



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 2008

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. LI Yinquan*
(Chairman) (appointed on 4 July 2008)

Mr. HONG Xiaoyuan*
 Mr. CHU Lap Lik, Victor*
 Ms. ZHOU Linda Lei*
(appointed on 6 March 2008)

Mr. TSE Yue Kit
 Ms. KAN Ka Yee, Elizabeth*
(alternate to Mr. CHU Lap Lik, Victor)*

Dr. FU Yuning *(resigned on 4 July 2008)*
 Mr. XIE Kuixing *(resigned on 6 March 2008)*

Independent Non-executive Directors:

Mr. KUT Ying Hay
 Mr. WANG Jincheng
 Mr. LI Kai Cheong, Samson
(appointed on 22 August 2008)

Dr. The Hon. David LI Kwok-po
(resigned on 22 August 2008)

Mr. LI Kai Cheong, Samson
(alternate to Dr. The Hon. David LI Kwok-po)
(ceased on 22 August 2008)

Non-executive Director:

Mr. WANG Xingdong
(resigned on 2 January 2008)

* members of Investment Committee

AUDIT COMMITTEE

Mr. LI Kai Cheong, Samson
(appointed on 22 August 2008)

Mr. KUT Ying Hay
 Mr. WANG Jincheng
(appointed on 11 February 2008)

Mr. WANG Xingdong
(resigned on 2 January 2008)

Dr. The Hon. David LI Kwok-po
(resigned on 22 August 2008)

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

COMPANY SECRETARY

Mr. Peter Y. W. Lee

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Linklaters
 Victor Chu & Co

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

18th 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 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	NOTES	Six months ended 30 June	
		2008 (unaudited) US\$	2007 (unaudited) US\$
Investment income	3	12,067,116	7,079,431
Change in fair value of financial assets at fair value through profit or loss		(471,802,373)	364,368,059
Other income		142,338	1,096,215
Administrative expenses		(9,002,488)	(48,150,000)
Share of results of associates		1,544,307	1,346,342
(Loss)/profit before taxation	5	(467,051,100)	325,740,047
Taxation	6	103,607,126	(54,229,498)
(Loss)/profit attributable to equity shareholders		<u>(363,443,974)</u>	<u>271,510,549</u>
(Loss)/earnings per share	7	<u>(2.437)</u>	<u>1.845</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2008 (unaudited) US\$	31 December 2007 (audited) US\$
	NOTES		
Non-current assets			
Interests in associates		20,651,957	17,898,812
Financial assets at fair value through profit or loss		475,056,445	637,431,863
Other investments in financial assets		696,284	697,011
		496,404,686	656,027,686
Current assets			
Financial assets at fair value through profit or loss		295,508,157	560,168,661
Other receivables	9	7,612,411	99,308
Cash and bank balances		71,020,545	45,687,332
		374,141,113	605,955,301
Current liabilities			
Other payables		118,660,665	110,098,943
Taxation payable		7,203,241	163,558
		125,863,906	110,262,501
Net current assets		248,277,207	495,692,800
Total assets less current liabilities		744,681,893	1,151,720,486
Non-current liability			
Deferred taxation	10	151,457,365	246,385,543
NET ASSETS		593,224,528	905,334,943
CAPITAL AND RESERVES			
Share capital	11	14,914,560	14,914,560
Reserves		578,309,968	890,420,383
TOTAL CAPITAL AND RESERVES		593,224,528	905,334,943
NET ASSET VALUE PER SHARE	12	3.977	6.070

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 2008 (audited)	14,914,560	109,493,184	20,799,512	2,055,131	758,072,556	905,334,943
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	-	-	50,125,874	-	-	50,125,874
Share of changes in reserve of associates	-	-	1,207,685	-	-	1,207,685
Net income recognised directly in equity	-	-	51,333,559	-	-	51,333,559
Loss for the period	-	-	-	-	(363,443,974)	(363,443,974)
Total recognised income/(expenses) for the period	-	-	51,333,559	-	(363,443,974)	(312,110,415)
Balance at 30 June 2008 (unaudited)	<u>14,914,560</u>	<u>109,493,184</u>	<u>72,133,071</u>	<u>2,055,131</u>	<u>394,628,582</u>	<u>593,224,528</u>
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 ordinary 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 associates	-	-	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>

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	
	2008	2007
	(unaudited)	<i>(unaudited)</i>
	US\$	<i>US\$</i>
Net cash from (used in) operating activities	24,367,151	(11,598,818)
Cash used in investing activities		
Advance to associate	(1,153)	(1,823)
Cash from financing activities		
Proceeds from issue of share capital	-	29,167,200
Net increase in cash and bank balances	24,365,998	17,566,559
Cash and bank balances as at 1 January	45,687,332	27,672,116
Effect of foreign exchange rate changes	967,215	432,501
Cash and bank balances as at 30 June	71,020,545	45,671,176

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2008

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 ("HKAS34") "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 on the historical cost basis except for certain financial instruments, which are measured at fair values.

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 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008.

HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19: The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new Interpretations had no material effect on the results or financial position of the Group for current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and separate financial statements ²
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ¹
HKFRS 2 (Amendment)	Vesting conditions and cancellations ¹
HKFRS 3 (Revised)	Business combination ²
HKFRS 8	Operating segments ¹
HK(IFRIC) – INT 13	Customer loyalty programmes ³

¹ Effective for accounting periods beginning on or after 1 January 2009

² Effective for accounting periods beginning on or after 1 July 2009

³ Effective for accounting periods beginning on or after 1 July 2008

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The Group anticipates that the application of the new and revised standards, amendments or interpretations will have no material impact on the financial position of the Group.

3. INVESTMENT INCOME

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

	Six months ended 30 June	
	2008	2007
	<i>(unaudited)</i>	<i>(unaudited)</i>
	US\$	US\$
Interest income	312,661	918,922
Dividend income	11,754,455	6,160,509
	<u>12,067,116</u>	<u>7,079,431</u>

4. SEGMENTAL INFORMATION

During the period, the principal business of the Group was 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. (LOSS)/PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2008	2007
	<i>(unaudited)</i>	<i>(unaudited)</i>
	US\$	US\$
(Loss)/profit before taxation has been arrived at after charging (crediting)		
Share of taxation on results of associates		
Other regions in the PRC	147,265	290,201
Investment manager's management fee	8,592,541	5,684,274
Investment manager's performance fee	-	42,084,626
Net foreign exchange gain	<u>(126,624)</u>	<u>(1,087,188)</u>

6. TAXATION

Six months ended 30 June	
2008	2007
(unaudited)	(unaudited)
US\$	US\$

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

The Company and its subsidiaries

Current tax:

Other regions in the PRC	6,990,351	79,153
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Deferred taxation (<i>Note 10</i>)	(110,597,477)	54,150,345
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	<u>(103,607,126)</u>	<u>54,229,498</u>
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Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the period. No provision for Hong Kong profits tax has been made in the condensed consolidated financial statements as the Company and its subsidiaries had no assessable profits for both periods. Taxation arising in other regions in the PRC is calculated at the rates prevailing in the relevant regions.

The PRC 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 PRC on 16 March 2007. The State Council of the PRC issued Implementation Regulations of the New Law and the Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (Guo Fa [2007] No. 39) on 6 December 2007 and 26 December 2007 respectively. Accordingly, the applicable Enterprise Income tax rate for a PRC subsidiary of the Company in 2008 is 18% (2007: 15%) and such tax rate will be gradually increased to 25% in 2012. Other PRC incorporated entities which incorporated after 15 March 2007, are subject to 25% tax rate for Enterprise Income Tax effective from 1 January 2008.

7. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the following data:

	Six months ended 30 June	
	2008	2007
	(unaudited)	<i>(unaudited)</i>
(Loss)/earnings for the purpose of basic (loss)/earnings per share (US\$)	<u>(363,443,974)</u>	<u>271,510,549</u>
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>149,145,600</u>	<u>147,145,600</u>
(Loss)/earnings per share (US\$)	<u>(2.437)</u>	<u>1.845</u>

8. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period ended 30 June 2008 (2007: nil).

9. OTHER RECEIVABLES

	30 June	31 December
	2008	2007
	(unaudited)	<i>(audited)</i>
	US\$	<i>US\$</i>
Dividend receivable	7,503,289	–
Interest receivable	51,999	74,769
Other receivable	57,123	24,539
	<u>7,612,411</u>	<u>99,308</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 2007 (Audited)	31,662,164
Charge to the income statement for the period	<u>54,150,345</u>
Balance at 30 June 2007 (Unaudited)	85,812,509
Charge to the income statement for the period	<u>160,573,034</u>
Balance at 31 December 2007 (Audited)	246,385,543
Credit to the income statement for the period	(110,597,477)
Exchange difference	<u>15,669,299</u>
Balance at 30 June 2008 (Unaudited)	<u><u>151,457,365</u></u>

11. SHARE CAPITAL

	<u>Number of shares</u>	<u>US\$</u>
Ordinary shares of US\$0.10 each		
Authorised:		
At 1 January 2007	150,000,000	15,000,000
Increase in 2007	<u>150,000,000</u>	<u>15,000,000</u>
At 31 December 2007, 1 January, and 30 June 2008	<u>300,000,000</u>	<u>30,000,000</u>
Issued and fully paid:		
At 1 January 2007	137,145,600	13,714,560
Issue of shares in 2007	<u>12,000,000</u>	<u>1,200,000</u>
At 31 December 2007, 1 January, and 30 June 2008	<u>149,145,600</u>	<u>14,914,560</u>

12. NET ASSET VALUE PER SHARE

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

	30 June 2008 (unaudited)	31 December 2007 (audited)
Net asset value (US\$)	<u>593,224,528</u>	<u>905,334,943</u>
Number of ordinary shares in issue	<u>149,145,600</u>	<u>149,145,600</u>
Net asset value per share (US\$)	<u>3.977</u>	<u>6.070</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 falls due as follows:

	30 June 2008 (unaudited) US\$	31 December 2007 (audited) US\$
Within one year	<u>3,919</u>	<u>7,560</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 2008, the Group has incurred the following related party transactions:

- a) Management fees totalling US\$8,592,541 (2007: US\$5,684,274) were paid or accrued to the Investment Manager. The fee is calculated based on a fixed percentage on the asset value of the Group stipulated in the Investment Management Agreement.
- b) No performance fee (2007: US\$42,084,626) was accrued to the Investment Manager. The fee is calculated based on a fixed percentage on the excess of an agreed increment of the Group's net asset value after certain adjustment stipulated in the Investment Management Agreement.

Amount due to the Investment Manager of US\$118,612,357 as at 30 June 2008 (31 December 2007: US\$109,925,509) was included in other payables in the condensed consolidated balance sheet. Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

- c) Rental fee in respect of the office properties totalling US\$9,866 (2007: US\$7,549) were paid or payable to a wholly-owned subsidiary of a substantial shareholder of the Company.
- d) Securities brokerage commission fee totalling US\$10,938 (2007: Nil) were paid or payable to a subsidiary of a substantial shareholder of the Company.

15. COMPENSATION OF KEY MANAGEMENT PERSONNEL

There is no compensation to key management personnel for both interim periods.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF
CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 12, which comprises the condensed consolidated balance sheet of China Merchants China Direct Investments Limited as of 30 June 2008 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 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

Based 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
12 September 2008

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") recorded a loss attributable to equity shareholders of US\$363.44 million for the six months ended 30 June 2008, compared to a profit attributable to equity shareholders of US\$271.51 million for the same period in 2007. The loss was mainly attributable to a significant decline in the fair value of financial assets. As of 30 June 2008, the net assets of the Fund were US\$593.22 million (31 December 2007: US\$905.33 million), with a net asset value per share of US\$3.977 (31 December 2007: US\$6.070).

Total investment income for the period increased by 70% to US\$12.07 million (2007: US\$7.08 million). This increase was due mainly to significant growth in dividend income from China Merchants Bank, Industrial Bank and China Credit Trust Company, Limited.

For the period, the loss on the change in fair value of financial assets was US\$471.80 million (2007: a gain of US\$364.37 million), and was mainly attributable to the significant decrease in fair value of two financial assets, namely China Merchants Bank and Industrial Bank. Their valuation decreased by US\$190.26 million and US\$264.66 million respectively as compared to the end of last year.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

The Fund has stepped up its efforts in the search for investment opportunities, and intensive due diligence was completed on projects in financial services, energy, environmental protection, manufacturing and consumer related industries. The Fund entered into an agreement with the National Basketball Association of the United States (NBA) on 10 January 2008 and invested US\$23.00 million in NBA China, L.P., representing a 1% preferred equity stake in the project.

The Fund held an extraordinary general meeting on 16 January 2008 and was authorised at the meeting to sell all 84 million A shares of Industrial Bank at a price of not less than RMB28 per share within a year. Pursuant to the authorisation and after considering market conditions, the Fund has sold a portion of the shares.

On 30 April 2008, the Fund entered into a share transfer agreement with an independent third party for the sale of its 0.28% interest in China Merchants Securities Company, Limited at consideration of RMB140.30 million, which was confirmed to be reasonable by an independent assessment. The transaction was completed in May 2008 and our internal rate of return from the investment was 42%.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

The Fund's cash on hand increased by 55%, from US\$45.69 million at the end of 2007 to US\$71.02 million as of 30 June 2008, due to the sales of our interests in China Merchants Securities Company, Limited and Industrial Bank.

As of 30 June 2008, 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 implemented a reform of the Renminbi ("RMB") exchange rate mechanism, the RMB has appreciated gradually against the U.S. dollar. As most of the Fund's investments are located in China where the official currency is the RMB, the Fund has benefited from the appreciation of the RMB.

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 2008, the Fund's total investment was US\$791.91 million, of which US\$791.17 million was direct investments (representing 90.88% of the Fund's total assets) and US\$0.74 million was bonds (representing 0.08% of the Fund's total assets). The sector distribution of our direct investment was US\$747.52 million in financial services (representing 85.87% of the Fund's total assets), US\$23 million in consumer media (representing 2.64% of the Fund's total assets) and an aggregate of US\$20.65 million in manufacturing, real estate and education facilities (representing 2.37% of the Fund's total assets). Cash on hand was US\$71.02 million, representing 8.16% 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. Its shares were first listed on the Shanghai Stock Exchange in 2002. CMB now has over 590 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 made its interim results announcement for 2008. Its unaudited net profit for the first half of 2008 was RMB13.20 billion, up 116% from the same period of the previous year. The increase was attributable to a wider interest rate spread, growth in both interest and non-interest income, and a lower cost of credit and effective income tax rate. In August 2008, the Fund received a cash dividend of RMB34.32 million for 2007 from CMB.

The lock-up period for the CMB shares held by the Fund expired in February 2008 and the Fund has been gradually selling its CMB shares to realise capital gains.

In June 2008, CMB announced a plan to acquire a 53.12% interest in Wing Lung Bank Limited for total consideration of HK\$19.30 billion (or HK\$156.5 per share). After completion of this acquisition, CMB will be obligated to make an unconditional general offer for all the issued shares of Wing Lung Bank Limited (involving a cash of HK\$17 billion).

Industrial Bank Company, Limited (“IBCL”) is a joint-stock commercial bank incorporated in the PRC. It has over 400 branches and offices across the country. As at the balance sheet date, the Fund held a 1.596% equity interest in IBCL and the investment cost was RMB139 million (equivalent to US\$16.74 million). IBCL has announced that it recorded an unaudited net profit of RMB6.54 billion, up 80% from the same period of the previous year. The growth was mainly due to a wider interest rate spread as compared to the previous year, a significant increase in income from intermediary business and stable asset quality. During the first half of 2008, the Fund received a cash dividend of RMB26.53 million for 2007 from IBCL.

The lock-up period for the IBCL shares held by the Fund expired in February 2008. During the reporting period, the Fund has sold 4.2 million of IBCL shares with a net proceeds of RMB149.6 million under the authorisation granted at the general meeting on 16 January 2008.

In March 2008, as approved by the board of IBCL, IBCL proposed to establish a wholly owned finance leasing company with an investment of RMB2 billion, as well as a joint venture fund management company in partnership with Natixis Global Asset Management SA and Xiamen C&D Inc. The joint venture fund management company will have registered capital of RMB300 million, of which IBCL will contribute 57%.

In June 2008, IBCL signed a strategic cooperative agreement with Jiujiang City Commercial Bank to acquire a 20% interest in the bank at a price not exceeding 1.93 times of the bank’s net assets per share at the end of 2007. The transaction is still pending regulatory approval.

China Credit Trust Company, Limited (“CCT”), formerly known as China Coal Trust Company, Limited, was established in 1995. The principal activities of CCT are trust management, fund management, investments and loan financing. The Fund invested US\$15.31 million in CCT in 2005, and holds a 6.8167% stake. In July 2008, the Fund received a cash dividend of US\$2.5 million for 2007 from CCT.

CCT recorded an unaudited net profit of RMB258 million for the first half of 2008, representing a decrease of 28% from the same period of 2007. The decrease was mainly due to the steep decline of the domestic stock market during the period, resulting in a significant decrease of 40% in investment income compared to the same period of 2007.

In the first half of 2008, the unaudited fees and commissions income of CCT amounted to RMB151 million, representing a sharp rise of 328% over the same period of 2007. This was mainly due to a significant increase in the fees from trust products relating to securities investment compared to the same period of 2007. However, the collective securities investment trust products previously issued reach maturity in 2008, at a time when there was a material decrease in new issues of similar products. It is therefore expected that future fee income from trust products relating to securities investment will significantly decline.

A resolution was passed at the 2007 shareholders meeting of CCT regarding the establishment of a money broker company in the PRC by CCT, together with a foreign money broker. CCT will invest RMB33.5 million in the company, representing 67% of the joint venture’s registered capital. The establishment of this joint venture is still pending regulatory approval.

In June 2008, CCT obtained approval from the China Insurance Regulatory Commission to acquire a stake of 1.8% in China Life Pension Insurance Company Limited.

Industrial Securities Company, Limited (“ISCL”) is a comprehensive securities company registered in the PRC. Its businesses include IPO underwriting, securities underwriting, brokerage, proprietary trading, and investment consulting. The Fund invested RMB8.51 million (equivalent to US\$1.03 million) in 1999, and held a 0.45% equity interest in ISCL at the balance sheet date. As the trading volume of the stock markets in Shenzhen and Shanghai has decreased in 2008, ISCL’s fee income declined sharply. ISCL recorded an unaudited net profit of RMB270 million in the first half of 2008, representing a decrease of 73% from the same period of 2007.

ISCL passed a profit distribution proposal at the 2007 shareholders meeting for the distribution of 3 bonus shares for every 10 shares in issue. The proposal is subject to approval by the China Securities Regulatory Commission (“CSRC”).

On 25 June 2008, a resolution was passed at the shareholders meeting of ISCL for listing on the domestic A-Share market. Preparations for listing are now underway.

Jutian Investment Company, Limited (“Jutian Investment”) was formerly known as Jutian Securities Company, Limited. In 2001, the Fund invested RMB35.36 million (equivalent to US\$4.27 million) in Jutian Investment, representing an equity interest of 4.66%. The Fund reserved for the full amount of this investment in 2005.

Jutian Investment is fully committed to recovering outstanding debts, disposing of assets, and settling taxation issues and remaining litigation. A third party has indicated preliminary interest in acquiring Jutian Investment and shareholders of Jutian Investment are considering a transfer of their entire stake in the company. All parties are now negotiating issues related to such a transfer.

Morgan Stanley Huaxin Fund Management Company Limited (“Morgan Stanley Fund”), formerly known as Jutian Fund Management Company, Limited, was incorporated in 2003 with registered capital of RMB100 million. The Fund invested RMB10 million (equivalent to US\$1.21 million) in 2003, and holds a 10% equity interest in the Morgan Stanley Fund. Morgan Stanley International Holdings Inc. and China Fortune Securities Company, Limited acquired certain stakes in the former Jutian Fund Management Company, Limited and the related approvals and change of business registration were completed in June 2008. The former Jutian Fund Management Company, Limited was formally renamed Morgan Stanley Huaxin Fund Management Company Limited at the same time. In the first half of 2008, the Fund received a cash dividend of RMB1 million for 2007.

Morgan Stanley Fund recorded an unaudited net loss of RMB1.92 million for the first half of 2008, compared to a net profit of RMB34.22 million for the same period of 2007. This change was mainly attributable to the substantial investment gain recorded in the same period of 2007. In addition, the Shanghai Composite Index fell 48% in the first half of 2008 and assets under management of domestic fund management companies generally experienced a decline due to the devaluation of securities and a significant volume of redemptions by investors. Assets under management by Morgan Stanley Fund decreased to RMB2.08 billion at the end of June 2008 from RMB4.13 billion at the end of December 2007, which resulted in a lower management fee income.

Shandong Jinbao Electronics Company, Limited (“Jinbao”) was incorporated in Zhaoyuan City of Shandong Province in 1993 and engages in the production and sale of copper-foil and laminate. The Fund’s cumulative investment is US\$7.85 million, representing an interest of 30% in Jinbao. For the six months ended 30 June 2008, Jinbao recognised unaudited revenue of RMB769.33 million, and earned an unaudited net profit of RMB33.51 million, representing an increase of 50% and 15%, respectively, over 2007. The growth in net profit was below that of sales due mainly to a decline in the market price of copper laminate, one of the firms’s major products, to an increase in utilities and other operating costs, and to a lower export tax refund.

Jinbao submitted a listing application to the CSRC on 28 March 2008, and the CSRC formally accepted Jinbao’s application on 7 April 2008.

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 contract term. 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 1 dormitories of Oriental University City of Langfang City, which has a capacity of approximately 17,000 students. It accommodated some 16,000 students in the school year of 2007/2008 and all rooms were nearly fully occupied.

Oriental recorded an unaudited net profit of RMB4.81 million for the first half of 2008, representing a decrease of 15% from the same period of 2007. The decrease was mainly due to the reduction in rental revenue and significant increase in tax expenses.

In March 2008, Raffles Education Corp. of Singapore duly completed a transfer of assets for the acquisition of Oriental University City Development Company, Limited (東方大學城開發有限公司), the then controlling shareholder of Oriental. Upon completion of this transaction, Raffles Education Corp. becomes the major shareholder of Oriental and directly participates in the management of Oriental. The Fund will closely monitor the operating performance of Oriental after its change in shareholding.

Shenzhen Mankam Square (“Mankam”) is a 33-storey business/commercial complex on North Wen Jin Road, Shenzhen. In 1994, the Fund invested US\$4.30 million through Hansen Enterprises Limited (“Hansen”), which has a 35% equity interest in the complex, to purchase 5,262 square metres of retail space on the third floor of Mankam. Due to problems concerning ownership, the first and second floors have not yet commenced operation which has caused great difficulty in renting or selling the third floor. The Fund is still actively seeking an opportunity to exit the investment. The Fund reserved for the full amount of this investment in 2005.

China Merchants Plaza (Shanghai) Property Company Limited (“China Merchants Plaza”) was established in Shanghai in 1994, to engage in the development of a commercial and business complex. The Fund invested US\$5.685 million in 1994 and holds an effective equity interest of 19.8% in China Merchants Plaza. The commercial complex is a 28-storey office/retail building located at North Chengdu Road, Jingan District, Shanghai, with a total saleable space of 60,086 square metres, of which 49,438 square metres remains unsold. The Fund reserved for the full amount of this investment in 2000 due to the substantial leverage, high financing costs and significant accumulated losses of China Merchants Plaza. For the six months ended 30 June 2008, China Merchants Plaza recorded an unaudited net profit of RMB13.48 million, representing an increase of 354% over the same period of last year. The significant increase in net profit was mainly attributable to higher rents for units under lease in the first half-year, along with substantially lower indebtedness and financing costs, which are denominated primarily in foreign currencies and were helped by appreciation of the RMB.

NBA China, L.P. (“NBA China”) is a limited liability partnership incorporated in Cayman Islands in 2007. The Fund invested US\$23 million in January 2008, accounting for 1% of the preferred equity in NBA China. Other strategic investors hold the remaining 10% of preferred equity. NBA China has exclusive rights to operate the NBA’s businesses in the Greater China Region, including television broadcasting rights, advertising, sponsorship, events, digital media, and merchandising, among other new businesses.

Since its inception, NBA China has actively developed a variety of businesses and has established cooperative relationships with many large enterprises such as Toyota, Peak and Mengniu. In July 2008, the first two NBA specialty shops in China opened in Beijing. In addition, Wukesong Culture and Sports Centre, NBA China and Anschutz Entertainment Group of the U.S. have formally established a strategic partnership in the operation of the Beijing Olympic Basketball Gymnasium and related commercial promotions.

REVIEW OF LISTED INVESTMENTS

In view of the uncertainty surrounding the U.S. sub-prime crisis and economic outlook, as well as the effect of macroeconomic control measures taken by the PRC on the Hong Kong and domestic stock markets, the Fund did not deal in any trade equities (save for selling some IBCL shares and IPO A shares) in the secondary market during the reporting period after it had sold all of its trade equities portfolio before the end of 2007.

PROSPECTS

During the first half of 2008, as the world economy slowed due to the U.S. sub-prime crisis, tight macroeconomic control measures implemented by the Central Government, and the occurrence of a series of natural disasters, China’s economy cooled somewhat, and yet maintained a relatively high growth rate. During the half year, China’s economy grew 10.4% year-on-year, which was 1.8% lower than the growth rate in the same period of 2007. The Consumer Price Index (“CPI”) rose 7.9% year-on-year in the first half of the year. The CPI, after reaching a two-year high in May, decreased in June. For the second half of 2008, it is expected that the main targets of macroeconomic policy will continue to be fighting inflation and excess liquidity, and the Central Government will implement such measures with an appropriate level of tightness. While the tight credit control, production cost increases and lower exports may reduce the profit of some corporations and create challenges for the Fund’s investment return, the continuing need for business financing may also provide the Fund with new opportunities for direct investment. The Fund will continuously make every effort to identify new investment projects, with an emphasis on investment opportunities in sectors such as financial services, energy, environmental protection, consumer and cultural promotion, and will also actively turn its existing investments in order to seek better returns for shareholders.

Ms. Zhou Linda Lei

Managing Director

China Merchants China Investment Management Limited

Hong Kong, 12 September 2008

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period ended 30 June 2008 (2007: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the period ended 30 June 2008, 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 2008, 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	Percentage of total issued share
Mr. Victor Lap-Lik Chu	3,224,000	Interest of controlled corporation	2.16%

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 2008, 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 2008.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, 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 (Note 3)	Long Position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Steam Navigation Company Limited (Note 3)	Long Position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Long Position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Finance Holdings Company Limited (Note 2)	Long Position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Financial Services Limited (Note 3)	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	2,099,217	10.96%
		Security interest	14,247,783	
	Short Position	Beneficial owner	8,000	0.01%
華夏全球精選股票型證券投資基金	Long Position	Beneficial owner	9,682,000	6.49%
QVT Financial GP LLC (Note 4)	Long Position	Interest of controlled corporation	10,483,000	7.02%
QVT Financial LP	Long Position	Investment Manager	10,483,000	7.02%
QVT Associates GP LLC (Note 4)	Long Position	Interest of controlled corporation	9,148,098	6.13%
QVT Fund LP	Long Position	Beneficial owner	8,220,448	5.51%
Lazard Asset Management LLC	Long Position	Investment Manager	17,285,300	11.59%
UBS AG	Long Position	Beneficial owner	268,000	6.08%
		Security Interest	8,809,000	

Note 1: China Merchants Holdings (Hong Kong) Company Limited 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: China Merchants Finance Holdings Company Limited 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: China Merchants Group Limited, China Merchants Steam Navigation Company Limited and China Merchants Financial Services Limited are 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: QVT Financial GP LLC and QVT Associates GP LLC are deemed to have corporate interests in the shares by virtue of its interest in the company whose 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.

Further, owing to a business trip, the then Chairman, Dr. Fu Yuning, has given an apology for not hosting the annual general meeting of the Company which was held on 26 May 2008.

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. Li Yinquan

Chairman

Hong Kong, 12 September 2008