# 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 2017

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

***Executive Directors:***
Mr. HONG Xiaoyuan *(Chairman)*
Mr. CHU Lap Lik, Victor
Mr. WANG Xiaoding
Mr. TSE Yue Kit
Ms. KAN Ka Yee, Elizabeth
*(alternate to Mr. CHU Lap Lik, Victor)*
Mr. LI Yinquan *(resigned on 25 April 2017)*

***Non-executive Directors:***
Mr. KE Shifeng
Mr. ZHANG Rizhong
*(appointed on 25 April 2017)*

***Independent Non-executive Directors:***
Mr. LIU Baojie
Mr. TSANG Wah Kwong
Dr. LI Fang
Mr. ZHU Li *(resigned on 25 April 2017)*

## INVESTMENT COMMITTEE

Mr. HONG Xiaoyuan
Mr. ZHANG Rizhong
*(appointed on 25 April 2017)*
Mr. CHU Lap Lik, Victor
Mr. WANG Xiaoding
Ms. KAN Ka Yee, Elizabeth
*(alternate to Mr. CHU Lap Lik, Victor)*
Mr. LI Yinquan *(resigned on 25 April 2017)*

## AUDIT COMMITTEE

Mr. TSANG Wah Kwong
Mr. LIU Baojie
Dr. LI Fang *(appointed on 25 April 2017)*
Mr. ZHU Li *(resigned on 25 April 2017)*

## NOMINATION COMMITTEE

Mr. HONG Xiaoyuan
Mr. TSANG Wah Kwong
Dr. LI Fang *(appointed on 25 April 2017)*
Mr. ZHU Li *(resigned on 25 April 2017)*

## COMPANY SECRETARY

Mr. LEUNG Chong Shun

## INVESTMENT MANAGER

**China Merchants China Investment Management Limited**
1604-09, Three Pacific Place,
1 Queen's Road East,
Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu

## LEGAL ADVISERS

Herbert Smith Freehills
Victor Chu & Co
Woo Kwan Lee & Lo

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China Limited
China Merchants Bank Co., Ltd.

## SHARE REGISTRAR

**Computershare Hong Kong Investor Services Limited**
Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wan Chai,
Hong Kong

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1609, Three Pacific Place,
1 Queen's Road East,
Hong Kong

Stock Code: 0133.HK
Website: www.cmcdi.com.hk

## 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 2017 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | ***(unaudited)*** | *(unaudited)* |
| | *NOTES* | ***US$*** | *US$* |
| Net gain (loss) on financial assets designated at fair value through profit or loss | *4* | **75,512,881** | (55,467,811) |
| Investment income | *5* | **12,107,080** | 7,451,806 |
| Other gains | | **442,792** | 293,565 |
| Administrative expenses | | **(6,418,604)** | (6,090,935) |
| Profit (loss) before taxation | *7* | **81,644,149** | (53,813,375) |
| Taxation | *8* | **(21,395,981)** | 14,880,137 |
| Profit (loss) for the period | | **60,248,168** | (38,933,238) |
| Other comprehensive income (expense) for the period, net of tax | | | |
| Item that will not be reclassified subsequently to profit or loss | | | |
| Exchange difference arising on translation | | **13,020,799** | (11,880,495) |
| Total comprehensive income (expense) for the period | | **73,268,967** | (50,813,733) |
| Profit (loss) for the period attributable to owners of the Company | | **60,248,168** | (38,933,238) |
| Total comprehensive income (expense) for the period attributable to owners of the Company | | **73,268,967** | (50,813,733) |
| Basic earnings (loss) per share | *9* | **0.396** | (0.256) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | NOTES | **30 June 2017 *(unaudited)* *US$*** | 31 December 2016 *(audited)* *US$* |
|---|---|---|---|
| Non-current asset | | | |
| Financial assets designated at fair value through profit or loss | *3* | **368,832,696** | 346,707,928 |
| Current assets | | | |
| Financial assets designated at fair value through profit or loss | *3* | **334,957,102** | 295,938,706 |
| Other receivables | *10* | **3,151,973** | 7,683,014 |
| Bank balances and cash | | **73,729,516** | 37,491,601 |
| | | **411,838,591** | 341,113,321 |
| Current liabilities | | | |
| Other payables | *11* | **40,245,439** | 27,405,955 |
| Dividend payable | *12* | **9,139,981** | – |
| Taxation payable | | **7,457,463** | 15,921,476 |
| | | **56,842,883** | 43,327,431 |
| Net current assets | | **354,995,708** | 297,785,890 |
| Total assets less current liabilities | | **723,828,404** | 644,493,818 |
| Non-current liabilities | | | |
| Financial liabilities designated at fair value through profit or loss | *17* | **1,230,456** | 1,221,641 |
| Deferred taxation | *13* | **97,153,517** | 81,956,732 |
| | | **98,383,973** | 83,178,373 |
| **Net assets** | | **625,444,431** | 561,315,445 |
| **Capital and reserves** | | | |
| Share capital | *14* | **139,348,785** | 139,348,785 |
| Reserves | | **76,211,377** | 63,190,578 |
| Retained profits | | **409,884,269** | 358,776,082 |
| **Equity attributable to owners of the Company** | | **625,444,431** | 561,315,445 |
| **Net asset value per share** | *15* | **4.106** | 3.685 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital *US$* | Translation reserve *US$* | General reserve *US$* | Retained profits *US$* | Equity attributable to owners of the Company *US$* |
|---|---|---|---|---|---|
| Balance at 1 January 2017 (audited) | **139,348,785** | **50,107,707** | **13,082,871** | **358,776,082** | **561,315,445** |
| Profit for the period | **–** | **–** | **–** | **60,248,168** | **60,248,168** |
| Exchange difference on translation | **–** | **13,020,799** | **–** | **–** | **13,020,799** |
| Total comprehensive income for the period | **–** | **13,020,799** | **–** | **60,248,168** | **73,268,967** |
| 2016 final dividend declared | **–** | **–** | **–** | **(9,139,981)** | **(9,139,981)** |
| Balance at 30 June 2017 (unaudited) | **139,348,785** | **63,128,506** | **13,082,871** | **409,884,269** | **625,444,431** |
| Balance at 1 January 2016 (audited) | 139,348,785 | 85,672,144 | 11,950,848 | 398,355,721 | 635,327,498 |
| Loss for the period | – | – | – | (38,933,238) | (38,933,238) |
| Exchange difference on translation | – | (11,880,495) | – | – | (11,880,495) |
| Total comprehensive expense for the period | – | (11,880,495) | – | (38,933,238) | (50,813,733) |
| 2015 final and special dividends declared | – | – | – | (22,849,952) | (22,849,952) |
| Transfer to general reserve | – | – | 45,970 | (45,970) | – |
| Balance at 30 June 2016 (unaudited) | 139,348,785 | 73,791,649 | 11,996,818 | 336,526,561 | 561,663,813 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***(unaudited)*** | *(unaudited)* |
| | ***US$*** | *US$* |
| **OPERATING ACTIVITIES** | | |
| Profit (loss) before taxation | **81,644,149** | (53,813,375) |
| Adjustments for: | | |
| Interest income | **(103,235)** | (199,127) |
| Dividend income from equity investments | **(12,003,845)** | (7,252,679) |
| Net (gain) loss on financial assets designated at fair value through profit or loss | **(75,512,881)** | 55,467,811 |
| Operating cash flows before movements in working capital | **(5,975,812)** | (5,797,370) |
| Proceeds from disposal of financial assets designated at fair value through profit or loss | **36,319,258** | – |
| Return of capital from financial assets designated at fair value through profit or loss | **4,584,015** | 1,165,985 |
| Purchases of financial assets designated at fair value through profit or loss | **(14,761,455)** | (6,438,118) |
| Increase in other receivables | **(16,101)** | (12,859) |
| Increase (decrease) in other payables | **13,308,273** | (2,540,793) |
| Increase (decrease) in financial liabilities designated at fair value through profit or loss | **665** | (133,628) |
| Cash generated from (used in) operations | **33,458,843** | (13,756,783) |
| Interest received | **110,708** | 633,293 |
| Dividends received | **19,242,937** | 19,062,150 |
| Income taxes paid | **(17,108,524)** | (3,523,014) |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | **35,703,964** | 2,415,646 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **35,703,964** | 2,415,646 |
| **CASH AND CASH EQUIVALENTS AS AT 1 JANUARY** | **37,491,601** | 53,916,743 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **533,951** | (869,875) |
| **CASH AND CASH EQUIVALENTS AS AT 30 JUNE** | **73,729,516** | 55,462,514 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2017*

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have 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 2016 that is included in these condensed consolidated financial statements 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 2016 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 statements have 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 statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure initiative |
| Amendments to HKAS 12 | Recognition of deferred tax assets for unrealised losses |
| Amendments to HKFRS 12 | As part of the annual improvements to HKFRSs 2014 – 2016 Cycle |

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

***Financial risk factors***

The Group's activities expose it to a variety of financial risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures required for the annual consolidated financial statements, and should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2016.

There has been no change in the risk management policies during the current interim period.

***Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis***

Most of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

## 3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

### *Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)*

| Financial assets | 30 June 2017 *(unaudited)* *US$* | 31 December 2016 *(audited)* US$ | Fair value hierarchy | Valuation techniques | Significant unobservable input(s) | 30 June 2017 *(unaudited)* Range | 31 December 2016 *(audited)* Range | Relationship of unobservable inputs to fair value | 30 June 2017 *(unaudited)* Increase(+)/ decrease (-) in carrying value of assets if 10% higher/lower of the unobservable inputs (Note 2) *US$* | 31 December 2016 (audited) Increase(+)/ decrease (-) in carrying value of assets if 10% higher/lower of the unobservable inputs (Note 2) US$ |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Financial assets designated at FVTPL*** | | | | | | | | | | |
| Listed equity securities classified as financial assets designated at FVTPL (Note 1) | **308,057,760** | 276,005,464 | Level 1 | Quoted bid prices in active market | N/A | **N/A** | N/A | N/A | **N/A** | N/A |
| Listed equity securities within lock-up period classified as financial assets designated at FVTPL (Note 1) | **27,215,694** | 10,063,428 | Level 3 | Quoted bid prices in active market and adjusted for lack of marketability | – Discount rate for lack of marketability | **7% - 10%** | 19% | The higher the discount rate, the lower the fair value | **-3,000,000/ +3,000,000** | -1,000,000/ +1,000,000 |
| Unlisted equity securities and preferred equity classified as financial assets designated at FVTPL (Note 1) | **264,641,180** | 290,932,377 | Level 3 | Market comparable companies | – Earnings multiples<br>– Revenue multiples<br>– Book value multiples | **9.9x - 57.6x**<br>**2.8x - 4.0x**<br>**1.5x - 5.9x** | 9.6x - 72.3x<br>2.1x - 5.0x<br>2.0x - 6.3x | The higher the multiples, the higher the fair value | **+27,000,000/ – 27,000,000** | +29,000,000/ – 29,000,000 |
| | | | | | – Discount rate for lack of marketability and specific risk | **50%** | 50% | The higher the discount rate, the lower the fair value | **-53,000,000/ +53,000,000** | -58,000,000/ +58,000,000 |
| Unlisted equity classified as financial assets designated at FVTPL (Note 1) | **30,897,202** | 22,408,822 | Level 3 | Fund's net asset value | N/A | **N/A** | N/A | N/A | **N/A** | N/A |
| Unlisted equity securities classified as financial assets designated at FVTPL (Note 1) | **3,733,910** | 5,087,934 | Level 3 | Recent transaction price | N/A | **N/A** | N/A | N/A | **N/A** | N/A |
| Unlisted equity classified as financial assets designated at FVTPL (Note 1) | **-** | 5,189,563 | Level 3 | Recent transaction price | N/A | **N/A** | N/A | N/A | **N/A** | N/A |
| Unlisted convertible loan classified as financial assets designated at FVTPL (Note 1) | **44,284,365** | 28,830,907 | Level 3 | Recent transaction price | N/A | **N/A** | N/A | N/A | **N/A** | N/A |
| Unlisted equity securities classified as financial assets designated at FVTPL (Note 1) | **21,194,601** | – | Level 3 | Indicative offer price | N/A | **N/A** | N/A | N/A | **N/A** | N/A |
| Unlisted equity securities and bond classified as financial assets designated at FVTPL (Note 1) | **3,765,086** | 4,128,139 | Level 3 | Recoverable amount | N/A | **N/A** | N/A | N/A | **N/A** | N/A |
| Closing balance | **703,789,798** | 642,646,634 | | | | | | | | |

## 3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

***Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)***

Note 1: Financial assets designated at fair value through profit or loss ("**FVTPL**") represent those designated at FVTPL upon initial recognition.

Note 2: Amount represents increase(+)/decrease(-) in carrying value of the financial assets if the unobservable inputs were 10% higher/lower while all the other variables were held constant. The 10% higher/lower discount rate represents ±10% on the basis of those rates.

Note 3: The analysis of financial liabilities is set out in note 17.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values at both period or year end.

***Reconciliation of Level 3 fair value measurements of financial assets:***

| | **Designated at FVTPL** *US$* |
|---|---|
| Balance at 1 January 2017 (audited) | **366,641,170** |
| Gains or losses recognised in profit or loss | **13,879,704** |
| Exchange differences arising on translation | **7,826,814** |
| Purchases | **30,149,525** |
| Disposals | **(18,181,160)** |
| Return of capital | **(4,584,015)** |
| Balance at 30 June 2017 (unaudited) | **395,732,038** |
| Balance at 1 January 2016 (audited) | 372,402,960 |
| Gains or losses recognised in profit or loss | (28,875,312) |
| Exchange differences arising on translation | (6,719,556) |
| Return of capital | (1,165,985) |
| Balance at 30 June 2016 (unaudited) | 335,642,107 |

Of the total gains for the period included in profit or loss, gain of US$14,497,838 (six months ended 30 June 2016: loss of US$28,875,312) relates to financial assets designated at FVTPL categorised in Level 3 held at the end of the reporting period. Fair value gains or losses on financial assets designated at FVTPL are included in "Net gain (loss) on financial assets designated at fair value through profit or loss".

## 3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

***Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)***

***Reconciliation of Level 3 fair value measurements of financial liabilities:***

| | **Designated at FVTPL** *US$* |
|---|---|
| Balance at 1 January 2017 (audited) | **1,221,641** |
| Additions | **156,569** |
| Disposals | **(142,568)** |
| Change in fair value | **(5,186)** |
| Balance at 30 June 2017 (unaudited) | **1,230,456** |
| Balance at 1 January 2016 (audited) | 1,376,377 |
| Change in fair value | (342,316) |
| Balance at 30 June 2016 (unaudited) | 1,034,061 |

***Fair value measurements and valuation processes***

A guideline on the fair value measurements has been applied to the regular assessment of fair value of an asset. Fair value of listed investments, except those listed on the National Equities Exchange and Quotations ("**New Third Board**"), is determined based on the quoted market bid prices available on the relevant exchanges. Fair value of listed investments within lock-up period is assessed based on the quoted market bid prices available on the relevant exchanges and adjusted for lack of marketability. Fair value of unlisted investments is arrived at by reference to their recent transaction prices, recoverable amounts or indicative offer prices. For investments listed on the New Third Board and for unlisted investments with no recent transactions noted, their fair values are arrived at on the basis of valuations carried out by an independent valuer on a half-yearly basis. Determination of fair value is based on the best information available in the circumstances and includes appropriate risk adjustments for lack of marketability. Factors considered in determining the fair value of these investments include multiples of comparable companies listed on stock exchanges and discount rates based on market information. The valuation report prepared by the independent valuer is reported to the executive management on a half-yearly basis.

## 4. NET GAIN (LOSS) ON FINANCIAL ASSETS DESIGNATED 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 2017:

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***(unaudited)*** | *(unaudited)* |
| | ***US$*** | *US$* |
| Net gain (loss) on financial assets designated at FVTPL | | |
| Listed investments | **59,138,585** | (31,360,596) |
| Unlisted investments | **16,374,296** | (24,107,215) |
| Total | **75,512,881** | (55,467,811) |

## 5. INVESTMENT INCOME

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

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***(unaudited)*** | *(unaudited)* |
| | ***US$*** | *US$* |
| Interest income on bank deposits | **103,235** | 199,127 |
| Dividend income on financial assets designated at FVTPL | **12,003,845** | 7,252,679 |
| Total | **12,107,080** | 7,451,806 |

## 6. 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) Manufacturing: investees engaged in manufacturing of products activities.

(d) Energy and resources: investees engaged in energy and resources activities.

(e) Information technology: investees engaged in information technology activities.

(f) Medical and pharmaceutical: investees engaged in medical and pharmaceutical activities.

The Group also invested in 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. Investments in energy and resources and information technology activities are identified as reportable segments in the current period in accordance with the quantitative thresholds and these investments are reported as "Energy and resources" and "Information technology" above. 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 2017**

| | Reportable Segments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Financial services US$ | Culture, media and consumption US$ | Manufacturing US$ | Energy and resources US$ | Information technology US$ | Medical and pharmaceutical US$ | Total reportable segments US$ | Others US$ | Total US$ |
| Net gain (loss) on financial assets designated at FVTPL | 58,007,543 | 11,468,803 | 1,271,791 | (3,992,899) | 8,804,105 | (288,015) | 75,271,328 | 241,553 | 75,512,881 |
| Dividend income on financial assets designated at FVTPL | 9,433,033 | 1,689,994 | - | - | 65,941 | 814,877 | 12,003,845 | - | 12,003,845 |
| Other gains | - | 442,792 | - | - | - | - | 442,792 | - | 442,792 |
| Profit (loss) | 67,440,576 | 13,601,589 | 1,271,791 | (3,992,899) | 8,870,046 | 526,862 | 87,717,965 | 241,553 | 87,959,518 |
| **Unallocated:** | | | | | | | | | |
| – Administrative expenses | | | | | | | | | (6,418,604) |
| – Interest income on bank deposits | | | | | | | | | 103,235 |
| Profit before taxation | | | | | | | | | 81,644,149 |

## 6. SEGMENTAL INFORMATION (CONTINUED)

For the six months ended 30 June 2016 (restated)

| | Reportable segments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Financial services US$ | Culture, media and consumption US$ | Manufacturing US$ | Energy and resources US$ | Information technology US$ | Medical and pharmaceutical US$ | Total reportable segments US$ | Others US$ | Total US$ |
| Net (loss) gain on financial assets designated at FVTPL | (29,193,433) | (12,744,280) | 5,758,138 | (4,465,205) | (1,530,198) | (12,341,051) | (54,516,029) | (951,782) | (55,467,811) |
| Dividend income on financial assets designated at FVTPL | 6,717,110 | – | – | – | – | 535,569 | 7,252,679 | – | 7,252,679 |
| Other gains | – | 293,565 | – | – | – | – | 293,565 | – | 293,565 |
| (Loss) profit | (22,476,323) | (12,450,715) | 5,758,138 | (4,465,205) | (1,530,198) | (11,805,482) | (46,969,785) | (951,782) | (47,921,567) |
| Unallocated: | | | | | | | | | |
| – Administrative expenses | | | | | | | | | (6,090,935) |
| – Interest income on bank deposits | | | | | | | | | 199,127 |
| Loss before taxation | | | | | | | | | (53,813,375) |

Segment profit (loss) represents the net gain (loss) on financial assets designated 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 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 profit (loss).

## 6. SEGMENTAL INFORMATION (CONTINUED)

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

| | **30 June 2017** ***(unaudited)*** ***US$*** | 31 December 2016 *(audited)* *US$* *(restated)* |
|---|---|---|
| **Segment assets** | | |
| Financial services | **497,547,430** | 464,359,280 |
| Culture, media and consumption | **130,698,245** | 114,649,740 |
| Manufacturing | **11,558,957** | 10,028,110 |
| Energy and resources | **454,653** | 4,399,596 |
| Information technology | **34,012,369** | 24,950,579 |
| Medical and pharmaceutical | **21,194,601** | 20,983,134 |
| Total assets for reportable segments | **695,466,255** | 639,370,439 |
| Others | **11,449,899** | 10,942,222 |
| Unallocated | **73,755,133** | 37,508,588 |
| Consolidated assets | **780,671,287** | 687,821,249 |
| **Segment liabilities** | | |
| Financial services | **86,802** | 101,787 |
| Culture, media and consumption | **668,361** | 579,758 |
| Manufacturing | **145,059** | 131,321 |
| Energy and resources | **9,085** | 92,419 |
| Information technology | **101,393** | 557,388 |
| Medical and pharmaceutical | **13,401,516** | 115,048 |
| Total liabilities for reportable segments | **14,412,216** | 1,577,721 |
| Others | **3,868,635** | 3,776,568 |
| Unallocated | **136,946,005** | 121,151,515 |
| Consolidated liabilities | **155,226,856** | 126,505,804 |

## 6. SEGMENTAL INFORMATION (CONTINUED)

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, bank balances and cash, 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 PRC, and hence no geographical information in relation to the investing activities is presented.

## 7. PROFIT (LOSS) BEFORE TAXATION

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | ***(unaudited)*** | *(unaudited)* |
| | ***US$*** | *US$* |
| Profit (loss) before taxation has been arrived at after charging: | | |
| Investment Manager's management fee (note 18(a)) | **5,732,269** | 5,551,164 |
| Net foreign exchange loss | **65,804** | 15,069 |

## 8. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***(unaudited)*** | *(unaudited)* |
| | ***US$*** | *US$* |
| The tax (charge) credit for the period comprises: | | |
| Current tax: | | |
| PRC Enterprise Income Tax | **(8,240,490)** | (11,911) |
| Underprovision in prior period | **–** | (46,916) |
| Deferred taxation (note 13) | | |
| Current period | **(13,155,491)** | 14,938,964 |
| Total | **(21,395,981)** | 14,880,137 |

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 statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries.

## 9. 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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***(unaudited)*** | *(unaudited)* |
| Profit (loss) for the purpose of basic earnings (loss) per share (US$) | **60,248,168** | (38,933,238) |
| Number of ordinary shares for the purpose of basic earnings (loss) per share | **152,333,013** | 152,333,013 |
| Basic earnings (loss) per share (US$) | **0.396** | (0.256) |

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

## 10. OTHER RECEIVABLES

| | **30 June 2017** | 31 December 2016 |
|---|---|---|
| | ***(unaudited)*** | *(audited)* |
| | ***US$*** | *US$* |
| Consideration receivable on disposal of investment | **2,699,423** | – |
| Dividend receivables | **426,933** | 7,666,025 |
| Interest receivable | **8,154** | 15,627 |
| Other receivables | **17,463** | 1,362 |
| Total | **3,151,973** | 7,683,014 |

## 11. OTHER PAYABLES

| | **30 June 2017** | 31 December 2016 |
|---|---|---|
| | ***(unaudited)*** | *(audited)* |
| | ***US$*** | *US$* |
| Partial consideration received on disposal of investments (Note 1) | **17,050,396** | 4,128,139 |
| Management fee payable | **3,005,404** | 2,720,437 |
| Business tax payable | **19,607,487** | 19,607,487 |
| Other payables | **582,152** | 949,892 |
| Total | **40,245,439** | 27,405,955 |

Note 1: Pursuant to an agreement entered into on 26 May 2017 with the controlling shareholder (the "**Controlling Shareholder**") of Nanjing Sanhome Pharmaceutical Co., Ltd. ("**Sanhome Pharmaceutical**"), the Group agreed to transfer its entire 3.50% equity interest in Sanhome Pharmaceutical to the Controlling Shareholder for the total consideration of RMB143,580,703 (equivalent to approximately US$21.13 million) (the "**Equity Transfer**").

The Group will comply with the registration procedures in relation to the change in shareholding in Sanhome Pharmaceutical in accordance with the Controlling Shareholder's instruction, after the Group has confirmed the receipt of the full consideration for the Equity Transfer. As at 30 June 2017, partial consideration of RMB90 million (equivalent to approximately US$13.23 million) for the Equity Transfer has been received by the Group and included in other payables. The Equity Transfer has been subsequently completed in July 2017.

## 12. DIVIDEND PAYABLE

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

A dividend payment of US$9,139,981, being a final dividend of US$0.06 per share for the year ended 31 December 2016, was approved by the shareholders on 26 May 2017 and was subsequently paid by the Company in cash on 27 July 2017.

### 13. DEFERRED TAXATION

The following is the deferred tax liability recognised by the Group and movements thereon during the current and prior periods:

| | Capital gains for investments US$ | Undistributed earnings of PRC subsidiaries US$ | Total US$ |
|---|---|---|---|
| Balance at 1 January 2016 (audited) | 91,816,302 | 18,250,398 | 110,066,700 |
| Credited to profit or loss for the period | (13,453,361) | (1,485,603) | (14,938,964) |
| Exchange differences | (1,720,616) | (378,703) | (2,099,319) |
| Balance at 30 June 2016 (unaudited) | 76,642,325 | 16,386,092 | 93,028,417 |
| (Credited) charged to profit or loss for the period | (8,653,994) | 1,309,729 | (7,344,265) |
| Exchange differences | (2,939,592) | (787,828) | (3,727,420) |
| Balance at 31 December 2016 (audited) | **65,048,739** | **16,907,993** | **81,956,732** |
| Charged to profit or loss for the period | **10,181,272** | **2,974,219** | **13,155,491** |
| Exchange differences | **1,635,466** | **405,828** | **2,041,294** |
| Balance at 30 June 2017 (unaudited) | **76,865,477** | **20,288,040** | **97,153,517** |

No deferred tax asset has been recognised in relation to tax losses due to the unpredictability of future relevant taxable profit against which the tax losses can be utilised.

### 14. SHARE CAPITAL OF THE COMPANY

| | Number of shares | US$ |
|---|---|---|
| Issued and fully paid: | | |
| At 31 December 2016, 1 January and 30 June 2017 – Ordinary shares with no par value | **152,333,013** | **139,348,785** |

## 15. NET ASSET VALUE PER SHARE

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

| | **30 June 2017** *(unaudited)* | 31 December 2016 *(audited)* |
|---|---|---|
| Net asset value (US$) | **625,444,431** | 561,315,445 |
| Number of ordinary shares in issue | **152,333,013** | 152,333,013 |
| Net asset value per share (US$) | **4.106** | 3.685 |

## 16. COMMITMENTS

At the end of the reporting period, the Group had commitments as follows:

(a) On 29 April 2010, the Group entered into an agreement with, among others, China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("**China Media Investment**"), pursuant to which the Group agreed to make a cash injection of RMB200 million (equivalent to approximately US$30.86 million) in total by installment into the capital of China Media Investment in return for approximately 10% interest in China Media Investment. In addition, the other investors agreed to make cash injections proportionate to their holdings. As at 30 June 2017, the Group has injected RMB158.66 million (equivalent to approximately US$24.76 million) (31 December 2016: RMB158.66 million, equivalent to approximately US$24.76 million) into China Media Investment and classified the investment as a financial asset designated at FVTPL under non-current assets.

(b) On 31 October 2014, the Group entered into a joint venture agreement in relation to Guangxi Xinhua Preschool Education Investment Corporation Limited ("**Xinhua Preschool Education**"), pursuant to which the Group agreed to make a capital contribution of RMB90 million (equivalent to approximately US$13.76 million) in total by installment into the capital of Xinhua Preschool Education in return for a 30% interest in Xinhua Preschool Education. As at 30 June 2017, the Group has injected RMB30 million (equivalent to approximately US$4.90 million) (31 December 2016: RMB30 million, equivalent to approximately US$4.90 million) into Xinhua Preschool Education and classified the investment as a financial asset designated at FVTPL under non-current assets.

### 16. COMMITMENTS (CONTINUED)

(c) On 25 April 2016, the Group entered into a joint venture agreement in relation to Yunnan Jinlanmei International Travel Investment Development Co., Ltd. ("**Jinlanmei Travel**"), pursuant to which the Group agreed to make a capital contribution of RMB20 million (equivalent to approximately US$2.97 million) in total by installment into the capital of Jinlanmei Travel in return for a 20% interest in Jinlanmei Travel. As at 30 June 2017, the Group has injected RMB10 million (equivalent to approximately US$1.49 million) (31 December 2016: RMB10 million, equivalent to approximately US$1.49 million) into Jinlanmei Travel and classified the investment as a financial asset designated at FVTPL under non-current assets.

(d) On 6 December 2016, the Group entered into a partnership agreement in relation to Anhui Iflytek Venture Capital LLP ("**Iflytek Venture Capital**"), pursuant to which the Group agreed to make a capital contribution of RMB90 million (equivalent to approximately US$13.16 million) in total by installment into the capital of Iflytek Venture Capital in return for a 14.95% interest in Iflytek Venture Capital. As at 30 June 2017, the Group has injected RMB36 million (equivalent to approximately US$5.19 million) (31 December 2016: RMB36 million, equivalent to approximately US$5.19 million) into Iflytek Venture Capital and classified the investment as a financial asset designated at FVTPL under non-current assets.

### 17. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial liabilities designated at FVTPL as at 30 June 2017 were related to the sub-participation agreements (the "**Sub-participation Agreements**") entered into between the Company and the participants in respect of certain of the Group's investments which are classified as financial assets designated at FVTPL categorised in Level 1 and Level 3. The fair value of the Sub-participation Agreements is associated directly with these underlying investments and their valuation details and sensitivity analysis are set out in note 3.

Pursuant to the Sub-participation Agreements, the participants will receive a portion of the return (in the form of dividends, interest, or other distributions or proceeds from realisation) from the Group's investment in the project company that is proportional to the amount provided by the participants to the Group as a percentage of the total Group's investment in the project company. If the Group suffers a loss from its investment in the project company, the participants will correspondingly share a loss in the amount they provided to the Group on a pro rata basis. Details of the Sub-participation Agreements are disclosed in the section of Investment Manager's Discussion and Analysis and under the heading of Sub-participation Scheme.

## 18. RELATED PARTY TRANSACTIONS

The Company has appointed China Merchants China Investment Management Limited ("**Investment Manager**") 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 2017, the Group has incurred the following related party transactions:

(a) Management fees totaling US$5,732,269 (six months ended 30 June 2016: US$5,551,164) were paid or accrued to the Investment Manager. The fee is calculated based on a fixed percentage on the value of the Group's adjusted assets on a quarterly basis as stipulated in the Investment Management Agreement (Note).

The amount due to the Investment Manager included in other payables in the condensed consolidated statement of financial position as at 30 June 2017 was US$3,005,404 (31 December 2016: US$2,720,437). Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

(b) Securities brokerage commission fee totaling US$10,741 (six months ended 30 June 2016: US$6,438) was paid to an associate of a substantial shareholder of the Company who has significant influence over the Company.

(c) Pursuant to the Sub-participation Agreements, the financial liabilities of the Group with Mr. WANG Xiaoding and Mr. TSE Yue Kit, who are Directors of both the Company and the Investment Manager, as at 30 June 2017, were US$188,725 and US$19,008, respectively (31 December 2016: US$177,162 and US$20,835, respectively). The financial liability of the Group with Mr. LI Yinquan, a Director of both the Company and the Investment Manager and resigned as a Director of both the Company and the Investment Manager on 25 April 2017 and 1 April 2017, respectively, was US$15,861 (31 December 2016: US$14,589). The financial liability of the Group with Mr. HONG Xiaoyuan, a Director of the Company, was US$89,082 (31 December 2016: US$92,907). Moreover, the financial liability of the Group with Mr. LAW Hung Kuen, Janson, a Director of the Investment Manager, was US$6,118 (31 December 2016: US$5,051).

Note: These related party transactions also constitute continuing connected transactions and are disclosed in accordance with Chapter 14A of the Listing Rules.

## 19. COMPENSATION TO KEY MANAGEMENT PERSONNEL

Other than management fees paid or accrued to the Investment Manager, there is no compensation to key management personnel for both interim periods.

## 20. EVENTS AFTER THE REPORTING PERIOD

(a) Subsequent to the reporting period, the Group has disposed of 5,000,000 A shares of Industrial Bank Co., Ltd. for net proceeds and gain of RMB89.21 million (equivalent to approximately US$13.17 million) and RMB5.18 million (equivalent to approximately US$0.75 million), respectively.

(b) As disclosed in note 11 to the condensed consolidated financial statements, the Group has completed the transfer of its entire 3.50% equity interest in Sanhome Pharmaceutical and received the remaining consideration of approximately RMB53.58 million (equivalent to approximately US$7.90 million) in July 2017.

(c) On 1 August 2017, the Group entered into an agreement for a loan convertible into an equity interest in relation to Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd. ("**Qinghai Lake Tourism**"), pursuant to which the Group agreed to advance cash of RMB200 million in total to Qinghai Lake Tourism for a period of 3 years, with the right to convert the loan into an equity interest in Qinghai Lake Tourism during the term of the loan, subject to the fulfillment of certain precedent conditions. On 11 August 2017, the Group disbursed RMB50 million (equivalent to approximately US$7.50 million).

Deloitte. 德勤

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

**Introduction**

We have reviewed the condensed consolidated financial statements of China Merchants China Direct Investments Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 2 to 23, which comprises the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows 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 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
29 August 2017

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# INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS

## *OVERALL PERFORMANCE*

China Merchants China Direct Investments Limited and its subsidiaries (the "**Fund**") recorded a profit attributable to equity shareholders of US$60.25 million for the six months ended 30 June 2017, compared to a loss attributable to equity shareholders of US$38.93 million for the same period last year. The reversal was mainly due to an increase in overall value of the financial assets designated 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 2017, the net assets of the Fund (net of the dividend of US$9.14 million for 2016) were US$625.44 million (31 December 2016: US$561.32 million), with a net asset value per share of US$4.106 (31 December 2016: US$3.685).

The net gain on the Financial Assets for the period was US$75.51 million, compared to a net loss of US$55.47 million for the same period last year. The listed and unlisted investments recorded net gains of US$59.14 million and US$16.37 million, respectively.

Total investment income for the period increased by 62.55% to US$12.11 million (six months ended 30 June 2016: US$7.45 million) as compared to the same period last year, due primarily to an increase in dividend and distribution income from investments.

## *MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS*

In the first half of 2017, the Fund continued to seek out and rigorously evaluate investment opportunities. During this period, the Fund replaced its equity interest in a culture and media project with the stock of a listed company. Moreover, the Fund entered into an agreement for a loan convertible into an equity interest with a tourism project on 1 August 2017.

In March 2017, the Fund completed the replacement of all of its equity interest in Esurfing Media Co., Ltd. ("**Esurfing**") with the stock of Besttone Holding Co., Ltd. ("**Besttone**"), a Shanghai-listed company. The Fund invested RMB102 million in August 2012 for a 5.37% equity interest in Esurfing. In July 2016, Besttone, controlled by China Telecommunications Corporation, announced the acquisition of the entire 100% equity interest in Esurfing, based on a valuation of RMB1,941 million. The Fund decided to replace all of its equity interest in Esurfing with the A shares of Besttone, based on the above valuation, with 7.21 million Besttone shares issued at a price of RMB14.45 per share. The replacement shares have a lock-up period of one year. The overall transactions obtained all necessary approvals from the regulatory authorities and were completed in March 2017, meaning that Besttone has completed the acquisition of the entire 100% equity interest in Esurfing and of three other companies under China Telecommunications Corporation for stock and cash.

On 1 August 2017, the Fund entered into an agreement for a loan convertible into an equity interest with Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd. ("**Qinghai Lake Tourism**"), pursuant to which the Fund agreed to advance cash of RMB200 million in total to Qinghai Lake Tourism for a period of 3 years, with the right to convert the loan into an equity interest in Qinghai Lake Tourism during the term of the loan, subject to the fulfillment of certain precedent conditions. On 11 August 2017, the Fund disbursed RMB50 million (equivalent to US$7.50 million), and expects to fully disburse the remaining balance by the end of 2017. Qinghai Lake Tourism is principally engaged in product development, business operations and provision of services related to tourism in Qinghai Lake and the surrounding region.

In addition, the Fund disposed of or exited from certain investments in the period:

The Fund entered into an equity transfer agreement on 26 May 2017, and completed the disposal of its entire 3.50% equity interest in Nanjing Sanhome Pharmaceutical Co., Ltd. ("**Sanhome Pharmaceutical**") to the controlling shareholder of Sanhome Pharmaceutical for consideration of US$21.13 million on 4 July 2017. The pre-tax internal rate of return to the Fund from Sanhome Pharmaceutical was 7.48%.

The Fund was granted authorisation by its shareholders to dispose of its entire holding of A shares of Industrial Bank Co., Ltd. ("**IBC**"). During the period, the Fund disposed of approximately 15 million A shares of IBC for net proceeds of US$35.85 million. Moreover, during the period of July to August 2017, the Fund further disposed of 5 million A shares of IBC for net proceeds of US$13.17 million.

### *LIQUIDITY, FINANCIAL RESOURCES, GEARING AND COMMITMENTS*

The Fund's bank balances and cash increased by 96.67%, from US$37.49 million at the end of last year to US$73.73 million (representing 9.44% of the Fund's total assets) as of 30 June 2017, due primarily to the receipt of proceeds from the disposal of certain projects, distribution income from projects, and a partial return of capital from one project during the period.

As of 30 June 2017, the Fund had no outstanding bank loans (31 December 2016: Nil).

As of 30 June 2017, the Fund had commitments of US$24.41 million (31 December 2016: US$38.25 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. and Anhui Iflytek Venture Capital LLP.

### *EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES*

Most of the Fund's investments are located in China where the official currency is the Renminbi ("**RMB**"). The conversion rate of RMB against the US dollar has stopped depreciating and has stabilised, even recording an increase of 2.34% in the first half of 2017, which had a favourable impact on the Fund since it holds a considerable amount of assets denominated in RMB. The Fund currently does not have any foreign currency hedging policy. However, the Fund 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 Fund has no employees. The Investment Manager handles the portfolio and day-to-day administration of the Fund.

### THE PORTFOLIO

As of 30 June 2017, the Fund's total investments amounted to US$703.79 million. The sector distribution of investments was US$497.12 million in financial services (representing 63.68% of the Fund's total assets), US$128.00 million in culture, media and consumption (16.40%), US$11.56 million in manufacturing (1.48%), and US$67.11 million in other ventures (including energy and resources, information technology, medical and pharmaceutical and education) (8.59%). In addition, cash was US$73.73 million, representing 9.44% of the Fund's total assets as of 30 June 2017.

### REVIEW OF INVESTMENTS

The following table shows the major investment projects held by the Fund as at 30 June 2017:

| Name of projects | Location of headquarters | Main business | Listed (Stock Exchange)/ unlisted | Carrying value *(US$ million)* | Percentage of total assets % | Percentage of net assets % |
|---|---|---|---|---|---|---|
| ***Financial Services:*** | | | | | | |
| #1. China Merchants Bank Co., Ltd. | Shenzhen, Guangdong | Banking | Shanghai Stock Exchange | 194 | 24.93 | 31.12 |
| #2. Industrial Bank Co., Ltd. | Fuzhou, Fujian | Banking | Shanghai Stock Exchange | 72 | 9.21 | 11.49 |
| #3. China Credit Trust Co., Ltd. | Beijing | Trust management | Unlisted | 188 | 24.06 | 30.03 |
| #4. JIC Leasing Co., Ltd. | Beijing | Finance leasing | Unlisted | 26 | 3.38 | 4.22 |
| 5. China Reinsurance (Group) Corporation | Beijing | Reinsurance | Hong Kong Stock Exchange | 15 | 1.90 | 2.37 |
| 6. China Media (Tianjin) Investment Management Co., Ltd. | Tianjin | Fund management | Unlisted | 2 | 0.20 | 0.25 |
| | | | **Sub-total:** | **497** | **63.68** | **79.48** |
| ***Culture, Media & Consumption:*** | | | | | | |
| #7. China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) | Shanghai | Media investment | Unlisted | 24 | 3.01 | 3.76 |
| #8. NBA China, L.P. | Beijing | Sports marketing | Unlisted | 28 | 3.64 | 4.54 |
| 9. Unibank Media Group Inc. | Beijing | Indoor media | Unlisted | 3 | 0.40 | 0.50 |
| #10. Besttone Holding Co., Ltd. | Shanghai | Commercial service | Shanghai Stock Exchange | 16 | 2.07 | 2.58 |
| 11. Shanghai Oriental Pearl Media Co., Ltd. | Shanghai | Multimedia | Shanghai Stock Exchange | 11 | 1.42 | 1.77 |
| 12. Yunnan Jinlanmei International Travel Investment Development Co., Ltd. | Xishuangbanna, Yunnan | Travel | Unlisted | 2 | 0.19 | 0.23 |
| #13. Rong Bao Zhai Culture Co., Ltd. | Beijing | Artwork marketing | Unlisted | 44 | 5.67 | 7.08 |
| | | | **Sub-total:** | **128** | **16.40** | **20.46** |

| Name of projects | Location of headquarters | Main business | Listed (Stock Exchange)/ unlisted | Carrying value *(US$ million)* | Percentage of total assets % | Percentage of net assets % |
|---|---|---|---|---|---|---|
| ***Manufacturing:*** | | | | | | |
| 14. Shenzhen Geesun Intelligent Technology Co., Ltd. | Shenzhen, Guangdong | Production equipment for lithium ion batteries | Unlisted | 4 | 0.48 | 0.60 |
| 15. Jiangsu Huaer Quartz Materials Co., Ltd. | Yangzhou, Jiangsu | High purity silica crucibles | Unlisted | 1 | 0.06 | 0.07 |
| 16. Hwagain Group Co., Ltd. | Nanning, Guangxi | Printing paper & tissue paper | Unlisted | 7 | 0.94 | 1.18 |
| | | | **Sub-total:** | **12** | **1.48** | **1.85** |
| ***Others:*** | | | | | | |
| ***(i) Energy & Resources:*** | | | | | | |
| 17. Wuhan Rixin Technology Co., Ltd. | Wuhan, Hubei | Solar energy | New Third Board [Note] | 0 | 0.06 | 0.07 |
| ***(ii) Information Technology:*** | | | | | | |
| 18. Xi'an Jinpower Electrical Co., Ltd. | Xi'an, Shaanxi | Power grid monitoring system | New Third Board [Note] | 1 | 0.19 | 0.24 |
| 19. Anhui Iflytek Venture Capital LLP | Hefei, Anhui | Information technology investment | Unlisted | 6 | 0.75 | 0.93 |
| #20. Iflytek Co., Ltd. | Hefei, Anhui | Intelligent speech technology | Shenzhen Stock Exchange | 27 | 3.42 | 4.27 |
| ***(iii) Medical & Pharmaceutical:*** | | | | | | |
| #21. Nanjing Sanhome Pharmaceutical Co., Ltd. | Nanjing, Jiangsu | Pharmaceutical | Unlisted | 21 | 2.71 | 3.39 |
| ***(iv) Education:*** | | | | | | |
| 22. Guangxi Xinhua Preschool Education Investment Corporation Limited | Nanning, Guangxi | Preschool education | Unlisted | 8 | 0.98 | 1.23 |
| | | | **Sub-total:** | **63** | **8.11** | **10.13** |
| | | | **Total:** | **700** | **89.67** | **111.92** |

***# Ten largest investments of the Fund as of 30 June 2017***

*Note: New Third Board means National Equities Exchange and Quotations*

**China Merchants Bank Co., Ltd. ("CMB")** is China's first joint-stock commercial bank, with its headquarters in Shenzhen, Guangdong and with its shares listed on the Shanghai Stock Exchange since 2002 and on the Hong Kong Stock Exchange since 2006. As of 30 June 2017, the Fund held 55.20 million A shares of CMB, representing an equity interest of 0.219%, with a corresponding investment cost of RMB154.61 million (equivalent to US$19.79 million). In June 2017, the Fund received a cash dividend of RMB40.85 million from CMB for 2016.

On 19 August 2017, CMB announced that its unaudited net profit for the first half of 2017 was RMB39.3 billion, up 11.43% year-over-year.

In May 2017, a resolution with respect to the non-public issuance of domestic and offshore preference shares was passed at the shareholders meeting of CMB. Pursuant to the resolution, CMB proposes to conduct a non-public issuance of preference shares in domestic and foreign markets in an aggregate amount of not more than RMB35 billion or its equivalent, primarily to raise additional Tier-1 capital. Of this total, the value of preference shares proposed to be issued in the domestic market shall not exceed RMB27.5 billion, while the value of preference shares proposed to be issued in foreign markets shall not exceed RMB7.5 billion, or its equivalent. The above proposal is subject to review and approval by relevant regulatory authorities.

In the first half of 2017, the Fund did not dispose of any A shares of CMB.

**Industrial Bank Co., Ltd. ("IBC")** is a joint-stock commercial bank incorporated in the PRC, with its headquarters in Fuzhou, Fujian and with its shares listed on the Shanghai Stock Exchange since 2007. As of 30 June 2017, the Fund held 28.94 million A shares of IBC, representing an equity interest of 0.139%, with a corresponding investment cost of RMB47.63 million (equivalent to US$4.99 million). In June 2017, the Fund received a cash dividend of RMB20.70 million from IBC for 2016.

On 29 April 2017, IBC announced that its audited net profit for 2016 was RMB53.9 billion, up 7.26% year-over-year. On the same day, IBC announced that its unaudited net profit for the first quarter of 2017 was RMB16.8 billion, up 7.16% year-over-year.

Upon the completion of the directed share placement on 7 April 2017, the total number of ordinary shares of IBC increased from 19,052 million shares to 20,774 million shares. Fujian Provincial Department of Finance remains the largest shareholder of IBC, with its ownership interest increasing from 18.22% to 18.78%.

In the first half of 2017, the Fund disposed of approximately 15 million A shares of IBC for net proceeds of RMB246 million (equivalent to US$35.85 million). During the period of July to August 2017, the Fund further disposed of 5 million A shares of IBC for net proceeds of RMB89.21 million (equivalent to US$13.17 million).

**China Credit Trust Co., Ltd. ("CCT")** was established in 1995, with its headquarters in Beijing. The principal activities of CCT are trust management, fund management, investments and loan financing. It is the first trust company with a full range of licenses for international business in the Chinese trust industry. As of 30 June 2017, the Fund held a 6.94% equity interest in CCT, with a total investment cost of US$50.49 million.

For the first half of 2017, CCT recorded an unaudited net profit of RMB528 million, up 62.97% year-over-year. The significant increase in net profit was mainly due to a significant increase in investment income and a one-time prior year adjustment arising from a change in accounting policy. However, interest income, as well as handling fees and commissions income, declined as compared to the same period last year, primarily because CCT reduced the volume of new loans funded with its own capital during the period, but also because CCT has seen a decrease in the size of its existing trust projects during the beginning of 2017.

As CCT actively explores new businesses, for example, in June 2017, CCT acted as the management agency of an issuing vehicle for the first inter-bank trust-type asset-backed notes (ABN) by means of bulk issuance in the industry. This further broadens the asset classes in CCT's asset securitisation business.

Guodu Securities Co., Ltd. (with CCT as its largest shareholder at a 13.33% stake) was officially listed for trading on the New Third Board on 31 March 2017, making it the seventh securities company to be listed on the New Third Board.

CCT was rated Grade B in the annual rating assessment for the year 2017 by the China Trustee Association, down from Grade A for the year 2016. The rating assessment is a comprehensive assessment based on the overall performance of each trust company. It is estimated that one of the reasons for the lower rating in 2017 was the lacklustre growth of its trust business.

**JIC Leasing Co., Ltd. ("JIC Leasing")** was established in Beijing in 1989, and is a leading independent finance leasing firm in China, principally engaged in finance leasing for businesses in a wide range of industries, including information technology; high-end equipment manufacturing; and healthcare, environmental protection and new energy. The Fund invested RMB246 million (equivalent to US$38.78 million) in October 2015 for a 6.46% equity interest in JIC Leasing. In April and August 2017, the Fund received cash dividends (net of tax) of RMB971,900 and RMB4.04 million from JIC Leasing for 2015 and 2016, respectively.

In the first half of 2017, JIC Leasing's businesses operated normally, and it saw rapid expansion in its business volume and recorded double-digit growth in its unaudited net profit as compared to the same period last year.

At present, JIC Leasing has submitted the materials to apply for an initial public offering (IPO) with the China Securities Regulatory Commission ("**CSRC**").

**China Reinsurance (Group) Corporation ("China Re")** originated from The People's Insurance Company of China, founded in 1949 as the first insurance company to be established in New China, with its headquarters in Beijing. It was listed on the Hong Kong Stock Exchange in October 2015. As currently the largest local reinsurance group in China, the business of China Re spans reinsurance, insurance, asset management, insurance brokerage, and insurance media. During the period of November to December 2015, the Fund acquired 42.38 million H shares of China Re at an average price of HK$2.35 per share on the Hong Kong secondary stock market, for an aggregate invested amount of HK$99.73 million (equivalent to US$12.87 million). During the period of February to April 2016, the Fund further acquired 24.86 million H shares of China Re at an average price of HK$2.01 per share on the Hong Kong secondary stock market, for an aggregate invested amount of HK$49.90 million (equivalent to US$6.44 million). As of 30 June 2017, the Fund held 67.24 million H shares of China Re, accounting for 0.158% of the total issued share capital of China Re, with an average purchase price of HK$2.23 per share and an aggregate invested amount of HK$150 million (equivalent to US$19.31 million). In August 2017, the Fund received a cash dividend (net of tax) of HK$3.33 million from China Re for 2016.

On 30 June 2017, China Re announced that it had successfully issued US$700 million in new notes. The net proceeds from the issuance are intended to be used for general corporate purposes and investments in offshore projects.

On 28 August 2017, China Re announced that its unaudited net profit for the first half of 2017 was RMB2.95 billion, up 9.46% year-over-year.

**China Media (Tianjin) Investment Management Co., Ltd. ("China Media Management")** was established in Tianjin, with registered capital of RMB60 million. The Fund invested RMB4.62 million (equivalent to US$0.68 million) in April 2010 for a 7.70% equity interest in China Media Management. As the general partner and investment manager of China Media Investment (see the section on China Media Investment below), China Media Management is responsible for defining and executing the investment strategy for China Media Investment, as well as for managing their operations.

During the investment period, China Media Management helped China Media Investment to successfully invest in several benchmark projects, and to successfully dispose of the OCJ (東方購物) project. In addition, it helped IMAX China Holding, Inc. ("**IMAX China**") to successfully list on the Hong Kong Stock Exchange and sold all of the IMAX China shares held afterward. Beyond this, China Media Management is also actively assisting with several ongoing projects, including exit arrangements for Star China and Beijing Weiying Technology Co., Ltd. ("**Weiying**"), a merging company.

**China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("China Media Investment")** was established in Shanghai, and is the first fund in the culture and media sector approved for registration by the National Development and Reform Commission. Its total capitalisation is RMB2 billion. China Media Investment has an investment horizon of 10 years. The scope of investments for China Media Investment includes major projects in broadcasting and media, publishing, animation and creative media, as well as direct investments in the culture and media sector in both China and overseas. China Media Management, in which the Fund has an interest, is the general partner and investment manager of China Media Investment. China Media Investment has entered into the investment exit period.

In April 2010, the Fund agreed to make a capital investment of RMB200 million by installment in China Media Investment. From June 2010 through 30 June 2017, the Fund has made successive capital injections into China Media Investment for a cumulative actual investment of RMB158.66 million (equivalent to US$24.76 million), representing 79.33% of the total investment of RMB200 million committed by the Fund.

In addition to the payments listed above, the Fund invested RMB12.45 million (equivalent to US$2.02 million) in cash in China Media Investment in April 2014, specifically for the purpose of investing in IMAX China. IMAX China conducted an IPO and was listed in Hong Kong in October 2015 with an issuance price of HK$31 per share. During the period from the listing to 5 April 2017, China Media Investment and the Fund disposed of all of its IMAX China shares in three tranches, at a price of HK$31 per share, HK$47 per share and HK$39.72 per share, respectively. As of 5 April 2017, the Fund successfully exited from IMAX China and expects to receive the full amount of the net proceeds in the second half of 2017. The estimated pre-tax internal rate of return to the Fund from IMAX China was 129%.

Through the end of June 2017, the Fund has received a total actual investment return of RMB216 million from China Media Investment, including the investment return from IMAX China, representing approximately 126% of the cumulative actual amount invested by the Fund.

By the end of June 2017, China Media Investment had completed a full exit from three projects, while continuing to hold four projects, namely Star China, Shanghai Jade East Propagation Co., Ltd. (上海翡翠東方傳播有限公司), Shanghai Oriental DreamWorks Co., Ltd. (上海東方夢工廠有限公司) and Weiying.

**NBA China, L.P. ("NBA China")** is a limited liability partnership incorporated in the Cayman Islands in 2007. NBA China conducts all of the NBA's businesses in the Greater China Region, including television broadcasting rights, advertising, sponsorships, events, digital media, and merchandising, among other new businesses. The original investment by the Fund in 2008 was US$23 million, representing a 1% partnership interest in NBA China. The Fund subsequently received partial returns of capital from NBA China in January 2013, March 2016, March 2017 and May 2017, for a total amount of US$23 million, representing a full recovery of the capital invested in NBA China by the Fund. As of 30 June 2017, the Fund held a 1% partnership interest in NBA China. The Fund received cash distributions from NBA China of US$442,800 and US$1.69 million in January and May 2017, respectively.

In March 2017, NBA China and Weibo announced the establishment of a long-term strategic partnership, under which Weibo became the official social media platform of NBA China. Instant video clips of NBA games, highlights of NBA games, original programming, and a variety of interactive products will be launched by both parties in order to create a new interactive experience of top international sports.

In July 2017, NBA China announced a long-term sponsorship agreement with Manulife-Sinochem Insurance, under which Manulife-Sinochem Insurance became the official life insurance partner of the "NBA 5v5" Elite Basketball Tournament. It is the first time NBA China has entered into a partnership with a party from the insurance industry in China.

**Unibank Media Group Inc. ("Unibank Media")** was established in Beijing in 2011 as an operating entity following a merger and reorganisation, and is principally engaged in commercial advertising through its video display network in banking service outlets across China. The Fund made a total investment of RMB75 million (equivalent to US$10.98 million) in one of its predecessors, Inbank Media (China) Co., Ltd. ("**Inbank Media**"), in June 2009 and February 2010 and held a 14.51% equity interest in Inbank Media. After the completion of the merger and reorganisation, as well as a capital increase by Inbank Media in 2011, the Fund held a 7.62% equity interest in Unibank Media (Note: The Fund has made a contingent commitment to transfer a 1.14% stake in Unibank Media to the management of Unibank Media, as an incentive earned upon completion of an IPO or sale of the business. The total incentive to the management of Unibank Media is a 15% stake in Unibank Media, to be transferred by all shareholders, and 1.14% is the Fund's pro rata portion of the incentive. Net of this incentive, the Fund's stake in Unibank Media will be 6.48%). In September 2015, certain existing shareholders of Unibank Media increased their capital position in the company by cash of RMB75 million (and the corresponding valuation of Unibank Media was approximately RMB1,071 million after the capital increase, accounting for 7% of the equity interest of Unibank Media after the capital increase, meaning that the stake of shareholders who did not participate in the capital increase was diluted by approximately 7%, accordingly). After the completion of the capital increase, the Fund's equity interest in Unibank Media was diluted to 7.09%, accordingly, and to 6.03% net of the incentive to management as outlined above.

Unibank Media recorded an unaudited loss in the first half of 2017 that had deepened compared to the same period last year, mainly attributable to high set-up costs incurred by new projects and to a decrease in the amount of contracted orders entered into with key account customers.

The results of the trial of Unibank Media's new platform, "Community Life Platform by Unibank" recently introduced in early 2017, were better than expected. The management of the company believes that the business transformation of Unibank is showing early signs of success and that the company will continue to see improvement in its operations over time.

**Besttone Holding Co., Ltd. ("Besttone")** was established in Shanghai in 1992 and listed on the Shanghai Stock Exchange in 1993. Besttone, formerly known as China Satcom Guomai Communications Co., Ltd., underwent a major reorganisation in 2012 and adopted a new structure with business travel reservations, hotel operations and management, and reward points operations as its major lines of business. In order to elevate the competitiveness of Besttone, its controlling shareholder, China Telecommunications Corporation ("**CTC**"), initiated another reorganisation in 2017 with the addition of several businesses related to the value-added services, Internet and entertainment. Furthermore, with resources and support from CTC, Besttone can collaborate with CTC on the creation of interrelated business ecosystem, and tap the energy and creativity activated by its mixed-ownership reform. In March 2017, the Fund completed the replacement of Besttone's A shares at a price of RMB14.45 per share for an aggregate amount of RMB104 million (equivalent to US$15.10 million), consisting of 7.21 million replacement shares, with its 5.37% equity interest in Esurfing Media Co., Ltd., representing 0.907% of the issued share capital of Besttone as of 30 June 2017. The replacement shares have a lock-up period of one year which will expire in March 2018. In July 2017, the Fund received a cash dividend of RMB50,500 from Besttone for 2016.

On 26 August 2017, Besttone announced that its unaudited net profit for the first half of 2017 was RMB128 million, up 134.79% (adjusted) year-over-year.

Following the completion of the merger and reorganisation in March 2017, Besttone has been proactively establishing its smart platform for culture and entertainment, as well as creating a pan-entertainment and leisure ecosphere, which will result in an accelerated transformation into an "Internet+" business.

**Shanghai Oriental Pearl Media Co., Ltd. ("Oriental Pearl")** is a new operating entity formed following a merger and reorganisation with BesTV New Media Co., Ltd. ("**BesTV**"), a listed company under Shanghai Media Group Ltd. ("**SMG**"), of Shanghai Oriental Pearl (Group) Co., Ltd., formerly also a listed company, along with the injection of relevant advertising, content production and new media assets by SMG, its largest shareholder, before being renamed to Oriental Pearl from BesTV. The restructuring was completed in June 2015. Oriental Pearl will push forward with the integration and development of traditional and emerging media and become the sole resource consolidation and listing platform for SMG, as well as an all-media and whole-industry chain platform company, spanning content production, cloud services and value-added advertising services. At the same time, Oriental Pearl will draw on its strong media business as a foundation for growth, adopt the Internet TV business as a strategic point of entry, convert its audiences to users, cash in on data traffic, build an Internet media-based ecosystem, business model and system structure, and develop into a new type of Internet media group with the highest market value, communication capability, credibility and influence. In May 2015, the Fund invested RMB120 million (equivalent to US$19.62 million), through a partnership enterprise, in Oriental Pearl for a beneficial ownership of 3.7 million A shares, representing a 0.14% equity interest. There is a 3-year lock-up period for the A shares of Oriental Pearl beneficially owned by the Fund, which will expire in May 2018. In August 2017, Oriental Pearl implemented its 2016 dividend proposal of distributing RMB3.40 for every 10 shares. Accordingly, the Fund is entitled to a cash dividend of RMB1.26 million.

On 29 April 2017, Oriental Pearl announced that its audited net profit for 2016 was RMB2.934 billion, up 0.94% year-over-year. On the same day, Oriental Pearl announced that its unaudited net profit for the first quarter of 2017 was RMB430 million, up 24.72% year-over-year.

During the first half of 2017, the board of directors of Oriental Pearl proposed to change the full name of the company to Oriental Pearl Media Co., Ltd. (東方明珠新媒體股份有限公司), and the resolution was approved and passed at its shareholders meeting held on 30 June 2017. The board believes the name change will improve brand recognition and increase opportunities for strategic business development, given that a portion of the business of Oriental Pearl is not limited to Shanghai and that the company is actively exploring new markets across the country, as it steadily promotes its strategy of "Entertainment+" and develops both online and traditional pan-entertainment platforms.

Also during the first half of 2017, Oriental Pearl: 1) entered into a strategic partnership agreement with Microsoft (China) Limited and Microsoft Asia-Pacific Technology Limited, in order to facilitate technological cooperation and the research and development of intellectual cloud and artificial intelligence (AI), and its application to the media industry; kicked-off long-term cooperation in different aspects of the application of new media, including but not limited to AI, Internet of Things (IoT), big data applications, media cloud services and the mixed cloud, as well as responding to business needs from Oriental Pearl, so as to foster the progress of the broadcasting and TV industry into the era of cloud and AI, and at the same time promote the businesses of all three parties; 2) entered into a strategic partnership agreement with Shenzhen Tencent Computer Systems Company Limited for cooperation in marketing and promotion channels, IP rights and content operating services, IoT and cloud services; 3) entered into an investment agreement with the US Jaunt, Inc., Shanghai Media & Entertainment Co., Ltd. and Shanghai Whaley Investment Management Co., Ltd., to establish a Sino-foreign equity joint venture with registered capital of US$52.50 million, of which US$6 million was contributed by Oriental Pearl, accounting for 11.43% of the registered capital; 4) established a strategic partnership with Beijing Gaea Interactive Entertainment Co., Ltd. and Kaiser (China) Culture Co., Ltd., to explore areas for all-round cooperation, basing upon market demand and enhancement of market influence, in their related businesses, including but not limited to global animation, comics production and publication, game channels, business operations, IP, preferential cooperation for derivative work, development of the gaming market, and advertising and new media, so as to integrate their technical, commercial and channel resources.

**Yunnan Jinlanmei International Travel Investment Development Co., Ltd. ("Jinlanmei Travel")** was established in Mengla County, Xishuangbanna Dai Autonomous Prefecture, Yunnan in 2016, with registered capital of RMB100 million. Based in Yunnan, Jinlanmei Travel will seek to establish a global presence and engage broadly in the operation of tourism and shipping within the territorial waters of the Lancang/Mekong River. Jinlanmei Travel was established jointly by the Fund and Shanghai-listed Yunnan Metropolitan Real Estate Development Co., Ltd., among others, with stakes of 20% and 35%, respectively. In October 2016, the Fund completed the first capital contribution of RMB10 million (equivalent to US$1.49 million) to Jinlanmei Travel, with the remaining RMB10 million of capital to be injected according to the development progress of Jinlanmei Travel.

In the first half of 2017, Jinlanmei Travel has initiated the process of tendering and constructing its fleet and network of port destinations, and it expects to complete the development and release of tourism products in the near future.

**Rong Bao Zhai Culture Co., Ltd. ("Rong Bao Zhai Culture")** was established in Beijing in December 2015. Its main businesses include the sale of art supplies, handicrafts, calligraphy artwork, framed calligraphy artwork, and carving artwork, as well as the sponsorship of art exhibits and cultural/artistic exchange activities. Rong Bao Zhai Culture will be an important business development platform for its controlling shareholder, Rong Bao Zhai, in the future. The Fund agreed to advance cash of RMB300 million in total to Rong Bao Zhai Culture for a period of 5 years, with the right to convert the loan into an equity interest in Rong Bao Zhai Culture during the term of the loan, subject to the fulfillment of certain precedent conditions. In December 2016 and April 2017, the Fund disbursed RMB200 million (equivalent to US$28.86 million) and RMB100 million (equivalent to US$14.50 million), respectively, amounting to RMB300 million (equivalent to US$43.36 million) in aggregate.

Currently, Rong Bao Zhai is still in the process of injecting assets into Rong Bao Zhai Culture, its sole business development platform, while launching a conversion of Rong Bao Zhai Culture into a joint-stock limited company, with a goal to complete the conversion in 2018.

**Shenzhen Geesun Intelligent Technology Co., Ltd. ("Geesun Intelligent")** was established in Shenzhen, Guangdong in 2006 and is a leading manufacturer of equipment and automated production lines for lithium ion batteries and supercapacitors in China. Its name was changed to Shenzhen Geesun Zhiyun Technology Co., Ltd. in April 2015 as a result of an acquisition and capital increase, and was further changed to its present name as a result of a transfer of its entire equity interest by its then controlling shareholder to CAS Investment Management Co., Ltd., the then second largest shareholder, in October 2016. The Fund invested RMB20 million (equivalent to US$2.93 million) in May 2010 and held a 9.68% equity interest in Geesun Intelligent as of 30 June 2017.

Benefiting from the industry trend of production capacity expansion and import substitution of the lithium ion battery, the lithium ion battery equipment industry continues to improve. In the first half of 2017, Geesun Intelligent saw strong operating and production conditions. However, as revenue is recognised only upon inspection and acceptance of the equipment products sold, some revenue has been deferred until the second half of the year and Geesun Intelligent recorded an unaudited net loss of RMB22.56 million for the first half of 2017.

**Jiangsu Huaer Quartz Materials Co., Ltd. ("Jiangsu Huaer")** was established in Yangzhou, Jiangsu and is principally engaged in the research and development, and production, of high purity silica crucibles. Jiangsu Huaer is a manufacturer producing silica crucibles with comprehensive specifications in China, and has the capability to produce 28-inch silica crucibles, or larger, on a vast scale. The silica crucible products are consumable auxiliary equipment required to produce single crystalline silicon ingots, which are used in turn to produce single crystalline silicon solar cells and semiconductor chips. The Fund invested RMB15 million (equivalent to US$2.23 million) in September 2010 for a 7.50% equity interest in Jiangsu Huaer.

In view of supply-side structural reforms and efforts to cut overcapacity, market demand for both single crystalline silicon solar cells and high purity silica crucible products used in production recovered in the first half of 2017 as compared to the same period of 2016. However, due to past-due trade receivables, turnover of Jiangsu Huaer's working capital was slow and its financing costs remained high, greatly affecting its normal business production and operations. Jiangsu Huaer did not achieve profitability during the period. Presently, while decreasing supply to the delinquent customers and stepping up efforts to recover past-due trade receivables, Jiangsu Huaer is also continuing to develop other domestic and overseas customers by leveraging its industry-leading production capabilities for large-size products and high degree of quality control. However, the past-due trade receivables remain considerable, leading to tight liquidity, thereby limiting the number of orders the company can receive. As such, Jiangsu Huaer may not see a significant improvement in its operating results.

**Hwagain Group Co., Ltd. ("Hwagain")** was formed by the merger of two paper manufacturers located in Nanning, Guangxi in 1998. It is principally engaged in the research and development, production, and sale of high quality printing paper and tissue paper. The Fund invested RMB119.99 million (equivalent to US$19.00 million) in January 2012 for a 7.10% equity interest in Hwagain.

Against the backdrop of overcapacity cutting in the papermaking industry, the market for printing paper remained weak in 2016, as well as in the first half of 2017. The market for tissue paper products picked up, however, driven by supply-side structural reforms and resulting in a positive contribution to the principal business of the company. At the same time, the paper pulp business of the company continues to make a stable profit. For the year ended 31 December 2016, Hwagain achieved an audited net profit of RMB117 million (including extraordinary items), up 36.78% year-over-year.

**Wuhan Rixin Technology Co., Ltd. ("Wuhan Rixin")** was established in Wuhan, Hubei in 2001 and is a state-accredited high technology enterprise engaged in the design, production and installation of solar modules and Building Integrated Photovoltaic (BIPV) products, as well as in the operation, maintenance and management of solar powered electric systems. The stock of Wuhan Rixin was listed for trading on the New Third Board in February 2016. The Fund invested RMB15 million (equivalent to US$2.20 million) in July 2009 and held a 4.34% equity interest in Wuhan Rixin as of 30 June 2017.

On 10 August 2017, Wuhan Rixin announced that its unaudited net profit for the first half of 2017 was RMB2.12 million (including extraordinary items), down 94.02% year-over-year.

On 28 June 2017, Wuhan Rixin completed the transfer and change of business registration of its 100% equity interest in Macheng Jindi Solar Power Co., Ltd., a company that was indirectly held by Wuhan Rixin, primarily to improve the cash flow and financial position of the company, as well as to enhance its ability to continue as a going concern.

On 11 August 2017, Wuhan Rixin announced that its board of directors had passed a proposal on the issuance of new shares of Wuhan Rixin and limiting to no more than 1.808 million shares (representing approximately 2.38% of the existing share capital of Wuhan Rixin of 76.09 million shares) at a price of RMB15.55 per share. The amount of funds raised shall be no more than RMB28.12 million and shall be used to replenish its working capital. Upon completion of the above proposal, the equity interest of Wuhan Rixin held by the Fund will be diluted, accordingly. The above proposal was approved by the shareholders of Wuhan Rixin on 28 August 2017 and it will be implemented in September 2017.

**Xi'an Jinpower Electrical Co., Ltd. ("Jinpower Electrical")** was established in Xi'an, Shaanxi in 2001 and is a high technology enterprise principally engaged in the research and development, and production, of intelligent online monitoring systems for transmission lines and substation equipment for the power grid. The stock of Jinpower Electrical was listed for trading on the New Third Board in January 2016. The Fund invested RMB20 million (equivalent to US$3.03 million) in January 2011. As of 30 June 2017, the Fund held a 4.83% equity interest in Jinpower Electrical.

On 28 August 2017, Jinpower Electrical announced that its unaudited net loss for the first half of 2017 was RMB6.17 million (including extraordinary items), as compared to a loss of RMB2.52 million for the same period last year.

As a result of continuously applying new technologies, such as unmanned aerial vehicles and Beidou positioning, the tender requirements for online monitoring equipment for smart grid transmission lines and related products for the State Grid Corporation of China have been changing. As such, to meet the requirements of the State Grid Corporation of China, the company has been actively improving and upgrading its relevant products.

**Anhui Iflytek Venture Capital LLP ("Iflytek Venture Capital")** was established in Hefei, Anhui in December 2015, with an investment horizon of 7 to 9 years and with a fund size of RMB602 million. Its major investment targets are industries related to the Internet and applications of artificial intelligence (AI) in China, primarily to areas including education, healthcare, tourism, motor vehicles, Internet of Things (IoT), smart hardware, information security, e-commerce, interactive entertainment, smart toys, robotics and Internet advertising. The general partner and investment manager of Iflytek Venture Capital is Wuhu Iflytek Investment Management LLP, which is responsible for defining and executing the investment strategy for Iflytek Venture Capital, as well as for managing their operations. The Fund has committed to subscribe to an aggregate of RMB90 million by installment, for a 14.95% interest in Iflytek Venture Capital. In December 2016 and August 2017, the Fund completed the first and second capital contributions of RMB36 million (equivalent to US$5.19 million) and RMB13.50 million (equivalent to US$2.01 million) to Iflytek Venture Capital, respectively, representing an aggregate of RMB49.50 million (equivalent to US$7.20 million) or 55% of the subscription amount committed by the Fund.

As of 30 June 2017, Iflytek Venture Capital had completed investments in nine projects, including one new investment made during the period, and some are preparing for their listing applications.

**Iflytek Co., Ltd. ("Iflytek")** was established in 1999 and headquartered in Hefei, Anhui. It was listed on the SME board of the Shenzhen Stock Exchange in May 2008. It is a national key software enterprise dedicated to the research of intelligent speech, language technologies, and AI technologies; the development of software and chip products; the provision of speech information services; and the integration of e-government systems. During the period of November to December 2016, the Fund acquired 4.54 million A shares of Iflytek at an average price of RMB28.64 per share on the secondary stock market of Mainland China, accounting for 0.327% of the issued share capital of Iflytek as of 30 June 2017, for an aggregate invested amount of RMB130 million (equivalent to US$18.83 million). In April 2017, the Fund received a cash dividend (net of tax) of RMB435,100 from Iflytek for 2016.

On 10 August 2017, Iflytek announced that its unaudited net profit for the first half of 2017 was RMB107 million, down 58.11% year-over-year.

Currently, the main business of the company is seeing some positive developments. Given the ongoing development of the intelligent speech and language industry, and resulting expansion in market size, it is anticipated that the operating income and gross profit of the company will continue to record growth in 2017, while net profit may experience a temporary decline, mainly due to non-recurring income that arose when the company's stake in a subsidiary increased from a minority interest to a controlling interest in 2016. In addition, the company has continued to strengthen its efforts to enhance its industry presence and to invest in the research and development (R&D) of its core technology, especially key applications of AI, leading to an increase in spending on R&D and marketing in 2017. While these investments are expected to impact net profit growth in the year, they also secure Iflytek as an industry leader and lay a solid foundation for future growth that will lead to long-term profitability.

**Guangxi Xinhua Preschool Education Investment Corporation Limited ("Xinhua Preschool Education")** was established in Nanning, Guangxi in 2014, with registered capital of RMB300 million. Xinhua Preschool Education is based in Guangxi and is dedicated to investing in the preschool education sector, as well as supplying cultural and educational products. Xinhua Preschool Education was jointly established by the Fund and Guangxi Xinhua Bookstore Group Share Corporation Limited, with stakes of 30% and 70%, respectively. In December 2014, the Fund completed the first capital contribution of RMB30 million (equivalent to US$4.90 million), with the remaining RMB60 million of capital to be disbursed according to the development progress of Xinhua Preschool Education.

In the first half of 2017, Xinhua Preschool Education completed student enrollment for four kindergartens. Xinhua Preschool Education will continue with its plans for establishing new kindergartens through various methods, including self-construction, leasing and custody. Xinhua Preschool Education recorded an unaudited net loss of RMB1.51 million for the first half of 2017.

**Liaoning Zhenlong Native Produce Holding Company Ltd. ("Liaoning Zhenlong")** was established in Fuxin, Liaoning in 2000. It is a joint-stock company with an export license, principally engaged in the acquisition, processing and sale of pumpkin seeds and other nut products. Its main products include pumpkin seeds, pumpkin nuts, sunflower seeds, sunflower nuts, pine nuts, pistachios, and almonds, as well as other baked nuts, pumpkin dried buckwheat noodles and cereals, etc. The Fund invested a total of RMB19.20 million (equivalent to US$2.97 million) in August 2011 for a 2% equity interest in Liaoning Zhenlong.

Since the CSRC has made a decision to terminate its review of Liaoning Zhenlong's IPO application in June 2015, the Fund has duly appointed a legal agency to apply for arbitration with respect to the Fund's exit from this investment according to the relevant provisions of law. Meanwhile, the Fund is also actively seeking other suitable ways to exit from the project.

**NTong Technology Co., Ltd. ("NTong")** was established in Beijing in 2002 and is principally engaged in software development, operation and maintenance of information technology systems, and systems integration. The Fund invested RMB66.50 million (equivalent to US$10.41 million) in August 2011 for a 12.34% equity interest in NTong.

NTong lost contact with Mr. GUAN Peiyi, chairman of the board, on 8 September 2014. At the same time, NTong discovered through an internal financial examination that a vast amount of cash, as well as a portion of the company's books and records, could not be located. The board of directors of NTong reported the matter to the Public Security Authority of China and passed a resolution to dismiss Mr. GUAN Peiyi from his duties as chairman of the board.

NTong has filed for bankruptcy in the court of Haidian District, Beijing and a restructuring proposal has been submitted by an interested party to the court in which the reorganisation may take place. The management of NTong, the investors and the creditors are in negotiation regarding the proposal. At this time, the parties have not yet reached an agreement on the proposal. Recently, one interested party to the restructuring has proposed to submit another reorganisation plan. The Fund is closely monitoring progress on these matters.

**Xinjiang Chengtian Agriculture & Animal Husbandry Development Co., Ltd. ("Chengtian")** was established in Yuli County of Bayingolin Mongol Autonomous Prefecture, Xinjiang in 2007. Chengtian's current principal businesses include acquisition of unginned cotton and cottonseed; processing of unginned cotton; wholesale and retail sales of ginned cotton, cotton by-products, cotton linter and cottonseed; processing and sale of cottonseed oil, cottonseed husk, cottonseed meal, and cottonseed protein; and cultivation and sale of cotton, jujube, fruit, animal forage and other crops. The Fund invested RMB30 million (equivalent to US$4.73 million) in July 2012 for a 6.25% equity interest in Chengtian.

The Fund and the controlling shareholder of Chengtian entered into an agreement on 23 September 2013 whereby the Fund agreed to sell, and the controlling shareholder agreed to purchase, the Fund's entire 6.25% equity interest in Chengtian. Total consideration for the disposal was RMB35.79 million, payable in three installments, with the last to be settled on or before 31 August 2014. After the Fund had received the consideration in full, the Fund was to complete the transfer of its entire equity interest in Chengtian to the controlling shareholder. The Fund received the first installment of RMB12.53 million in October 2013 and the second installment of RMB12.78 million in March 2014.

The controlling shareholder of Chengtian indicated that due to changes in government policies for cotton collection and storage, as well as a remarkable fall in cotton prices in China, the Agricultural Development Bank had demanded an early settlement of certain loans, and had furthermore linked this demand to the availability of new cotton purchase loans, such that there was a shortage of cash flow at Chengtian. As a result, the final payment for the repurchase of the equity interest, originally payable on 31 August 2014, could not be made on schedule.

In April 2016, the controlling shareholder of Chengtian made a further payment of RMB0.20 million to the Fund, as a good faith gesture. In October 2016, the management of Chengtian met with its institutional shareholders (including the Fund) to express its interest in working with shareholders to list Chengtian on the New Third Board by spinning off part of its business as a new entity. The management is also willing to proceed with negotiations on further repayment plans.

In May 2017, the controlling shareholder of Chengtian entered into several negotiations with the Fund with respect to the subsequent repayment. Both parties wish to resolve the problem of default payment as soon as possible.

## *PROSPECTS*

In the first half of 2017, encouraged by both improving business prospects and domestic macroeconomic policies, the Chinese economy continued to stabilise and improve from the second half of 2016. In the first half of 2017, Gross Domestic Product (GDP) increased by 6.9% over the last corresponding period, up 0.2 percentage points over that of the last corresponding period and on year-on-year basis. According to the latest figures published by the National Bureau of Statistics, in June 2017, China's Purchasing Managers' Index (PMI) was 51.7%, up 0.5 percentage points over the previous month, indicating that growth in the manufacturing industry is picking up pace, and that overall economic development is on a steady upward trend. Meanwhile, as the Chinese economy recovers, there are more signs of divergence, including differences in regional growth rates, as well as differences in profit growth across industries, signaling that the Chinese economy will need more time to increase aggregate demand and achieve a sustainable expansion of productivity. Given that China's GDP growth in 2017 may be relatively slow, it is expected that the operating results of the investment projects (mainly operating in China) held by the Fund will be impacted to a certain degree.

Looking ahead to the second half of 2017, in pursuit of a new dynamic balance in the supply and demand relationship, it is expected that the Central Government will continue to further implement supply-side structural reforms in order to solve domestic economic issues and encourage a new development cycle. In terms of investments, the pace of infrastructure investments and property investments may slow in the second half of 2017, resulting in a downward pressure on fixed asset investments across the nation. Meanwhile, as the growth in personal income continues to slow, an increase in consumption may be restricted to some degree. However, as the global economy and, in particular, the US economy recovers, global economic growth is expected to rise. China will continue to see growth in exports driven by overseas demand, which will provide stronger support for the steady development of the Chinese economy in the short term. Although the Chinese economy is backed by stronger support during the year 2017, it is expected that economic pressure will persist in the years to come. Given that the Central Government is stepping up its adjustments to economic structure, 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 receive greater support from government policies, as well as more attention from capital markets. With the advent of the big data era, along with improvement in algorithms and enhancement in the accuracy of unsupervised learning, AI will face another period of rapid growth, in which "big data + AI" will profoundly change the structure of traditional industries. It is here that the Fund will continue to seek out the best opportunities for investment.

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

## ***SUB-PARTICIPATION SCHEME (THE"SCHEME")***

In order to strengthen the investment management process, and to align the interests of management and staff with the interests of the Fund in entering new investment projects, the Investment Manager, with the consent of the Fund, has administered the Scheme since 2009.

Under the Scheme, the Fund has entered into sub-participation agreements (the "**Agreements**") with certain Directors of the Fund, certain Directors and employees of the Investment Manager, and persons nominated by shareholders of the Investment Manager (collectively the "**Participants**"), with respect to new investments made by the Fund beginning in 2009. Pursuant to the Agreements, the Participants will receive a portion of the return (in the form of dividends, interest, or other distributions or proceeds from realisation) from the Fund's investment in the project company that is proportional to the amount provided by the Participants to the Fund as a percentage of the total Fund's investment in the project company. If the Fund suffers a loss from its investment in the project company, the Participants will correspondingly share a loss in the amount they provided to the Fund on a pro rata basis. The Agreements will terminate upon either the realisation of the investment in the project company by the Fund, or upon the Investment Manager, who provides a guarantee to the Participants for the performance of the Fund's obligations under the Agreements, ceasing to be investment manager of the Fund. In the former case, the Participants shall receive a pro rata portion of the proceeds from disposal of the Fund's interest in the project company. In the latter case, the Participants will receive a pro rata portion of the value of the equity interest in the project company held by the Fund as of 90 days prior to the termination date of the Agreements. The value of the equity interest in the project company will be assessed by an independent valuer appointed jointly by the Fund and the Investment Manager. In addition, the costs and expenses incurred for the preparation and execution of the Agreements, the costs incidental to the implementation of the Scheme, and the relevant portion of the identifiable costs related to the Fund's investment in the project company that corresponds to the amount provided by the Participants to the Fund under the Agreements will be borne by the Investment Manager.

Under the Scheme, it was originally determined that the aggregate amount provided by the Participants in each of the Fund's new investment projects should not exceed 2% of the Fund's investment in each project (the "**Ceiling of Relative Proportion**"). In order to further strengthen the investment management process, with the consent of the Fund and starting from 26 August 2011, the Ceiling of Relative Proportion for each of the Fund's new investment projects is revised as follows: 1) for projects with an investment amount of RMB30 million or less, the Ceiling of Relative Proportion will be 5%; 2) for projects with an investment amount of more than RMB30 million and up to RMB100 million, the Ceiling of Relative Proportion will be RMB1.50 million or 2%, whichever is higher; and 3) for projects with an investment amount of more than RMB100 million, the Ceiling of Relative Proportion will be 2%.

As of 30 June 2017, details of aggregate amounts actually provided by the Participants and their relative proportion to the investment amounts actually paid by the Fund were as follows:

| Name of projects | Original investment amount of the Fund US$* | Original amounts actually paid by the Participants US$* | Relative proportion |
|---|---|---|---|
| Unibank Media (1st round capital injection) | 6,585,600 | 129,000 | 1.959% |
| Wuhan Rixin | 2,195,500 | 43,900 | 2.000% |
| Unibank Media (2nd round capital injection) | 4,394,100 | 87,500 | 1.991% |
| China Media Management | 676,100 | 4,500 | 0.666% |
| Geesun Intelligent | 2,929,500 | 58,000 | 1.980% |
| China Media Investment (1st installment capital contribution) | 5,858,300 | 38,800 | 0.662% |
| Jiangsu Huaer | 2,226,200 | 43,800 | 1.966% |
| Jinpower Electrical | 3,033,500 | 60,300 | 1.988% |
| China Media Investment (2nd installment capital contribution) | 953,500 | 6,100 | 0.638% |
| Liaoning Zhenlong | 2,974,500 | 59,000 | 1.986% |
| NTong | 10,409,700 | 130,300 | 1.252% |
| Hwagain | 19,004,900 | 161,100 | 0.847% |
| China Media Investment (3rd installment capital contribution) | 1,075,300 | 6,200 | 0.575% |
| China Media Investment (4th installment capital contribution) | 4,566,600 | 26,300 | 0.577% |
| Chengtian | 4,733,300 | 74,100 | 1.566% |
| China Media Investment (5th installment capital contribution) | 484,900 | 2,800 | 0.580% |
| Besttone | 15,101,000 | 117,530 | 0.778% |
| China Media Investment (6th installment capital contribution) | 5,555,100 | 32,200 | 0.579% |
| China Media Investment (7th installment capital contribution) | 3,352,500 | 18,900 | 0.562% |
| Sanhome Pharmaceutical | 17,171,500 | 94,100 | 0.548% |
| China Media Investment (8th installment capital contribution) | 2,055,100 | 11,500 | 0.559% |
| China Media Investment (9th installment capital contribution) | 859,600 | 4,830 | 0.562% |
| Xinhua Preschool Education (1st installment capital contribution) | 4,898,200 | 28,400 | 0.580% |
| Oriental Pearl | 19,619,100 | 255,510 | 1.302% |
| JIC Leasing | 38,781,800 | 65,810 | 0.170% |
| China Re | 19,308,300 | 41,290 | 0.214% |
| Jinlanmei Travel (1st installment capital contribution) | 1,489,000 | 14,180 | 0.952% |
| Iflytek | 18,827,500 | 33,500 | 0.178% |
| Iflytek Venture Capital (1st installment capital contribution) | 5,193,900 | 9,270 | 0.178% |
| Rong Bao Zhai Culture (1st installment capital contribution) | 28,855,000 | 86,790 | 0.301% |
| Rong Bao Zhai Culture (2nd installment capital contribution) | 14,505,400 | 43,240 | 0.298% |

* *Calculated with prevalent exchange rates at the time of the amounts paid*

In addition, as of 30 June 2017, details of the amounts actually paid by some of the Directors of the Fund as well as a Director of the Investment Manager for the Scheme were as follows:

| **Name of projects** | **Mr. HONG Xiaoyuan** (Note 1) *US$* | **Mr. LI Yinquan** (Note 2) *US$* | **Mr. WANG Xiaoding** (Note 3) *US$* | **Mr. TSE Yue Kit** (Note 4) *US$* | **Mr. LAW Hung Kuen, Janson** (Note 5) *US$* |
|---|---|---|---|---|---|
| Unibank Media (1st round capital injection) | 12,900 | N/A | 20,640 | 1,290 | N/A |
| Wuhan Rixin | 3,510 | N/A | 3,510 | 1,290 | N/A |
| Unibank Media (2nd round capital injection) | 6,950 | N/A | 6,950 | 1,290 | N/A |
| China Media Management | 300 | N/A | 1,160 | 30 | N/A |
| Geesun Intelligent | 4,640 | N/A | 5,780 | 1,290 | N/A |
| China Media Investment (1st installment capital contribution) | 2,500 | N/A | 10,040 | 250 | N/A |
| Jiangsu Huaer | 3,500 | N/A | 4,380 | 1,290 | N/A |
| Jinpower Electrical | 4,830 | N/A | 6,030 | 1,280 | N/A |
| China Media Investment (2nd installment capital contribution) | 390 | N/A | 1,570 | 40 | N/A |
| Liaoning Zhenlong | 4,720 | N/A | 4,620 | 1,280 | N/A |
| NTong | 16,420 | N/A | 12,830 | 1,280 | N/A |
| Hwagain | 12,880 | N/A | 12,880 | 1,290 | N/A |
| China Media Investment (3rd installment capital contribution) | 430 | N/A | 1,710 | 40 | N/A |
| China Media Investment (4th installment capital contribution) | 1,820 | N/A | 7,260 | 180 | N/A |
| Chengtian | 12,890 | N/A | 6,440 | 1,290 | N/A |
| China Media Investment (5th installment capital contribution) | 190 | N/A | 780 | 20 | N/A |
| Besttone | 12,120 | N/A | 12,120 | 1,210 | N/A |
| China Media Investment (6th installment capital contribution) | 2,220 | N/A | 8,880 | 220 | N/A |
| China Media Investment (7th installment capital contribution) | 1,300 | N/A | 5,200 | 130 | N/A |
| Sanhome Pharmaceutical | 12,900 | N/A | 6,450 | 1,290 | N/A |
| China Media Investment (8th installment capital contribution) | 790 | N/A | 3,170 | 80 | N/A |
| China Media Investment (9th installment capital contribution) | 330 | N/A | 1,330 | 30 | N/A |
| Xinhua Preschool Education (1st installment capital contribution) | 2,150 | N/A | 4,310 | 440 | N/A |
| Oriental Pearl | 13,930 | N/A | 38,870 | 1,390 | N/A |
| JIC Leasing | N/A | 3,870 | 12,900 | 1,290 | N/A |
| China Re | N/A | 3,870 | 12,900 | 1,290 | 1,290 |
| Jinlanmei Travel (1st installment capital contribution) | N/A | 1,290 | 3,220 | 640 | 640 |
| Iflytek | N/A | 2,580 | 12,890 | 1,290 | 1,290 |
| Iflytek Venture Capital (1st installment capital contribution) | N/A | 2,580 | 6,440 | 1,290 | 1,290 |
| Rong Bao Zhai Culture (1st installment capital contribution) | N/A | 1,730 | 8,590 | 860 | 860 |
| Rong Bao Zhai Culture (2nd installment capital contribution) | N/A | 850 | 4,290 | 420 | 420 |

Note 1: Chairman of the Fund

Note 2: Director of the Fund (resigned on 25 April 2017) and Chairman of the Investment Manager (resigned on 1 April 2017)

Note 3: Director of the Fund and Managing Director of the Investment Manager

Note 4: Director of the Fund and Director of the Investment Manager

Note 5: Director of the Investment Manager

**Mr. WANG Xiaoding**
*Managing Director*
**China Merchants China Investment Management Limited**

Hong Kong, 29 August 2017

## INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

A dividend payment of US$9,139,981 (2015: US$22,849,952), being a final dividend of US$0.06 per share (2015: a final dividend of US$0.06 per share and a special dividend of US$0.09 per share, totaling US$0.15 per share), for the year ended 31 December 2016 was approved by the shareholders on 26 May 2017 and was subsequently paid by the Company in cash on 27 July 2017.

## PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the six months ended 30 June 2017, 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 2017, the interests of the Directors and their associates in the shares 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 Issuers were as follows:

| Name of Director | Number of ordinary shares interested | Capacity | Percentage of total issued shares |
|---|---|---|---|
| Mr. CHU Lap Lik, Victor | 3,030,024 | Interest of controlled corporation | 1.99% |

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 2017, 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 six months ended 30 June 2017.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, the following persons, other than a Director or chief executives 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 of shareholder | Long/short position | Capacity | Number of ordinary shares interested | Percentage of total issued shares |
|---|---|---|---|---|
| China Merchants Group Limited (Note 3) | Long position | Interest of controlled corporation | 42,022,041 | 27.59% |
| China Merchants Steam Navigation Company Limited (Note 3) | Long position | Interest of controlled corporation | 42,022,041 | 27.59% |
| China Merchants Holdings (Hong Kong) Company Limited (Note 1) | Long position | Interest of controlled corporation | 42,022,041 | 27.59% |
| China Merchants Finance Holdings Company Limited (Note 2) | Long position | Interest of controlled corporation | 42,022,041 | 27.59% |
| China Merchants Financial Services Limited (Note 3) | Long position | Interest of controlled corporation | 38,855,507 | 25.51% |
| Good Image Limited | Long position | Beneficial owner | 38,855,507 | 25.51% |
| Lazard Asset Management LLC | Long position | Investment manager | 28,947,290 | 19.00% |

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.

Save as disclosed above, there was no person, other than a Director or chief executives 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 condensed consolidated financial statements are unaudited, but have 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 report 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.

Besides, owing to a business trip, the Chairman, Mr. HONG Xiaoyuan, has given an apology for not being able to attend and chair the annual general meeting of the Company which was held on 26 May 2017.

## 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
**Mr. HONG Xiaoyuan**
*Chairman*

Hong Kong, 29 August 2017