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CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

招商局中國基金有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 133)

ANNOUNCEMENT OF 2012 INTERIM RESULTS

FINANCIAL RESULTS

The Board of Directors of China Merchants China Direct Investments Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	Six months ended 30 June	
		2012 (unaudited) US\$	2011 (unaudited) US\$
Change in fair value of financial assets at fair value through profit or loss		(10,326,989)	9,783,205
Investment income	3	12,899,645	15,737,218
Other gains and losses		186,987	1,485,196
Administrative expenses		(5,671,605)	(10,450,582)
Share of results of associates		(91,072)	442,286
(Loss) profit before taxation	5	(3,003,034)	16,997,323
Taxation	6	(6,431,998)	(7,849,855)
(Loss) profit for the period attributable to owners of the Company		(9,435,032)	9,147,468
Other comprehensive (loss) income			
Exchange difference arising on translation		(1,715,722)	9,391,160
Share of change in translation reserve of associates		(86,741)	(227,449)
Change in fair value of available-for-sale financial assets		(4,875)	556
Other comprehensive (loss) income for the period		(1,807,338)	9,164,267
Total comprehensive (loss) income for the period		(11,242,370)	18,311,735
(Loss) profit for the period attributable to owners of the Company		(9,435,032)	9,147,468
Total comprehensive (loss) income for the period attributable to owners of the Company		(11,242,370)	18,311,735
Basic and diluted (loss) earnings per share	7	(0.062)	0.061

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2012 (unaudited) US\$	31 December 2011 (audited) US\$
	<i>NOTES</i>	
Non-current assets		
Interests in associates	22,421,835	22,890,874
Financial assets at fair value through profit or loss	234,471,491	219,725,630
Available-for-sale financial assets	721,823	726,698
	257,615,149	243,343,202
Current assets		
Financial assets at fair value through profit or loss	199,352,274	215,401,697
Other receivables	5,845,702	1,612,182
Bank balances and cash	88,377,936	95,824,723
	293,575,912	312,838,602
Current liabilities		
Other payables	21,538,613	21,050,450
Dividend payable	18,179,884	-
Taxation payable	6,563,015	3,999,297
	46,281,512	25,049,747
Net current assets	247,294,400	287,788,855
Total assets less current liabilities	504,909,549	531,132,057
Non-current liabilities		
Financial liabilities at fair value through profit or loss	1,289,546	1,268,441
Deferred taxation	56,131,741	52,953,100
	57,421,287	54,221,541
Net assets	447,488,262	476,910,516
Capital and reserves		
Share capital	15,149,904	15,149,904
Share premium and reserves	226,479,892	228,287,230
Retained profits	205,858,466	233,473,382
Equity attributable to owners of the Company	447,488,262	476,910,516
Net asset value per share	2.954	3.148

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with Hong Kong Accounting Standard 34 *Interim Financial Reporting*.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

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 Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

HKFRS 7 (Amendments)	Financial instruments: Disclosures – Transfers of financial assets
HKAS 12 (Amendments)	Deferred tax – Recovery of underlying assets

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. INVESTMENT INCOME

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

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
	US\$	US\$
Interest income	905,219	656,038
Dividend income on financial assets designated at fair value through profit or loss	11,994,426	15,081,180
Total	12,899,645	15,737,218

4. SEGMENTAL INFORMATION

The Group's reportable segments, based on information reported to the executive management for the purposes of resources allocation and performance assessment (since the size of investments in energy and resources, real estate and other types of investing activities is not significant, these investments are aggregated and reported as "Others"), are as follows:

- (a) Financial services: investees engaged in financial services activities.
- (b) Culture and media: investees engaged in culture and media activities.
- (c) Manufacturing: investees engaged in manufacturing of products activities.
- (d) Information technology: investees engaged in information technology activities.
- (e) Others: investees engaged in investments related to energy and resources, real estate and other types of investing activities.

Information regarding the above segments is reported below:

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

For the six months ended 30 June 2012

	Financial services US\$	Culture and media US\$	Manufacturing US\$	Information technology US\$	Others US\$	Total US\$
Change in investment value	14,282,697	(19,406,150)	(10,049,653)	5,579,734	(824,689)	(10,418,061)
Dividend income on financial assets designated at fair value through profit or loss	10,626,790	1,367,636	-	-	-	11,994,426
Interest income from available-for-sale financial assets	-	-	-	-	20,300	20,300
Other gains and losses	-	143,559	-	2,855	-	146,414
Segment profit (loss)	24,909,487	(17,894,955)	(10,049,653)	5,582,589	(804,389)	1,743,079
Unallocated:						
- Administrative expenses						(5,671,605)
- Interest income on bank deposits						884,919
- Net foreign exchange gains						40,573
Loss before taxation						(3,003,034)

For the six months ended 30 June 2011

	Financial services US\$	Culture and media US\$	Manufacturing US\$	Information technology US\$	Others US\$	Total US\$
Change in investment value	11,505,817	(3,174,635)	1,710,895	-	183,414	10,225,491
Dividend income on financial assets designated at fair value through profit or loss	11,998,461	3,081,344	-	-	1,375	15,081,180
Interest income from available-for-sale financial assets	-	-	-	-	20,300	20,300
Other gains and losses	7,421	53,628	309,007	-	-	370,056
Segment profit (loss)	23,511,699	(39,663)	2,019,902	-	205,089	25,697,027
Unallocated:						
- Administrative expenses						(10,450,582)
- Interest income on bank deposits						635,738
- Net foreign exchange gains						1,115,140
Profit before taxation						16,997,323

Segment profit (loss) represents the change in investment value (including change in fair value of financial assets at fair value through profit or loss and share of results of associates) and the corresponding dividend income, interest income and other gains and losses earned by each segment without allocation of central administrative expenses, fees to the Investment Manager, interest income on bank deposits and certain other gains and losses. 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).

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

	30 June 2012 (unaudited) US\$	31 December 2011 (audited) US\$
Segment assets		
Financial services	305,255,417	298,012,911
Culture and media	95,118,527	112,348,567
Manufacturing	37,810,578	28,769,052
Information technology	22,100,342	16,600,803
Others	2,152,252	3,013,566
Total segment assets	462,437,116	458,744,899
Unallocated	88,753,945	97,436,905
Consolidated assets	551,191,061	556,181,804
Segment liabilities		
Financial services	4,982	5,214
Culture and media	680,725	833,748
Manufacturing	233,486	115,342
Information technology	341,920	269,106
Others	28,433	45,031
Total segment liabilities	1,289,546	1,268,441
Unallocated	102,413,253	78,002,847
Consolidated liabilities	103,702,799	79,271,288

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

All assets are allocated to reportable segments other than certain other receivables, bank balances and cash, and all liabilities are allocated to reportable segments other than 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, hence no geographical information in relation to the investing activities are presented.

5. (LOSS) PROFIT BEFORE TAXATION

Six months ended 30 June	
2012	2011
(unaudited)	(unaudited)
US\$	US\$

(Loss) profit before taxation has been arrived at after charging (crediting):

Investment Manager's management fee	4,707,947	5,182,788
Net foreign exchange gains	(40,573)	(1,115,140)
Share of tax of associates (included in share of results of associates)	-	168,876
	4,667,374	4,236,524

6. TAXATION

Six months ended 30 June	
2012	2011
(unaudited)	(unaudited)
US\$	US\$

The tax (charge) credit for the period comprises:

Current tax:		
PRC Enterprise Income Tax	(3,070,155)	(25,230,784)
Deferred taxation	(3,361,843)	17,380,929
Total	(6,431,998)	(7,849,855)

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Company and its subsidiaries had no assessable profits for both periods. PRC Enterprise Income Tax in the PRC is calculated at the rates prevailing in the relevant regions.

The PRC promulgated the Law of the PRC on Enterprise Income Tax (the "Tax Law") by Order No. 63 of the President of the PRC on 16 March 2007. The State Council of the PRC issued Implementation Regulations of the Tax Law and the Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (Guo Fa [2007] No. 39) on 6 December 2007 and 26 December 2007 respectively. Accordingly, the applicable Enterprise Income Tax rate for a PRC subsidiary of the Company in 2012 is 25% (2011: 24%). Other PRC incorporated entities which were incorporated after 15 March 2007, are subject to 25% tax rate for Enterprise Income Tax with effect from 1 January 2008. The applicable PRC tax rate for the Company as non-resident is 10%.

7. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share (US\$)	<u>(9,435,032)</u>	<u>9,147,468</u>
Number of ordinary shares for the purpose of basic (loss) earnings per share	<u>151,499,036</u>	<u>149,145,600</u>
Basic and diluted (loss) earnings per share (US\$)	<u>(0.062)</u>	<u>0.061</u>

The dilutive effect of potential conversion of scrip shares under dividend payment is not significant as at the end of both reporting periods.

8. NET ASSET VALUE PER SHARE

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

	30 June	31 December
	2012	2011
	(unaudited)	(audited)
Net asset value (US\$)	<u>447,488,262</u>	<u>476,910,516</u>
Number of ordinary shares in issue	<u>151,499,036</u>	<u>151,499,036</u>
Net asset value per share (US\$)	<u>2.954</u>	<u>3.148</u>

9. MOVEMENT IN RESERVES

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
	US\$	US\$
At 1 January	461,760,612	472,491,681
Change in translation reserve	(1,802,463)	9,163,711
Change in fair value of available-for-sale financial assets	(4,875)	556
(Loss) profit for the period	(9,435,032)	9,147,468
Final and special dividends declared for the last year	(18,179,884)	(16,406,016)
At 30 June	<u>432,338,358</u>	<u>474,397,400</u>

REVIEW AND PROSPECTS

OVERALL PERFORMANCE

The Group recorded a loss attributable to equity shareholders of US\$9.44 million for the six months ended 30 June 2012, compared to a profit attributable to equity shareholders of US\$9.15 million for the same period last year. The loss resulted primarily from a decrease in the fair value of the financial assets designated at fair value through profit or loss (the “**Financial Assets**”). As of 30 June 2012, the net assets (net of dividends for 2011) of the Group were US\$447.49 million (31 December 2011: US\$476.91 million), with a net asset value per share of US\$2.954 (31 December 2011: US\$3.148).

For the period, the loss on the change in fair value of the Financial Assets was US\$10.33 million (Six months ended 30 June 2011: a gain on the change in fair value of US\$9.78 million). And listed and unlisted direct investments amounted to US\$5.76 million and US\$4.57 million respectively.

Total investment income for the period decreased by 18% from the same period last year to US\$12.90 million (Six months ended 30 June 2011: US\$15.74 million), due primarily to a decrease in dividend income from investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

In the first half of 2012, the Group searched for and screened many investment opportunities, and entered into one new culture and media investment:

On 2 June 2012, the Group entered into a capital increase agreement in relation to Esurfing Media Co., Ltd. (“**Esurfing**”), pursuant to which the Group agreed to make an investment of US\$16.13 million in exchange for a 5.37% equity interest in the enlarged capital of Esurfing. Esurfing’s principal business is to provide platform services for mobile videos and online videos.

In addition, the Group disposed of certain investments during the period:

The Group was granted authorisation by its shareholders to dispose of its entire holding of A shares of both China Merchants Bank Co., Ltd. (“**CMB**”) and Industrial Bank Co., Ltd. (“**IBC**”). During the period, the Group did not dispose of any A shares in IBC, but did dispose of 5.50 million A shares in CMB for net proceeds of US\$9.50 million.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

The Group's cash on hand decreased by 8%, from US\$95.82 million at the end of last year to US\$88.38 million as of 30 June 2012, primarily due to capital contributions to Guangxi Hwagain Group Co., Ltd. and China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) during the period.

As of 30 June 2012, the Group had no outstanding bank loans (31 December 2011: Nil).

As of 30 June 2012, the Group had capital commitments of US\$46.48 million (31 December 2011: US\$50.58 million) for investments that were approved, but not yet provided for in the financial statements.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Group's investments are located in China where the official currency is the Renminbi ("RMB"). The conversion rate of RMB against US dollar recorded a decrease of 0.38% in the first half of 2012, which had a minimal impact on the Group, although the Group does hold a considerable amount of assets denominated in RMB.

EMPLOYEES

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

THE PORTFOLIO

As of 30 June 2012, the Group's total investments amounted to US\$456.97 million, which comprised US\$456.25 million in direct investments and US\$0.72 million in bonds. The sector distribution of direct investments was US\$301.61 million in financial services (representing 54.72% of the Group's total assets), US\$93.76 million in culture and media (17.01%), US\$37.35 million in manufacturing (6.77 %), and US\$23.53 million in other ventures (including energy and resources, information technology and real estate) (4.27%). In addition, cash on hand was US\$88.38 million, representing 16.04% of the Group's total assets as of 30 June 2012.

PROSPECTS

In the first half of 2012, according to preliminary figures published by the National Bureau of Statistics of China on the condition of the national economy, gross domestic product (GDP) reached RMB22.7098 trillion, representing growth of 7.8% based on comparable prices. Growth was 8.1% in the first quarter and 7.6% in the second quarter — the slowest growth of the past 13 quarters, and a reflection of the most challenging macroeconomic conditions China has seen since the recent financial crisis. In response, the Central Government has focused its efforts on stabilising growth for the year. In particular, stabilising growth has recently been given higher priority than stabilising prices, which has led to an increasing pace of policy interventions. These changes in monetary policy have been signaled especially through a series of actions that included changes in deposit reserve ratios and an interest rate reduction.

Slowing growth in China was primarily due to slowing growth in demand. In the first half of 2012, China's exports shrank. The main cause was the influence of the global environment: global economic growth remained weak, the potential threat to the global economy posed by the European debt crisis increased, and uncertainty and instability in the global economy seemed to prevail. In addition, some deep-rooted issues in the US economy are far from being solved. Investment growth in China also slowed during the first half of 2012, due to a rapid reduction in investment from the Central Government, combined with a deceleration in real estate investment. The expectations of many enterprises have also changed as market prices have come down, and as excessive inventory levels have led to a contraction in procurement demand. Consumption growth has also declined slightly, as the automobile and housing markets cooled. Demand growth retreated broadly, and based on the strong correlation between demand and three primary drivers (i.e. consumption, investment and foreign trade) of economic growth, it is expected that economic growth in China will continue to slow over the coming quarters. These macroeconomic conditions pose a challenge to the Group's return on investment, but they also prompt us to seek investment opportunities with unique advantages in new and innovative fields, or in industry segments.

The Group will continue to make every effort to identify new investment projects, while maintaining an emphasis on investment opportunities in consumer goods (with particular focus on consumer-oriented projects in second and third tier cities), culture and media, advanced manufacturing, non-traditional financial services, energy and agriculture. The Group will also continually seek to optimise its mix of investments in order to create greater shareholder value.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

A dividend payment of US\$18,179,884 (2010: US\$16,406,016), comprising a final dividend of US\$0.04 per share (2010: US\$0.04) and a special dividend of US\$0.08 per share (2010: US\$0.07), totalling US\$0.12 per share (2010: US\$0.11), for the year ended 31 December 2011 was approved by the shareholders on 17 May 2012. The final dividend and special dividend were payable in cash, with an option to receive new and fully paid shares in lieu of cash.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE

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

The Company has complied with all the code provisions contained in Appendix 14 of the Listing Rules (the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (newly effective from 1 April 2012), 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, due to business trips and other business engagements, Non-executive Director, namely, Mr. KE Shifeng, and Independent Non-executive Directors, namely, Mr. LIU Baojie, Mr. XIE Tao and Mr. ZHU Li, were unable to attend the annual general meeting of the Company held on 17 May 2012.

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 of the Listing Rules. On specific enquiries made, all Directors have confirmed that, in respect of the reporting period, they have complied with the required standard set out in the Model Code regarding Directors' securities transactions.

By Order of the Board

LI Yinquan

Chairman

Hong Kong, 29 August 2012

As at the date hereof, the Executive Directors of the Company are Mr. LI Yinquan, Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor, Ms. ZHOU Linda Lei and Mr. TSE Yue Kit; the Non-executive Director is Mr. KE Shifeng; and the Independent Non-executive Directors are Mr. LI Kai Cheong, Samson, Mr. LIU Baojie, Mr. XIE Tao and Mr. ZHU Li. In addition, Ms. KAN Ka Yee, Elizabeth is the Alternate Director to Mr. CHU Lap Lik, Victor.