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CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

招商局中國基金有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 133)

ANNOUNCEMENT OF 2021 INTERIM RESULTS

FINANCIAL RESULTS

The Board of Directors of China Merchants China Direct Investments Limited (the “**Company**”) announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2021	2020
		(unaudited)	(unaudited)
		US\$	US\$
	NOTES		
Net gain (loss) on financial assets at fair value through profit or loss	3	94,839,747	(47,905,963)
Investment income	4	3,139,434	6,107,601
Other gains		338,894	895,522
Administrative expenses		(7,479,124)	(5,732,536)
Profit (loss) before taxation	6	90,838,951	(46,635,376)
Taxation	7	(29,807,179)	11,752,787
Profit (loss) for the period		61,031,772	(34,882,589)
Other comprehensive income (expense) for the period			
Item that will not be reclassified subsequently to profit or loss			
Exchange difference arising on translation to presentation currency		4,899,321	(6,723,284)
Total comprehensive income (expense) for the period		65,931,093	(41,605,873)
Profit (loss) for the period attributable to owners of the Company		61,031,772	(34,882,589)
Total comprehensive income (expense) for the period attributable to owners of the Company		65,931,093	(41,605,873)
Basic earnings (loss) per share	8	0.401	(0.229)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>NOTES</i>	30 June 2021 <i>(unaudited)</i> US\$	31 December 2020 <i>(audited)</i> US\$
Non-current asset			
Financial assets at fair value through profit or loss		893,949,316	835,620,757
Current assets			
Financial assets at fair value through profit or loss		96,174,488	73,652,221
Other receivables and prepayments		2,790,304	2,002,300
Cash and cash equivalents		63,664,454	60,363,011
		162,629,246	136,017,532
Current liabilities			
Other payables		28,410,244	37,760,154
Dividend payable		12,186,641	-
Taxation payable		473,942	2,665,577
		41,070,827	40,425,731
Net current assets		121,558,419	95,591,801
Total assets less current liabilities		1,015,507,735	931,212,558
Non-current liabilities			
Financial liabilities designated at fair value through profit or loss		1,432,420	1,461,857
Deferred taxation		184,900,084	154,319,922
		186,332,504	155,781,779
Net assets		829,175,231	775,430,779
Capital and reserves			
Share capital		139,348,785	139,348,785
Reserves	10	114,245,818	109,346,497
Retained profits	10	575,580,628	526,735,497
Equity attributable to owners of the Company		829,175,231	775,430,779
Net asset value per share	9	5.443	5.090

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. BASIS OF PREPARATION

The condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as 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**”).

The financial information relating to the year ended 31 December 2020 that is included in this results announcement as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accounting policies and methods of computation used in the condensed consolidated financial information for the six months ended 30 June 2021 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2020.

3. NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following is the analysis of net gain (loss) on investments of the Group for the six months ended 30 June 2021. The amounts of realised gain (loss) represent the difference between the fair value at the beginning of the period or purchase date in the period and the disposal date of financial instruments while the amounts of unrealised gain (loss) represent the change of fair value during the period of financial instruments held by the Group as at the period end:

	Six months ended 30 June	
	2021 <i>(unaudited)</i> US\$	2020 <i>(unaudited)</i> US\$
Net gain (loss) on financial assets at fair value through profit or loss ("FVTPL")		
Listed investments		
Realised	54,978	-
Unrealised	117,602,127	(31,887,183)
Unlisted investments		
Realised	142,914	81,185
Unrealised	(22,960,272)	(16,099,965)
Total	94,839,747	(47,905,963)

4. INVESTMENT INCOME

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

	Six months ended 30 June	
	2021 <i>(unaudited)</i> US\$	2020 <i>(unaudited)</i> US\$
Interest income on bank deposits	217,319	268,359
Dividend income on financial assets at FVTPL	2,922,115	5,839,242
Total	3,139,434	6,107,601

5. SEGMENTAL INFORMATION

The Group's reportable segments, based on information reported to the chief operating decision maker for the purposes of resources allocation and performance assessment, are as follows:

- (a) Financial services: investees engaged in financial services activities.
- (b) Culture, media and consumption: investees engaged in culture, media and consumption activities.
- (c) Information technology: investees engaged in information technology activities.

The Group also invested in manufacturing, energy and resources, pharmaceutical and agriculture activities (2020: manufacturing, energy and resources, agriculture and education activities), and none of these segments met the quantitative thresholds for the reportable segments in both current and prior periods. Accordingly, these were grouped in "Others" during the current period. Investment in education segment was fully disposed of during 2020.

Information regarding the above segments is reported below.

The following is an analysis of the Group's reportable and operating segments for the period under review.

For the six months ended 30 June 2021

	Reportable segments				Others US\$	Total US\$
	Financial services US\$	Culture, media and consumption US\$	Information technology US\$	Total reportable segments US\$		
Net gain on financial assets at FVTPL	56,143,957	5,119,818	31,069,831	92,333,606	2,506,141	94,839,747
Dividend income on financial assets at FVTPL	2,470,627	246,541	204,947	2,922,115	-	2,922,115
Other gains	-	280,120	-	280,120	-	280,120
Segment profit	58,614,584	5,646,479	31,274,778	95,535,841	2,506,141	98,041,982
Unallocated:						
- Administrative expenses						(7,479,124)
- Interest income on bank deposits						217,319
- Other gains						58,774
Profit before taxation						90,838,951

5. SEGMENTAL INFORMATION - CONTINUED

For the six months ended 30 June 2020

	Reportable segments				Others US\$	Total US\$
	Financial services US\$	Culture, media and consumption US\$	Information technology US\$	Total reportable segments US\$		
Net (loss) gain on financial assets at FVTPL	(48,672,088)	(14,423,198)	19,525,627	(43,569,659)	(4,336,304)	(47,905,963)
Dividend income on financial assets at FVTPL	3,367,059	2,374,720	97,463	5,839,242	-	5,839,242
Other gains	-	895,522	-	895,522	-	895,522
Segment (loss) profit	(45,305,029)	(11,152,956)	19,623,090	(36,834,895)	(4,336,304)	(41,171,199)
Unallocated:						
- Administrative expenses						(5,732,536)
- Interest income on bank deposits						268,359
Loss before taxation						(46,635,376)

Segment profit (loss) represents the net gain (loss) on financial assets at FVTPL including net gain (loss) on investments, the corresponding dividend income and other gains earned by each segment without allocation of central administrative expenses (including fees to China Merchants China Investment Management Limited (the “**Investment Manager**”)), interest income on bank deposits and certain other gains. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment. No separate segment revenue (i.e. investment income) is disclosed as it had been presented in the computation of segment profit (loss).

5. SEGMENTAL INFORMATION - CONTINUED

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	30 June 2021 (unaudited) US\$	31 December 2020 (audited) US\$
Segment assets		
Financial services	708,077,517	694,286,699
Culture, media and consumption	43,664,152	61,334,033
Information technology	222,150,819	139,283,555
Total assets for reportable segments	973,892,488	894,904,287
Others	18,813,116	16,204,715
Unallocated	63,872,958	60,529,287
Consolidated assets	1,056,578,562	971,638,289
Segment liabilities		
Financial services	65,961	186,213
Culture, media and consumption	204,516	285,098
Information technology	912,601	787,728
Total liabilities for reportable segments	1,183,078	1,259,039
Others	4,879,440	4,802,758
Unallocated	221,340,813	190,145,713
Consolidated liabilities	227,403,331	196,207,510

For the purposes of monitoring segment performance and allocating resources between segments:

All assets are allocated to reportable segments other than assets of non-reportable segments, certain other receivables and prepayments, cash and cash equivalents, and all liabilities are allocated to reportable segments other than liabilities of non-reportable segments, certain other payables, dividend payable, current and deferred tax liabilities.

During the period, the Group was principally involved in investing in companies with significant business involvement in the People's Republic of China ("PRC"), and hence no geographical information in relation to the investing activities is presented.

6. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2021	2020
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>US\$</i>	<i>US\$</i>
Profit (loss) before taxation has been arrived at after charging (crediting):		
Investment Manager's management fee	7,026,361	5,255,960
Net foreign exchange (gain) loss	(58,774)	77,733

7. TAXATION

	Six months ended 30 June	
	2021	2020
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>US\$</i>	<i>US\$</i>
The tax (charge) credit for the period comprises:		
Current tax:		
PRC Enterprise Income Tax	(47,423)	(12,833)
Withholding tax for distributed earnings	(145,526)	(116,347)
Deferred taxation		
Current period	(29,614,230)	11,881,967
Total	(29,807,179)	11,752,787

No provision for taxation in Hong Kong has been made as the Company and its subsidiaries do not have assessable profits for both periods. PRC Enterprise Income Tax in the PRC is calculated at the rates prevailing in the relevant regions.

Under the Law of the PRC on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the condensed consolidated financial information in respect of temporary differences attributable to retained profits of the PRC subsidiaries.

8. BASIC EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2021	2020
	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit (loss) for the purpose of basic earnings (loss) per share (US\$)	61,031,772	(34,882,589)
Number of ordinary shares for the purpose of basic earnings (loss) per share	152,333,013	152,333,013
Basic earnings (loss) per share (US\$)	0.401	(0.229)

No diluted earnings (loss) per share for both periods were presented as there were no potential ordinary shares outstanding at the both period ends.

9. NET ASSET VALUE PER SHARE

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

	30 June	31 December
	2021	2020
	<i>(unaudited)</i>	<i>(audited)</i>
Net asset value (US\$)	829,175,231	775,430,779
Number of ordinary shares in issue	152,333,013	152,333,013
Net asset value per share (US\$)	5.443	5.090

10. MOVEMENT IN RESERVES AND RETAINED PROFITS

	Six months ended 30 June	
	2021	2020
	<i>(unaudited)</i>	<i>(unaudited)</i>
	US\$	US\$
At 1 January	636,081,994	509,701,457
Change in reserves	4,899,321	(6,723,284)
Profit (loss) for the period	61,031,772	(34,882,589)
Dividends declared for the last year	(12,186,641)	(10,663,311)
At 30 June	689,826,446	457,432,273

REVIEW AND PROSPECTS

OVERALL PERFORMANCE

The Group recorded a profit attributable to equity shareholders of US\$61.03 million for the six months ended 30 June 2021, compared to a loss attributable to equity shareholders of US\$34.88 million for the same period last year. The reversal was mainly due to an increase in the overall value of the financial assets at FVTPL (the “**Financial Assets**”), resulting in the recognition of a gain, rather than a loss as in the prior period. As of 30 June 2021, the net assets of the Group (net of the final and special dividends of US\$12.19 million in aggregate for 2020, paid in July 2021) were US\$829.18 million (31 December 2020: US\$775.43 million), with a net asset value per share of US\$5.443 (31 December 2020: US\$5.090).

The net gain on the Financial Assets for the period was US\$94.84 million, compared to a net loss of US\$47.91 million for the same period last year. Looking deeper, the listed investments recorded a net gain of US\$117.66 million, while the unlisted investments recorded a net loss of US\$22.82 million.

Total investment income for the period decreased by 48.61% to US\$3.14 million (six months ended 30 June 2020: US\$6.11 million) as compared to the same period last year, due mainly to a decrease in dividend and distribution income from investments.

ACQUISITIONS AND DISPOSALS OF INVESTMENTS

In the first half of 2021, the Group continued to seek out and rigorously evaluate investment opportunities. During the period, the Group completed an investment in a cyber security project.

On 24 March 2021, the Group entered into an investment agreement and other relevant agreements in relation to Beijing Huashun Xin’an Technology Co., Ltd. (“**Huashun Xin’an**”), pursuant to which the Group agreed to contribute capital to Huashun Xin’an in order to participate in its new round of financing and to obtain an equity interest, as well as to purchase a portion of the equity interest from the founding shareholders of Huashun Xin’an at a discounted price. The total investment made by the Group in Huashun Xin’an is RMB30 million, representing a 4.29% equity interest. The Group completed capital contributions of RMB24 million (equivalent to US\$3.67 million) and RMB6 million (equivalent to US\$0.93 million) to the Huashun Xin’an project on 9 April and 2 July 2021, respectively, making an aggregate of RMB30 million (equivalent to US\$4.60 million) for this investment. Huashun Xin’an is a cyber security company with a search engine for cyberspace resources. It focuses on the fields of big data security and cyberspace resources for surveying and mapping. It is primarily engaged in the research and development of technologies and products in the field of cyber information security, and its search engine for cyberspace resources, FOFA, is currently a global leader in this field.

In addition, the Group exited from an investment of convertible debt in the period.

The Group reached a decision to recall the loan to Rong Bao Zhai Culture Co., Ltd. (“**Rong Bao Zhai Culture**”) in the fourth quarter of 2020. As of 28 June 2021, the Group received the full amount of the loan principal of RMB300 million plus accrued interest of RMB26.49 million (equivalent to US\$50.09 million) from Rong Bao Zhai Culture, and officially exited from this investment. The pre-tax internal rate of return to the Group from Rong Bao Zhai Culture was 3.57%.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND COMMITMENTS

The Group's cash and cash equivalents increased by 5.47%, from US\$60.36 million at the end of last year to US\$63.66 million (representing 6.03% of the Group's total assets) as of 30 June 2021, due mainly to the receipt of the remaining loan principal plus interest accrued from Rong Bao Zhai Culture during the period.

As of 30 June 2021, the Group had no outstanding bank loans (31 December 2020: Nil).

As of 30 June 2021, the Group had commitments of US\$5.98 million (31 December 2020: US\$5.01 million) for investments that were approved but not yet provided for in the financial statements – specifically, for future payments related to investments in CASREV FUND III-RMB L.P., Nanning Huiyou Xingyao Equity Investment Fund L.P. and Huashun Xin'an.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Group's investments are located in China where the official currency is the Renminbi (“RMB”). The conversion rate of RMB against the US dollar recorded an increase of 0.65% in the first half of 2021, which had a favourable impact on the Group since it holds a considerable amount of assets denominated in RMB. The Group currently does not have any foreign currency hedging policy. However, the Group continues to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES

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

THE PORTFOLIO

As of 30 June 2021, the Group's total investments amounted to US\$990.12 million. The sector distribution of investments was US\$705.70 million in financial services (representing 66.79% of the Group's total assets), US\$43.46 million in culture, media and consumption (4.11%), US\$222.15 million in information technology (21.02%), and US\$18.81 million in other ventures (including manufacturing, energy and resources, and pharmaceutical, etc.) (1.78%). In addition, cash and cash equivalents were US\$63.66 million, representing 6.03% of the Group's total assets as of 30 June 2021.

PROSPECTS

In the first half of 2021, following the continuing effective prevention and control of the novel coronavirus pandemic, and with various sectors of the economy and society growing steadily, China's economy maintained a generally stable trend toward recovery. According to data released by the National Bureau of Statistics, China's Gross Domestic Product (GDP) in the first half of 2021 was RMB53.2 trillion, up 12.7% year-on-year, at comparable prices, with an average increase of 5.3% over two years. In terms of quarters, the first quarter increased by 18.3% year-on-year and the two-year average growth was 5.0%, while the second quarter increased by 7.9% year-on-year and the two-year average growth was 5.5%. In terms of industries, the added value of the primary industry in the first half of the year was RMB2.8 trillion, with a year-on-year increase of 7.8%; the added value of the secondary industry was RMB20.7 trillion, with a year-on-year increase of 14.8%; and the added value of the tertiary industry was RMB29.7 trillion, with a year-on-year increase of 11.8%. Furthermore, the Consumer Price Index of China for the first half of the year rose by 0.5% year-on-year, representing a relatively low level of inflation.

Looking forward to the second half of the year, as global vaccinations continue to advance, the pandemic is still trending in a favourable direction, and the independent economic recovery of the world is expected to continue. In terms of China's economy, which emerged from the haze of the pandemic early on, although the momentum of the economic recovery continued in the second quarter of the year, the market expects the economy to face certain downward pressures in the second half of the year, and the GDP growth rate in the second half of the year may also show a weak trend. The pressure to restrain China's economic growth in the second half of the year may come from pent-up demand in service industry, a slowdown in export growth, the regulatory control of real estate financing, restrained investment due to a rapid rise in raw material prices, the “carbon neutral” environmental protection initiative and the risk of credit defaults during the normalisation process of stimulus policies. Considering this possible risk of a slowdown in economic growth, the Central Government is expected to take appropriate measures in order to make sure that the economy continues to grow steadily. Given that China's economic growth is gradually returning to normal in 2021, and that China's economic restructuring is at a new starting point in the “14th Five-Year” plan, it is expected that the operating results of the investment projects (mainly operating in China) held by the Group will resurge to a certain extent.

In this environment, where challenges and opportunities co-exist, the Group will continue to make every effort to identify new investment projects, and our investment focus will be on the financial industry with an emphasis on the insurance sector, on emerging technology industries featuring artificial intelligence (AI), on great cultural industry with an emphasis on culture and tourism, and on great healthcare industry with an emphasis on medicine and healthcare, as we seek to optimise our mix of investments in order to create greater shareholder value.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

A dividend payment of US\$12,186,641 (2019: US\$10,663,311), being a final dividend of US\$0.07 per share (2019: US\$0.07 per share) and a special dividend of US\$0.01 per share (2019: Nil), totaling US\$0.08 (2019: US\$0.07) per share, for the year ended 31 December 2020 was approved by the shareholders on 28 May 2021 and was subsequently paid by the Company in cash on 27 July 2021.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE

The condensed consolidated financial information 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 the interim report to be sent to shareholders. The condensed consolidated financial information has been reviewed by the Company's Audit Committee.

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

The Stock Exchange of Hong Kong Limited has granted a waiver to the Company for establishment of remuneration committee on condition that the Executive Directors and senior management of the Company will not receive any Directors' fee or emolument from the Company. Thus, no remuneration committee has been established by the Company.

DIRECTORS' SECURITIES TRANSACTIONS

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 to 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
ZHOU Xing
Chairman

Hong Kong, 30 August 2021

As at the date hereof, the Executive Directors of the Company are Mr. WANG Xiaoding, Mr. TSE Yue Kit and Ms. KAN Ka Yee, Elizabeth; the Non-executive Directors are Mr. ZHOU Xing, Mr. ZHANG Rizhong and Mr. KE Shifeng; and the Independent Non-executive Directors are Mr. LIU Baojie, Mr. TSANG Wah Kwong, Dr. LI Fang and Dr. GONG Shaolin. In addition, Mr. CHU Lap Lik, Victor is the Alternate Director to Ms. KAN Ka Yee, Elizabeth.