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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors (the "**Board**") of China Merchants China Direct Investments Limited (the "**Company**") announces that the consolidated results for the year ended 31 December 2017 of the Company and its subsidiaries (the "**Group**") together with the 2016 comparative figures, extracted from the audited consolidated financial statements, are as follows:-

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	2017	2016
	US$	*US$*
Net gain (loss) on financial assets designated at fair value through profit or loss	**174,206,045**	(35,548,107)
Investment income *(Note 3)*	**15,207,807**	25,999,558
Other gains	**442,792**	293,565
Administrative expenses	**(21,022,596)**	(12,484,394)
Profit (loss) before taxation	**168,834,048**	(21,739,378)
Taxation *(Note 5)*	**(50,931,214)**	6,141,714
Profit (loss) for the year	**117,902,834**	(15,597,664)
Other comprehensive income (expense) for the year		
Item that will not be reclassified subsequently to profit or loss		
Exchange difference arising on translation	**35,547,816**	(35,564,437)
Total comprehensive income (expense) for the year	**153,450,650**	(51,162,101)
Profit (loss) for the year attributable to owners of the Company	**117,902,834**	(15,597,664)
Total comprehensive income (expense) for the year attributable to owners of the Company	**153,450,650**	(51,162,101)
Basic earnings (loss) per share *(Note 6)*	**0.774**	(0.102)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	2017	2016
	US$	*US$*
Non-current asset		
Financial assets designated at fair value through profit or loss	**448,753,156**	346,707,928
Current assets		
Financial assets designated at fair value through profit or loss	**376,210,439**	295,938,706
Other receivables	**96,135**	7,683,014
Bank balances and cash	**47,767,265**	37,491,601
	424,073,839	341,113,321
Current liabilities		
Other payables	**38,172,583**	27,405,955
Taxation payable	**5,285,658**	15,921,476
	43,458,241	43,327,431
Net current assets	**380,615,598**	297,785,890
Total assets less current liabilities	**829,368,754**	644,493,818
Non-current liabilities		
Financial liabilities designated at fair value through profit or loss	**1,451,162**	1,221,641
Deferred taxation	**122,291,478**	81,956,732
	123,742,640	83,178,373
Net assets	**705,626,114**	561,315,445
Capital and reserves		
Share capital	**139,348,785**	139,348,785
Reserves	**99,871,339**	63,190,578
Retained profits	**466,405,990**	358,776,082
Equity attributable to owners of the Company	**705,626,114**	561,315,445
Net asset value per share *(Note 7)*	**4.632**	3.685

Notes:

1. BASIS OF PRESENTATION

The consolidated financial information has been reviewed by the Company's Audit Committee.

The consolidated financial information has been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). In addition, the consolidated financial information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of annual results for 2017 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies of Hong Kong as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course.

The Group's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

<u>Amendments to HKFRSs that are mandatorily effective for the current year</u>

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year that are relevant to the business operation of the Group:

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

<u>Amendments to HKAS 7 *Disclosure Initiative*</u>

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial information to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in the statutory financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial information.

Except as described above, the application of other amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on disclosures set out in this consolidated financial information.

<u>New and amendments to HKFRSs in issue but not yet effective</u>

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective that are relevant to the business operation of the Group:

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs - CONTINUED

New and amendments to HKFRSs in issue but not yet effective - continued

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after a date to be determined.

The management anticipates that the application of these new and amendments to HKFRSs will have no material impact on the amounts reported in the Group's consolidated financial information in the foreseeable future.

3. INVESTMENT INCOME

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

	2017	2016
	US$	*US$*
Interest income on bank deposits	**269,311**	360,186
Dividend income on financial assets designated at fair value through profit or loss ("**FVTPL**")		
Listed equity investments	**9,846,963**	12,727,717
Unlisted equity investments	**5,091,533**	12,911,655
	14,938,496	25,639,372
Total	**15,207,807**	25,999,558

The following is an analysis of investment income earned on financial assets, by category of asset:

	2017	2016
	US$	*US$*
Interest income for financial assets not designated at FVTPL	**269,311**	360,186
Investment income earned on financial assets designated at FVTPL	**14,938,496**	25,639,372
Total	**15,207,807**	25,999,558

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 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 years.

Information regarding the above segments is reported below.

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

For the year ended 31 December 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	**115,731,800**	**27,966,583**	**7,373,121**	**3,077,868**	**20,328,808**	**(158,167)**	**174,320,013**	**(113,968)**	**174,206,045**
Dividend income on financial assets designated at FVTPL	**10,239,404**	**3,803,622**	**-**	**-**	**66,614**	**828,856**	**14,938,496**	**-**	**14,938,496**
Other gains	**-**	**442,792**	**-**	**-**	**-**	**-**	**442,792**	**-**	**442,792**
Profit (loss)	**125,971,204**	**32,212,997**	**7,373,121**	**3,077,868**	**20,395,422**	**670,689**	**189,701,301**	**(113,968)**	**189,587,333**
Unallocated:									
- Administrative expenses									**(21,022,596)**
- Interest income on bank deposits									**269,311**
Profit before taxation									**168,834,048**

4. SEGMENTAL INFORMATION - CONTINUED

For the year ended 31 December 2016

	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	(10,232,995)	(10,029,567)	4,889,561	(2,886,394)	(1,505,102)	(15,785,115)	(35,549,612)	1,505	(35,548,107)
Dividend income on financial assets designated at FVTPL	12,515,296	12,348,672	-	248,430	-	526,974	25,639,372	-	25,639,372
Other gains	-	293,565	-	-	-	-	293,565	-	293,565
Profit (loss)	2,282,301	2,612,670	4,889,561	(2,637,964)	(1,505,102)	(15,258,141)	(9,616,675)	1,505	(9,615,170)
Unallocated:									
- Administrative expenses									(12,484,394)
- Interest income on bank deposits									360,186
Loss before taxation									(21,739,378)

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).

4. SEGMENTAL INFORMATION - CONTINUED

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

	2017	2016
	US$	*US$*
Segment assets		
Financial services	**558,939,886**	464,359,280
Culture, media and consumption	**179,312,367**	114,649,740
Manufacturing	**18,270,026**	10,028,110
Energy and resources	**7,853,295**	4,399,596
Information technology	**49,089,108**	24,950,579
Medical and pharmaceutical	**-**	20,983,134
Total assets for reportable segments	**813,464,682**	639,370,439
Others	**11,498,913**	10,942,222
Unallocated	**47,863,400**	37,508,588
Consolidated assets	**872,826,995**	687,821,249
Segment liabilities		
Financial services	**100,126**	101,787
Culture, media and consumption	**735,830**	579,758
Manufacturing	**237,529**	131,321
Energy and resources	**156,921**	92,419
Information technology	**115,559**	557,388
Medical and pharmaceutical	**-**	115,048
Total liabilities for reportable segments	**1,345,965**	1,577,721
Others	**4,008,689**	3,776,568
Unallocated	**161,846,227**	121,151,515
Consolidated liabilities	**167,200,881**	126,505,804

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, current and deferred tax liabilities.

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

5. TAXATION

The tax (charge) credit for the year comprises:

	2017	2016
	US$	*US$*
The Company and its subsidiaries		
Current tax:		
PRC Enterprise Income Tax	**(13,607,510)**	(14,643,629)
Withholding tax for distributed earnings of PRC subsidiaries	**(2,678,216)**	(1,497,499)
Underprovision in prior year	**-**	(387)
Deferred taxation		
Current year	**(34,645,488)**	22,283,229
Total	**(50,931,214)**	6,141,714

No provision for taxation in Hong Kong has been made as the Company and its subsidiaries do not have assessable profits for the years. 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 consolidated financial information in respect of temporary differences attributable to retained profits of the PRC subsidiaries.

6. BASIC EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the profit for the year of US$117,902,834 (2016: loss of US$15,597,664) and the number of 152,333,013 ordinary shares (2016: 152,333,013 ordinary shares) with no par value in issue during the year.

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

7. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share at the end of the reporting period is based on the net assets of US$705,626,114 (2016: US$561,315,445) and 152,333,013 ordinary shares (2016: 152,333,013 ordinary shares) with no par value in issue at 31 December 2017.

DIVIDEND

No interim dividend was declared during the year.

The Board has resolved to recommend at the forthcoming annual general meeting ("**AGM**") to be held on 25 May 2018 the payment of a final dividend of US$0.06 (or HK$0.468) per share (2016: US$0.06), for the year ended 31 December 2017 to shareholders whose names appear on the register of members on 31 May 2018. The final dividend, if approved, is to be payable in cash on 26 July 2018. Total dividend for the year is US$0.06 (or HK$0.468) per share (2016: US$0.06), amounting to US$9,139,981 (2016: US$9,139,981).

Shareholders who wish to receive the dividend in Hong Kong Dollars have to complete a Hong Kong Dollar dividend election form and return the same to the Company's Share Registrar on or before 13 July 2018. Shareholders who have submitted the dividend election form previously do not need to re-submit this form.

BOOK CLOSURE

The register of members of the Company will be closed from 21 May 2018 to 25 May 2018, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of members who are entitled to attend, speak and vote at the forthcoming AGM, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 18 May 2018. Subject to the approval by shareholders at the forthcoming AGM, the final dividend will be payable to shareholders whose names appear on the register of members of the Company after the close of business at 4:30 p.m. on 31 May 2018. In order to qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at the above address not later than 4:30 p.m. on 31 May 2018.

REVIEW AND OUTLOOK

Overall Performance

The Group recorded a profit attributable to equity shareholders of US$117.90 million for the year ended 31 December 2017, compared to a loss attributable to equity shareholders of US$15.60 million for the same period last year. The reversal was mainly due to a significant increase in the overall value of the financial assets designated at fair value through profit or loss (the "**Financial Assets**"), resulting in the recognition of a gain, rather than a loss as in the prior year. As of 31 December 2017, the net assets of the Group were US$705.63 million (31 December 2016: US$561.32 million), with a net asset value per share of US$4.632 (31 December 2016: US$3.685).

The net gain on the Financial Assets for the year was US$174.21 million, compared to a net loss of US$35.55 million for last year. The listed and unlisted investments recorded net gains of US$120.09 million and US$54.12 million, respectively.

Total investment income for the year decreased by 41.50% to US$15.21 million (2016: US$26.00 million) as compared to the same period last year, due primarily to a decrease in dividend and distribution income from investments, and to a decrease in interest income.

Material Acquisitions and Disposals of Investments

In 2017, the Group continued to seek out and rigorously evaluate investment opportunities. During the year, the Group replaced its unlisted equity interest in a culture and media project with the stock of a listed company, invested in a tourism project, and entered into an investment agreement with an artificial intelligence (AI)-related venture capital fund.

In March 2017, the Group 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 Group 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 Group 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 for an aggregate amount of RMB104 million (equivalent to US$15.10 million). 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 Group 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 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 and 15 September 2017, the Group disbursed RMB50 million (equivalent to US$7.50 million) and RMB150 million (equivalent to US$22.93 million), respectively, for a total of RMB200 million. 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.

On 27 October 2017, the Group entered into a partnership agreement with Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP (the "**Jiangmen Ventures Fund**"), pursuant to which the Group undertook to contribute RMB30 million to the Jiangmen Ventures Fund, representing 7.32% of the total subscription amount of RMB410 million. On 29 January 2018, the Group completed its contribution of RMB30 million (equivalent to US$4.74 million). The major investment targets of the Jiangmen Ventures Fund are enterprises related to machine intelligence, Internet of Things (IoT), natural user interface, and enterprise computing, with a primary focus on early-stage business ventures.

In addition, the Group disposed of or exited from certain investments during the year:

The Group 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 Group from Sanhome Pharmaceutical was 7.48%.

The Group was granted authorisation by its shareholders to dispose of its entire holding of A shares of Industrial Bank Co., Ltd. ("**IBC**"). During the year, the Group disposed of approximately 20 million A shares of IBC for net proceeds of US$49.02 million. Moreover, during the period of January to February 2018, the Group further disposed of the entire remaining balance of 23.94 million A shares of IBC for net proceeds of US$69.45 million. Presently, the Group has completed the disposal of its entire holding of A shares of IBC.

Liquidity, Financial Resources, Gearing and Commitments

The Group's bank and cash balances increased by 27.42%, from US$37.49 million at the end of last year to US$47.77 million (representing 5.47% of the Group's total assets) as of 31 December 2017, due primarily to the disposal during the year of certain A shares of IBC, as well as its equity interest in Sanhome Pharmaceutical.

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

As of 31 December 2017, the Group had commitments of US$27.83 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., Anhui Iflytek Venture Capital LLP and the Jiangmen Ventures Fund.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Most of the Group's investments are located in China where the official currency is the Renminbi ("**RMB**"). The conversion rate of RMB against the US dollar has stopped depreciating and has stabilised, even recording an increase of 5.81% in 2017, which had a favourable impact on the Group since it holds a considerable amount of assets denominated in RMB. The Group currently does not have any foreign currency hedging policy. However, the Group continues to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Employees

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

The Portfolio

As of 31 December 2017, the Group's total investments amounted to US$824.96 million. The sector distribution of investments was US$558.94 million in financial services (representing 64.04% of the Group's total assets), US$179.31 million in culture, media and consumption (20.54%), US$18.27 million in manufacturing (2.10%), and US$68.44 million in other ventures (including energy and resources, information technology and education, etc.) (7.84%). In addition, cash on hand was US$47.77 million, representing 5.47% of the Group's total assets as of 31 December 2017.

Prospects

In 2018, it is expected that the overall global economy will continue to walk on a path of recovery, but the many risk factors that could hinder the economy in achieving this expected growth should not be neglected. If, for example, we see greater strain in the US employment market, leading to strong growth in wages along with higher inflation expectations, the US Federal Reserve may raise interest rates at a rate that is higher than the market expects, imposing downward pressure on asset prices. In addition, China remains in an important transitional stage as it adjusts to certain economic and structural reforms that could lead to slower growth. Certain short-term economic stimulus policies, such as those in relation to consumer spending on durable goods or monetising the resettlement for shantytown dwellers, may not be sustainable in 2018. Supply-side structural reforms in the industrial field will also continue to move forward. The remarkable results achieved by cutting excessive production capacity, deleveraging and lowering costs is the primary reason why industrial enterprises registered a significant rebound in profit growth. However, the structural characteristics of differentiation in corporate profit growth are still evident. It is anticipated that the profits of Chinese industrial enterprises will be able to maintain their momentum in 2018, but also that the overall rate of growth will slow as compared to 2017, while structural differentiation will continue. Given that China's economic growth in 2018 continues to show signs of slowing, it is expected that the operating results of the investment projects (mainly operating in China) held by the Group will be impacted to a certain degree.

The Central Economic Working Conference, convened in December 2017, identified the primary objective for the economy in 2018, which is to make progress while ensuring stability. The Central Government has instilled a focus on the promotion of quality development, while taking steps to ensure that eight key tasks are carried out in an effective manner, including: advancing supply-side structural reforms, stimulating the vitality of various market players, implementing a rural revitalisation strategy, implementing a coordinated regional development strategy, facilitating the cultivation of a new environment that is fully open, improving social security and the stability of people's livelihood, accelerating the development of a housing system with multi-source of supply, multi-channel support, with an equal focus on renting and purchasing, and accelerating the building of an ecological civilisation. Given that the Central Government is stepping up its adjustments to economic structures, new industries, new business forms and new business models are likely to thrive and develop rapidly. New economic sectors such as high-tech and strategic emerging industries, especially in the areas of AI and culture and media, will still 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 enter another period of rapid growth, in which “big data + AI” will profoundly change the structure of traditional industries. It is here that the Group will continue to seek out the best opportunities for investment.

In the environment where challenges and opportunities co-exist, the Group will continue to make every effort to identify new investment projects and our investment focus will be on the financial industry with 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 a way that will increase shareholder’s return.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance practices are important to protect shareholders' interests and to promote investor confidence. The Company complies with the relevant requirements under the Hong Kong Companies Ordinance, the Hong Kong Securities and Futures Ordinance, the Listing Rules and the US Foreign Account Tax Compliance Act. Further, the Company has complied with all the code provisions set out in Appendix 14 to the Listing Rules (Corporate Governance Code) throughout the year under review, except for the deviations as stated below:

According to the Investment Management Agreement, the portfolio and day-to-day administration of the Company are handled by the Investment Manager. Meanwhile, except the qualified accountant whose remuneration package is determined and borne by the Investment Manager, the Company has no salaried employees. 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. In addition, it is suitable for the Company to hold regular Board meeting twice a year at a minimum.

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.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors and relevant employees of the Company. Having made specific enquiry to all Directors, the Company confirms that all Directors have complied with the Model Code throughout the year under review.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

By Order of the Board
HONG Xiaoyuan
Chairman

Hong Kong, 28 March 2018

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