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 2018 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 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2018	2017
		(unaudited)	*(unaudited)*
	NOTES	***US$***	*US$*
Net (loss) gain on financial assets at fair value through profit or loss	*3*	**(62,000,711)**	75,512,881
Investment income	*4*	**10,929,348**	12,107,080
Other gains		**656,419**	442,792
Administrative expenses		**(7,062,792)**	(6,418,604)
(Loss) profit before taxation	*6*	**(57,477,736)**	81,644,149
Taxation	*7*	**9,962,712**	(21,395,981)
(Loss) profit for the period		**(47,515,024)**	60,248,168
Other comprehensive (expense) income for the period			
Item that will not be reclassified subsequently to profit or loss			
Exchange difference arising on translation		**(7,714,655)**	13,020,799
Total comprehensive (expense) income for the period		**(55,229,679)**	73,268,967
(Loss) profit for the period attributable to owners of the Company		**(47,515,024)**	60,248,168
Total comprehensive (expense) income for the period attributable to owners of the Company		**(55,229,679)**	73,268,967
Basic (loss) earnings per share	*8*	**(0.312)**	0.396

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	30 June 2018 *(unaudited)* US$	31 December 2017 *(audited)* US$
Non-current asset			
Financial assets at fair value through profit or loss		**630,051,562**	448,753,156
Current assets			
Financial assets at fair value through profit or loss		**66,489,668**	376,210,439
Other receivables and prepayments		**7,698,012**	96,135
Cash and cash equivalents		**70,238,180**	47,767,265
		144,425,860	424,073,839
Current liabilities			
Other payables		**27,665,654**	38,172,583
Dividend payable		**9,139,981**	-
Taxation payable		**300,415**	5,285,658
		37,106,050	43,458,241
Net current assets		**107,319,810**	380,615,598
Total assets less current liabilities		**737,371,372**	829,368,754
Non-current liabilities			
Financial liabilities designated at fair value through profit or loss		**1,340,931**	1,451,162
Deferred taxation		**94,773,987**	122,291,478
		96,114,918	123,742,640
Net assets		**641,256,454**	705,626,114
Capital and reserves			
Share capital		**139,348,785**	139,348,785
Reserves	*10*	**92,156,684**	99,871,339
Retained profits	*10*	**409,750,985**	466,405,990
Equity attributable to owners of the Company		**641,256,454**	705,626,114
Net asset value per share	*9*	**4.210**	4.632

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2017 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 2017 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.

Other than changes in accounting polices resulting from the application of new Hong Kong Financial Reporting Standard ("**HKFRS**"), the accounting policies and methods of computation used in the condensed consolidated financial information for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new HKFRS issued by the HKICPA that is relevant for the preparation of the Group's condensed consolidated financial information:

HKFRS 9	Financial instruments

The new HKFRS mentioned above has been applied by the Group in accordance with the relevant transition provision which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments*

In the current interim period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for the 1) classification and measurement of financial assets and financial liabilities; 2) expected credit losses ("**ECL**") for financial assets; and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provision set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2.1.1 *Key changes in accounting policies resulting from application of HKFRS 9*

Classification and measurement of financial assets

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* - continued

2.1.1 *Key changes in accounting policies resulting from application of HKFRS 9 - continued*

Classification and measurement of financial assets - continued

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss, excludes any dividend on the financial assets but includes the interest earned on the financial assets, which is included in the "Net (loss) gain on financial assets at fair value through profit or loss" line item.

The Directors have reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in note 2.1.2.

Impairment under ECL model

The financial assets of other receivables and cash and cash equivalents of the Group are subject to impairment assessment under ECL model in HKFRS 9. The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* - continued

2.1.1 *Key changes in accounting policies resulting from application of HKFRS 9 - continued*

Impairment under ECL model - continued

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* - continued

2.1.1 *Key changes in accounting policies resulting from application of HKFRS 9 - continued*

Impairment under ECL model - continued

Measurement and recognition of ECL - continued

ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount.

The Directors have reviewed and assessed the Group's existing financial assets as at 1 January 2018 for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact are considered as immaterial.

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* - continued

2.1.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets at the date of initial application, i.e. 1 January 2018.

	Financial assets designated at FVTPL	Financial assets at FVTPL
	US$	*US$*
Closing balance at 31 December 2017 - HKAS 39	824,963,595	-
Effect arising from initial application of HKFRS 9: Reclassification (Note 1)	(824,963,595)	824,963,595
Opening balance at 1 January 2018	-	824,963,595

Note 1: Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of these investments of US$824,963,595 was reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

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

The following is the analysis of net (loss) gain on investments of the Group for the six months ended 30 June 2018. The amounts of realised (loss) gain represent the fair value difference between the beginning of the period or purchase date in the period and the disposal date of financial instruments while the amounts of unrealised (loss) gain 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	
	2018	2017
	(unaudited)	*(unaudited)*
	US$	*US$*
Net (loss) gain on financial assets at FVTPL		
Listed investments		
Realised	**6,813,386**	1,025,556
Unrealised	**(43,310,909)**	58,113,029
Unlisted investments		
Realised	**-**	(765,337)
Unrealised	**(25,503,188)**	17,139,633
Total	**(62,000,711)**	75,512,881

4. INVESTMENT INCOME

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

	Six months ended 30 June	
	2018	2017
	(unaudited)	*(unaudited)*
	US$	*US$*
Interest income on bank deposits	**350,961**	103,235
Dividend income on financial assets at FVTPL	**10,578,387**	12,003,845
Total	**10,929,348**	12,107,080

5. SEGMENTAL INFORMATION

The Group's reportable segments, based on information reported to the executive management 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.
(d) Energy and resources: investees engaged in energy and resources activities.

The Group also invested in manufacturing, agriculture and education activities. None of these segments met the quantitative thresholds for the reportable segments in both current and prior periods.

Information regarding the above segments is reported below. Comparative figures have been restated to conform to the current period's presentation.

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 2018

	Reportable segments						
	Financial services *US$*	Culture, media and consumption *US$*	Information technology *US$*	Energy and resources *US$*	Total reportable segments *US$*	Others *US$*	Total *US$*
Net (loss) gain on financial assets at FVTPL	**(26,791,809)**	**(19,249,979)**	**(7,434,691)**	**(6,983,227)**	**(60,459,706)**	**(1,541,005)**	**(62,000,711)**
Dividend income on financial assets at FVTPL	**8,302,212**	**2,204,909**	**71,266**	**-**	**10,578,387**	**-**	**10,578,387**
Other gains	**-**	**656,419**	**-**	**-**	**656,419**	**-**	**656,419**
(Loss) profit	**(18,489,597)**	**(16,388,651)**	**(7,363,425)**	**(6,983,227)**	**(49,224,900)**	**(1,541,005)**	**(50,765,905)**
Unallocated:							
- Administrative expenses							**(7,062,792)**
- Interest income on bank deposits							**350,961**
Loss before taxation							**(57,477,736)**

5. SEGMENTAL INFORMATION - CONTINUED

For the six months ended 30 June 2017 (restated)

	Reportable segments						
	Financial services *US$*	Culture, media and consumption *US$*	Information technology *US$*	Energy and resources *US$*	Total reportable segments *US$*	Others *US$*	Total *US$*
Net gain (loss) on financial assets at FVTPL	58,007,543	11,468,803	8,804,105	(3,992,899)	74,287,552	1,225,329	75,512,881
Dividend income on financial assets at FVTPL	9,433,033	1,689,994	65,941	-	11,188,968	814,877	12,003,845
Other gains	-	442,792	-	-	442,792	-	442,792
Profit (loss)	67,440,576	13,601,589	8,870,046	(3,992,899)	85,919,312	2,040,206	87,959,518
Unallocated:							
- Administrative expenses							(6,418,604)
- Interest income on bank deposits							103,235
Profit before taxation							81,644,149

Segment (loss) profit represents the net (loss) gain on financial assets at FVTPL including net (loss) gain on investments, the corresponding dividend income and other gains earned by each segment without allocation of central administrative expenses (including fees to the Investment Manager) and interest income on bank deposits. This is the measure reported to the executive management 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 (loss) profit.

5. SEGMENTAL INFORMATION - CONTINUED

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

	30 June 2018 ***(unaudited)*** ***US$***	31 December 2017 *(audited)* *US$* *(restated)*
Segment assets		
Financial services	**465,899,495**	558,939,886
Culture, media and consumption	**157,640,896**	179,312,367
Information technology	**51,651,415**	49,089,108
Energy and resources	**1,035,275**	7,853,295
Total assets for reportable segments	**676,227,081**	795,194,656
Others	**27,915,244**	29,768,939
Unallocated	**70,335,097**	47,863,400
Consolidated assets	**774,477,422**	872,826,995
Segment liabilities		
Financial services	**130,278**	100,126
Culture, media and consumption	**671,034**	735,830
Information technology	**201,107**	115,559
Energy and resources	**20,686**	156,921
Total liabilities for reportable segments	**1,023,105**	1,108,436
Others	**4,851,877**	4,246,218
Unallocated	**127,345,986**	161,846,227
Consolidated liabilities	**133,220,968**	167,200,881

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, 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. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2018	2017
	(unaudited)	*(unaudited)*
	US$	*US$*
(Loss) profit before taxation has been arrived at after charging:		
Investment Manager's management fee	**6,380,869**	5,732,269
Net foreign exchange loss	**125,874**	65,804

7. TAXATION

	Six months ended 30 June	
	2018	2017
	(unaudited)	*(unaudited)*
	US$	*US$*
The tax credit (charge) for the period comprises:		
Current tax:		
PRC Enterprise Income Tax	**(16,024,335)**	(8,240,490)
Withholding tax for distributed earnings	**(401,679)**	-
Underprovision in prior period	**(47,589)**	-
Deferred taxation		
Current period	**26,436,315**	(13,155,491)
Total	**9,962,712**	(21,395,981)

No provision for taxation in Hong Kong has been made as the Company and its subsidiaries do not have assessable profits for the period. 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 (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	(unaudited)	*(unaudited)*
(Loss) profit for the purpose of basic (loss) earnings per share (US$)	**(47,515,024)**	60,248,168
Number of ordinary shares for the purpose of basic (loss) earnings per share	**152,333,013**	152,333,013
Basic (loss) earnings per share (US$)	**(0.312)**	0.396

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

9. NET ASSET VALUE PER SHARE

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

	30 June 2018	31 December 2017
	(unaudited)	*(audited)*
Net asset value (US$)	**641,256,454**	705,626,114
Number of ordinary shares in issue	**152,333,013**	152,333,013
Net asset value per share (US$)	**4.210**	4.632

10. MOVEMENT IN RESERVES AND RETAINED PROFITS

	Six months ended 30 June	
	2018	2017
	(unaudited)	*(unaudited)*
	US$	*US$*
At 1 January	**566,277,329**	421,966,660
Change in reserves	**(7,714,655)**	13,020,799
(Loss) profit for the period	**(47,515,024)**	60,248,168
Dividends declared for the last year	**(9,139,981)**	(9,139,981)
At 30 June	**501,907,669**	486,095,646

SPECIAL INTERIM DIVIDEND

As the shares of Industrial Bank Co., Ltd. held by the Group have been fully disposed of in the beginning of the year and received a satisfactory return, and to mark the 25^{th} listing anniversary of the Company, the Directors have resolved to declare a special interim dividend of US$0.05 (or HK$0.39) per share for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil), which will be paid in cash on 8 November 2018 to shareholders whose names appear on the register of members on 28 September 2018. Total special interim dividend is amounted to US$7,616,651. Shareholders who wish to receive the dividend in Hong Kong Dollars have to complete a Hong Kong Dollar dividend election form and return the same to the Company's Share Registrar on or before 26 October 2018. Shareholders who have submitted the dividend election form previously do not need to re-submit this form.

A dividend payment of US$9,139,981 (2016: US$9,139,981), being a final dividend of US$0.06 per share (2016: US$0.06 per share), for the year ended 31 December 2017 was approved by the shareholders on 25 May 2018 and was subsequently paid by the Company in cash on 26 July 2018.

BOOK CLOSURE

The register of members of the Company will be closed from 24 September 2018 to 28 September 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the special interim dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17^{th} Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 21 September 2018.

REVIEW AND PROSPECTS

OVERALL PERFORMANCE

The Group recorded a loss attributable to equity shareholders of US$47.52 million for the six months ended 30 June 2018, compared to a profit attributable to equity shareholders of US$60.25 million for the same period last year. The reversal was mainly due to a decline in the overall value of the financial assets at FVTPL (the "**Financial Assets**"), resulting in the recognition of a loss, rather than a gain as in the prior period. As of 30 June 2018, the net assets of the Group (net of the dividend of US$9.14 million for 2017) were US$641.26 million (31 December 2017: US$705.63 million), with a net asset value per share of US$4.210 (31 December 2017: US$4.632).

The net loss on the Financial Assets for the period was US$62.00 million, compared to a net gain of US$75.51 million for the same period last year. The listed and unlisted investments recorded net losses of US$36.50 million and US$25.50 million, respectively.

Total investment income for the period decreased by 9.74% to US$10.93 million (six months ended 30 June 2017: US$12.11 million) as compared to the same period last year, due mainly to a decrease in dividend and distribution income from investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

In the first half of 2018, the Group continued to seek out and rigorously evaluate investment opportunities, completing the funding for two new projects, and signing an agreement for a third new project to be funded in the second half of 2018, with all three new projects in the field of information technology (IT).

On 29 January 2018, the Group completed a capital contribution of RMB30 million (equivalent to US$4.74 million) to Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP (the "**Jiangmen Ventures Fund**"), for a 7.32% interest in return. The major investment targets of the Jiangmen Ventures Fund are enterprises related to machine intelligence, Internet of Things (IoT), natural user interface, and enterprise computing, with a primary focus on early-stage business ventures.

On 5 June 2018, the Group entered into some relevant agreements in relation to Beijing CAS Cambricon Technology Co., Ltd. ("**Cambricon**"), pursuant to which the Group, via a partnership entity, indirectly participated in the capital funding of Cambricon. On 14 June 2018, the Group completed a capital contribution of approximately RMB38 million (equivalent to US$5.94 million) for a beneficial equity interest of 0.246% in Cambricon upon conclusion of the funding round. Cambricon is a high-technology company that focuses on the research, development and design of artificial intelligence (AI) chips.

On 27 June 2018, the Group entered into a preferred share purchase agreement and other relevant agreements in relation to Pony AI Inc. ("**Pony AI**"), pursuant to which the Group agreed to contribute capital of US$8 million to Pony AI in exchange for not less than a 0.8% stake in Pony AI upon conclusion of the funding round. The Group completed the capital contribution of US$8 million on 6 July 2018. Pony AI is a research and development company in China that focuses on technology solutions for autonomous driving.

In addition, the Group disposed of and exited from one investment in the period:

The Group was granted authorisation by its shareholders to dispose of its entire holding of A shares of Industrial Bank Co., Ltd. ("**IBC**"). During the period of January to February 2018, the Group disposed of the entire remaining balance of 23.94 million A shares of IBC for net proceeds of US$69.45 million. Presently, the Group has completed the disposal of its entire holding of A shares of IBC and exited from this investment. The pre-tax internal rate of return to the Group from IBC was 28.35%.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND COMMITMENTS

The Group's cash and cash equivalents increased by 47.04%, from US$47.77 million at the end of last year to US$70.24 million (representing 9.07% of the Group's total assets) as of 30 June 2018, due mainly to the disposal of the entire remaining balance of A shares of IBC during the period.

As of 30 June 2018, the Group had no outstanding bank loans (31 December 2017: Nil).

As of 30 June 2018, the Group had commitments of US$28.91 million (31 December 2017: US$27.83 million) for investments that were approved but not yet provided for in the financial statements – specifically, for future payments related to investments in China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership), Guangxi Xinhua Preschool Education Investment Corporation Limited, Yunnan Jinlanmei International Travel Investment Development Co., Ltd., Anhui Iflytek Venture Capital LLP and Pony AI.

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 a decrease of 1.26% in the first half of 2018, which had a certain negative 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 2018, the Group's total investments amounted to US$696.54 million. The sector distribution of investments was US$458.30 million in financial services (representing 59.17% of the Group's total assets), US$157.64 million in culture, media and consumption (20.35%), US$51.65 million in information technology (6.68%), and US$28.95 million in other ventures (including manufacturing, energy and resources, and education, etc.) (3.74%). In addition, cash and cash equivalents were US$70.24 million, representing 9.07% of the Group's total assets as of 30 June 2018.

PROSPECTS

In the first half of 2018, under the combined effects of supply-side structural reform and spontaneous market adjustments, the issue of overcapacity in China was somewhat contained, thereby alleviating the intensifying imbalances between aggregate supply and aggregate demand, thus enabling the macro economy in China to continue to operate smoothly. In the first half of 2018, calculated with comparable prices, Gross Domestic Product increased by 6.8% over the prior corresponding period, a growth rate that was down by just 0.1 percentage points from the prior corresponding period and on a year-on-year basis. The quarterly numbers showed similar stability, with the first quarter up by 6.8% year-on-year and the second quarter up by 6.7% year-on-year. For 12 consecutive quarters, the growth rate has remained in a range of 6.7% to 6.9%. To summarise economic performance in the first half of the year, industrial growth was generally stable and the structure of the economy continued to be optimised; resident consumption and market sales increased steadily, and high-end consumer products grew rapidly; and fixed asset investments grew steadily, while private investments and manufacturing investments rebounded. In the first half of the year, the value added by the country's larger industrial enterprises increased by 6.7% year-on-year, and the growth rate dropped by 0.1 percentage points from the first quarter; the national resident consumption expenditure per capita was RMB9,609, up by 8.8% year-on-year and 1.2 percentage points higher than the first quarter; and national fixed asset investments were RMB29.7 trillion with a year-on-year increase of 6.0%, while the growth rate dropped by 1.5 percentage points from the first quarter. Overall, the Chinese economy continued to show a trend of stable growth in the first half of the year but, at the same time, external uncertainties have been increasing. Given that China's economic restructuring is in a critical period, it is expected that the operating results of the investment projects (mainly operating in China) held by the Group will be impacted to a certain degree.

Looking ahead to the second half of 2018, the uncertainties from a trade war and global demand may lead to downward pressure on the Chinese economy overall, but it is expected that the overall pressure may not be large, and it is possible that the annual economic growth rate in China will be no less than 6.7%. The trade war has indeed caused the global economy to face a headwind at the moment, and other risks and negative effects have not yet been fully recognised, but a significant decline in global economic growth is not expected. As a result of supply-side structural reforms, the fine-tuning of economic structures has increased the resilience of the Chinese economy. The downward trend in infrastructure investment growth is not expected to change in the second half of the year, but the rate of decline is expected to slow; manufacturing investments should continue to rebound slightly, driven by the impetus of new industries, new business forms and new business models; and the slowdown in real estate investment growth is expected to have less impact on the economy in the second half of the year. Given that the Central Government is stepping up its adjustments to economic structures, new industries, new business forms and new business models are likely to thrive and develop rapidly. New economic sectors such as high-tech and strategic emerging industries, especially in the areas of AI and culture and media, will continue to receive greater support from government policies, as well as more attention from capital markets. With the advent of the big data era, along with improvements in algorithms and enhancements in the accuracy of unsupervised learning, AI will enter another period of rapid growth in which "big data + AI" will profoundly change the structure of traditional industries. It is here that the Group will continue to seek out the best opportunities for investment.

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 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.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the six months ended 30 June 2018, 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
HONG Xiaoyuan
Chairman

Hong Kong, 29 August 2018

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