of a capital enlargement proposal by the shareholders meeting held in March 2007, ISCL will issue 600 million new shares so as to increase its registered capital from RMB908 million to RMB1,508 million. The capital enlargement proposal is pending the approval of China Securities Regulatory Commission (“CSRC”). Upon completion of the capital enlargement exercise, the Fund’s equity interest in ISCL will be diluted to 0.45%.

A foreign investor is acquiring the equity interests in Industrial Fund Management Company, Limited. Upon completion of the acquisition, ISCL will increase its equity interest in Industrial Fund Management Company, Limited from 48.98% to 51% while the foreign investor will hold the remaining 49%. The transaction is pending the approval of relevant regulatory authorities.

Jutian Securities Company, Limited (“Jutian Securities”) is one of the earliest comprehensive securities companies established in the PRC. In 2001, the Fund invested RMB35.36 million (equivalent to US\$4.27 million) in Jutian Securities, representing an equity interest of 4.66%. The Fund already made a full provision for this investment in 2005.

On 13 October 2006, the CSRC appointed an Administrative Liquidation Working Team to conduct administrative liquidation against Jutian Securities, and simultaneously appointed CMSC to act as custodial body and to exercise administrative takeover of Jutian Securities’ brokerage business and all sales offices. Presently, the administrative liquidation work is in its final stage.

On 1 June 2007, Jutian Securities formally transferred its 16 sales offices to CMSC. Prior to that, Jutian Securities has been deprived of its qualification to operate securities business. Benefiting from the buoyant domestic stock market, Jutian Securities recorded a significant income and profit generated during the administrative takeover period, enabling Jutian Securities to have sufficient funds to return its clients’ deposits. Jutian Securities is now applying to maintain its legal person qualification so as to facilitate the orderly disposal of its assets and exercise of its creditor’s rights. Such application is pending the approval of relevant regulatory authorities. The Fund will monitor the progress of assets disposal and debts recovery of Jutian Securities.

Jutian Fund Management Company, Limited (“JFM”), was set up in 2003 with a registered capital of RMB100 million. The Fund invested RMB10 million (equivalent to US\$1.21 million) in 2003 and now holds a 10% equity interest in JFM. In the first half of 2007, JFM’s unaudited net profit was RMB34.22 million while a loss of RMB1.27 million was sustained in the same period of last year.

While Jutian Securities, the major shareholder of JFM, was forced into administrative liquidation by the CSRC in October 2006, the CSRC also suspended JFM’s application for the setting up of new funds. However, with the help of the robust domestic investment markets and investors’ active participation in fund investment, size of the funds managed by JFM increased from RMB285 million at the end of last year to RMB1,390 million at the end of June 2007.

Zhaoyuan Jinbao Electronics Company, Limited (“Jinbao”) was set up 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. For the first half of 2007, Jinbao’s unaudited sales revenue amounted to RMB510 million, which was about the same level as the first half of last year. Jinbao’s unaudited net profit reached RMB29.22 million, representing an increase of 18% as compared with the same period of last year.

The board meeting of Jinbao held on 8 July 2006 resolved to promote the listing of Jinbao on the domestic A-Share market. The preparation work for listing is still 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’s unaudited net profit in the first half of 2007 was RMB5.63 million, representing an increase of 245% over the same period of last year.

Oriental is engaged in the operation and management of the Phase 1 dormitories of Oriental University City of Langfang City. Current capacity of the Phase 1 dormitories is about 17,000 students. It accommodated some 16,000 students in the school year of 2006/2007, a remarkable increase when compared with some 14,000 students in the school year of 2005/2006. Except for those with relatively low quality, most of the rooms have been occupied.

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. The Fund already made a full provision for this investment in 2005. The Fund is still seeking exit opportunity for Mankam.

China Merchants Plaza (Shanghai) Property Company, Limited (“China Merchants Plaza”) was established in Shanghai in 1994 to be engaged in the development of a commercial complex. The Fund invested US\$5.685 million in 1994 and now holds an effective equity interest of 19.8% in China Merchants Plaza. The commercial complex developed by China Merchants Plaza is a 28-storey office/shop building located at North Chengdu Road, Qingan District, Shanghai, with a total saleable area of 60,086 square metres, of which 49,438 square metres remaining unsold. The Fund already made a full provision for this investment in 2000 due to huge accumulated losses sustained by China Merchants Plaza from the high finance charges incurred in previous years. In the first half of June 2007, China Merchants Plaza’s unaudited net profit amounted to RMB2.97 million, representing an increase of 6.5% over the same period of last year.

REVIEW OF LISTED INVESTMENTS

Driven by favourable factors such as strong macroeconomic fundamentals, continual appreciation of the RMB, further relaxation of QDII investment channels in the mainland, etc., Hong Kong stock market has rallied after a short-term correction in March this year, with the Hang Seng Index and the H-Share Index surging and hitting all-time highs. In the first half of 2007, net income from the Fund’s listed shares amounted to US\$1.13 million, which included US\$0.02 million of dividends, US\$0.03 million of gain from sales of listed shares and US\$1.08 million of unrealised gain. As of the end of June 2007, the value of listed shares held by the Fund was US\$2.75 million.

PROSPECTS

The year-on-year growth of the Chinese economy accelerated to 11.5% in the first half of 2007 against 10.9% recorded in the same period of last year. The consumer price index rose 3.2% year-on-year in the first half of the year and even hitting 6.5% in August, a record high in recent years. It is believed that the central government will step up its austerity measures in the latter part of 2007 to prevent economic overheating. Nevertheless, the Chinese economy is believed to keep its growth in a steady but relatively rapid pace. The Fund’s financial services investments that already accounted for a major portion of the Fund’s portfolio continue to benefit from the steady growth of the economy and the deepening of the reforms. In the meantime, it continues to bring more business opportunities for the Fund to invest in other industries. The Fund continuously makes every effort to identify suitable investment projects, while it actively helps promote the listing of its existing projects and tries to switch projects on a timely basis so as to seek better returns for shareholders.

Mr. Xie Kuixing

Managing Director

China Merchants China Investment Management Limited

Hong Kong, 14 September 2007

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period ended 30 June 2007 (2006: nil).

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the period ended 30 June 2007, 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 2007, 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	6,900,000	Interest of controlled corporation	Corporate	4.63%

Note: Mr. Victor Lap-Lik Chu is deemed to have interest in 6,900,000 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 2007, 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 2007.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, 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	Long/Short Position	Capacity	Number of ordinary shares interested	Percentage of total issued share
China Merchants Group Limited (<i>Note 3</i>)	Long Position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Steam Navigation Company Limited (<i>Note 3</i>)	Long Position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Holdings (Hong Kong) Company Limited (<i>Note 1</i>)	Long Position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Finance Holdings Company Limited (<i>Note 2</i>)	Long Position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Financial Services Limited (<i>Note 3</i>)	Long Position	Interest of controlled corporation	33,989,760	22.79%
Good Image Limited	Long Position	Beneficial owner	33,989,760	22.79%
Deutsche Bank Aktiengesellschaft	Long Position	Beneficial owner/Security interest	10,501,000	7.04%
	Short Position	Beneficial owner	704,000	0.47%
QVT Financial GP LLC (<i>Note 4</i>)	Long Position	Interest of controlled corporation	7,547,000	5.06%
QVT Financial LP	Long Position	Investment Manager	7,547,000	5.06%
Lazard Asset Management LLC	Long Position	Investment Manager	7,706,000	5.17%

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 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 financial report is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, whose independent review report is included in this interim report. The interim financial report has 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. Except the qualified accountant whose remuneration packages are borne by the Investment Manager, the Company has no salaried employees. Thus, no remuneration committee has been established by the Company.

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

Mr. Hong Xiaoyuan

Executive Director

Hong Kong, 14 September 2007