# 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 2010

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

*Executive Directors:*
Mr. LI Yinquan* *(Chairman)*
Mr. HONG Xiaoyuan*
Mr. CHU Lap Lik, Victor*
Ms. ZHOU Linda Lei*
Mr. TSE Yue Kit
Ms. KAN Ka Yee, Elizabeth*
*(alternate to Mr. CHU Lap Lik, Victor*)*

*Non-executive Directors:*
Mr. KE Shifeng
Mr. WANG Qi
*(resigned on 6 July 2010)*

*Independent Non-executive Directors:*
Mr. KUT Ying Hay
Mr. WANG Jincheng
Mr. LI Kai Cheong, Samson
Mr. LIU Baojie

* *members of Investment Committee*

## AUDIT COMMITTEE

Mr. LI Kai Cheong, Samson
Mr. KUT Ying Hay
Mr. WANG Jincheng

## INVESTMENT MANAGER

**China Merchants China Investment Management Limited**
1803 China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

## PRINCIPAL BANKERS

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

## COMPANY SECRETARY

Mr. LEUNG Chong Shun

## AUDITOR

Deloitte Touche Tohmatsu

## LEGAL ADVISERS

Linklaters
Victor Chu & Co
Woo Kwan Lee & Lo

## SHARE REGISTRAR

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1803 China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Stock Code: 0133.HK
Web-site: 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 2010 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | ***(unaudited)*** | *(unaudited)* |
| | *NOTES* | ***US$*** | *US$* |
| Change in fair value of financial assets at fair value through profit or loss | | **(123,777,685)** | 346,240,362 |
| Investment income | *3* | **12,281,011** | 6,289,189 |
| Other income | | **167,267** | 142,015 |
| Administrative expenses | | **(14,967,866)** | (36,338,102) |
| Share of results of associates | | **3,114,507** | (361,270) |
| (Loss) profit before taxation | *5* | **(123,182,766)** | 315,972,194 |
| Taxation | *6* | **38,796,440** | (89,541,659) |
| (Loss) profit for the period | | **(84,386,326)** | 226,430,535 |
| Other comprehensive income (loss) | | | |
| Exchange difference arising on translation | | **2,898,809** | (11,486,618) |
| Share of change in translation reserve of associates | | **96,924** | 6,258 |
| Change in fair value of available-for-sale financial assets | | **22,734** | (3,022) |
| Other comprehensive income (loss) for the period | | **3,018,467** | (11,483,382) |
| Total comprehensive (loss) income for the period | | **(81,367,859)** | 214,947,153 |
| (Loss) profit for the period attributable to owners of the Company | | **(84,386,326)** | 226,430,535 |
| Total comprehensive (loss) income attributable to owners of the Company | | **(81,367,859)** | 214,947,153 |
| Basic (loss) earnings per share | *7* | **(0.566)** | 1.518 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | NOTES | **30 June 2010 (unaudited) US$** | 31 December 2009 (audited) US$ |
|---|---|---|---|
| Non-current assets | | | |
| Interests in associates | | **20,863,641** | 17,651,708 |
| Financial assets at fair value through profit or loss | | **212,037,119** | 117,078,997 |
| Available-for-sale financial assets | | **721,072** | 698,338 |
| | | **233,621,832** | 135,429,043 |
| Current assets | | | |
| Financial assets at fair value through profit or loss | | **407,838,906** | 569,097,615 |
| Other receivables | 8 | **19,043,124** | 481,056 |
| Bank balances and cash | | **41,918,233** | 129,600,520 |
| | | **468,800,263** | 699,179,191 |
| Current liabilities | | | |
| Other payables | | **79,542,395** | 71,724,364 |
| Dividend payable | 9 | **14,914,560** | – |
| Taxation payable | | **8,627,923** | 20,344,661 |
| | | **103,084,878** | 92,069,025 |
| Net current assets | | **365,715,385** | 607,110,166 |
| Total assets less current liabilities | | **599,337,217** | 742,539,209 |
| Non-current liabilities | | | |
| Financial liabilities at fair value through profit or loss | | **608,112** | 421,986 |
| Deferred taxation | 10 | **96,941,192** | 144,046,891 |
| | | **97,549,304** | 144,468,877 |
| **Net assets** | | **501,787,913** | 598,070,332 |
| **Capital and reserves** | | | |
| Share capital | 11 | **14,914,560** | 14,914,560 |
| Share premium and reserves | | **188,623,517** | 185,605,050 |
| Retained profits | | **298,249,836** | 397,550,722 |
| **Equity attributable to owners of the Company** | | **501,787,913** | 598,070,332 |
| **Net asset value per share** | 12 | **3.364** | 4.010 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital US$ | Share premium US$ | Translation reserve US$ | General reserve US$ | Available-for-sale financial assets reserve US$ | Retained profits US$ | Equity attributable to owners of the Company US$ |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2010 (audited) | **14,914,560** | **109,493,184** | **70,206,542** | **5,904,125** | **1,199** | **397,550,722** | **598,070,332** |
| Loss for the period | **-** | **-** | **-** | **-** | **-** | **(84,386,326)** | **(84,386,326)** |
| Exchange difference on translation | **-** | **-** | **2,898,809** | **-** | **-** | **-** | **2,898,809** |
| Share of change in translation reserve of associates | **-** | **-** | **96,924** | **-** | **-** | **-** | **96,924** |
| Change in fair value of available-for-sale financial assets | **-** | **-** | **-** | **-** | **22,734** | **-** | **22,734** |
| Total comprehensive income (loss) for the period | **-** | **-** | **2,995,733** | **-** | **22,734** | **(84,386,326)** | **(81,367,859)** |
| 2009 final and special dividends declared | **-** | **-** | **-** | **-** | **-** | **(14,914,560)** | **(14,914,560)** |
| Balance at 30 June 2010 (unaudited) | **14,914,560** | **109,493,184** | **73,202,275** | **5,904,125** | **23,933** | **298,249,836** | **501,787,913** |
| Balance at 1 January 2009 (audited) | 14,914,560 | 109,493,184 | 70,150,247 | 5,893,813 | – | 133,955,410 | 334,407,214 |
| Profit for the period | – | – | – | – | – | 226,430,535 | 226,430,535 |
| Exchange difference on translation | – | – | (11,486,618) | – | – | – | (11,486,618) |
| Share of change in translation reserve of associates | – | – | 6,258 | – | – | – | 6,258 |
| Change in fair value of available-for-sale financial assets | – | – | – | – | (3,022) | – | (3,022) |
| Total comprehensive income (loss) for the period | – | – | (11,480,360) | – | (3,022) | 226,430,535 | 214,947,153 |
| Transfer to general reserve | – | – | – | 680 | – | (680) | – |
| Balance at 30 June 2009 (unaudited) | 14,914,560 | 109,493,184 | 58,669,887 | 5,894,493 | (3,022) | 360,385,265 | 549,354,367 |

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.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***(unaudited)*** | *(unaudited)* |
| | ***US$*** | *US$* |
| Net cash (used in) generated from operating activities | **(88,174,935)** | 73,734,011 |
| Investing activities | | |
| Advance to associates | **(502)** | (609) |
| Net cash used in investing activities | **(502)** | (609) |
| Net (decrease) increase in cash and cash equivalents | **(88,175,437)** | 73,733,402 |
| Cash and cash equivalents as at 1 January | **129,600,520** | 101,994,877 |
| Effect of foreign exchange rate changes | **493,150** | 158,325 |
| Cash and cash equivalents as at 30 June | **41,918,233** | 175,886,604 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2010*

## 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 ("**HKAS 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, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised Standards, Amendments and Interpretations ("**new and revised HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKAS 27 (Revised) | Consolidated and separate financial statements |
| HKAS 39 (Amendment) | Eligible hedged items |
| HKFRS 1 (Amendment) | Additional exemptions for first-time adopters |
| HKFRS 2 (Amendment) | Group cash-settled share-based payment transactions |
| HKFRS 3 (Revised) | Business combinations |
| HK(IFRIC)-INT 17 | Distribution of non-cash assets to owners |

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 [1] |
| HKAS 24 (Revised) | Related party disclosures [4] |
| HKAS 32 (Amendment) | Classification of right issues [2] |
| HKFRS 1 (Amendment) | Limited exemption from comparative HKFRS 7 disclosures for first-time adopters [3] |
| HKFRS 9 | Financial instruments (relating to the classification and measurement of financial assets) [5] |
| HK(IFRIC)-INT 14 (Amendment) | Prepayments of a minimum funding requirement [4] |
| HK(IFRIC)-INT 19 | Extinguishing financial liabilities with equity instruments [3] |

1 *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.*
2 *Effective for annual periods beginning on or after 1 February 2010.*
3 *Effective for annual periods beginning on or after 1 July 2010.*
4 *Effective for annual periods beginning on or after 1 January 2011.*
5 *Effective for annual periods beginning on or after 1 January 2013.*

The Group anticipates that the application of these new and revised HKFRSs will have no material impact on the condensed consolidated financial statements of the Group.

## 3. INVESTMENT INCOME

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | 2009 |
| | ***(unaudited)*** | *(unaudited)* |
| | ***US$*** | *US$* |
| Interest income | **449,728** | 941,073 |
| Dividend income | **11,831,283** | 5,348,116 |
| Total | **12,281,011** | 6,289,189 |

## 4. SEGMENTAL INFORMATION

The Group's operating 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 and media: investees engaged in culture and media activities.
(c) Manufacturing: investees engaged in manufacturing of products activities.
(d) Others: investees engaged in investments related to real estate and other types of business activities.

Information regarding the above segments is reported below.

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

**For the six months ended 30 June 2010**

| | Financial services *US$* | Culture and media *US$* | Manufacturing *US$* | Others *US$* | Total *US$* |
|---|---|---|---|---|---|
| Change in investment value | (132,367,904) | 8,947,425 | 3,114,507 | (357,206) | (120,663,178) |
| Dividend income | 9,429,150 | 2,401,091 | – | 1,042 | 11,831,283 |
| Segment (loss) profit | (122,938,754) | 11,348,516 | 3,114,507 | (356,164) | (108,831,895) |
| Interest income from available-for-sale financial assets | – | – | – | 20,300 | 20,300 |
| Other income | 11,689 | 155,578 | – | – | 167,267 |
| | (122,927,065) | 11,504,094 | 3,114,507 | (335,864) | (108,644,328) |
| **Unallocated:** | | | | | |
| – Administrative expenses | | | | | (14,967,866) |
| – Interest income | | | | | 429,428 |
| Loss before taxation | | | | | (123,182,766) |

## 4. SEGMENTAL INFORMATION (CONTINUED)

For the six months ended 30 June 2009

| | Financial services *US$* | Culture and media *US$* | Manufacturing *US$* | Others *US$* | Total *US$* |
|---|---|---|---|---|---|
| Change in investment value | 346,242,462 | (2,100) | (262,281) | (98,989) | 345,879,092 |
| Dividend income | 5,348,116 | – | – | – | 5,348,116 |
| Segment profit (loss) | 351,590,578 | (2,100) | (262,281) | (98,989) | 351,227,208 |
| Interest income from available-for-sale financial assets | – | – | – | 1,117 | 1,117 |
| Other income | 25,373 | 116,642 | – | – | 142,015 |
| | 351,615,951 | 114,542 | (262,281) | (97,872) | 351,370,340 |
| Unallocated: | | | | | |
| – Administrative expenses | | | | | (36,338,102) |
| – Interest income | | | | | 939,956 |
| Profit before taxation | | | | | 315,972,194 |

Segment profit (loss) represents the change in value of investments (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 earned by each segment without allocation of central administrative expenses, fees to the Investment Manager, interest income and other income. 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 included in the segment profit (loss).

## 4. SEGMENTAL INFORMATION (CONTINUED)

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

| | **30 June 2010 *(unaudited)* *US$*** | 31 December 2009 *(audited)* *US$* |
|---|---|---|
| **Segment assets** | | |
| Financial services | **523,618,492** | 611,938,414 |
| Culture and media | **91,420,108** | 71,999,119 |
| Manufacturing | **22,465,635** | 16,316,391 |
| Others | **3,956,503** | 4,272,734 |
| Total segment assets | **641,460,738** | 704,526,658 |
| Unallocated | **60,961,357** | 130,081,576 |
| Consolidated assets | **702,422,095** | 834,608,234 |
| **Segment liabilities** | | |
| Financial services | **3,631** | – |
| Culture and media | **509,515** | 378,116 |
| Manufacturing | **58,026** | – |
| Others | **36,940** | 43,870 |
| Total segment liabilities | **608,112** | 421,986 |
| Unallocated | **200,026,070** | 236,115,916 |
| Consolidated liabilities | **200,634,182** | 236,537,902 |

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

All assets are allocated to operating segments other than other receivables, bank balances and cash, and all liabilities are allocated to operating 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.

## 5. (LOSS) PROFIT BEFORE TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***(unaudited)*** | *(unaudited)* |
| | ***US$*** | *US$* |
| (Loss) profit before taxation has been arrived at after charging: | | |
| Investment Manager's management fee | **6,314,758** | 5,757,182 |
| Investment Manager's performance fee (Note 15(b)) | **–** | 30,095,868 |
| Net foreign exchange loss | **37,062** | 28,507 |
| Share of tax of associates (included in share of results of associates) | **387,576** | – |

## 6. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***(unaudited)*** | *(unaudited)* |
| | ***US$*** | *US$* |
| The tax (charge) credit for the period comprises: | | |
| Current tax: | | |
| PRC – Enterprise Income Tax | **(8,888,697)** | (23,843,453) |
| Deferred taxation (Note 10) | **47,685,137** | (65,698,206) |
| Total | **38,796,440** | (89,541,659) |

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 "**New 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 New 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 2010 is 22% (2009: 20%) and such tax rate will be gradually increased to 25% in 2012. Other PRC incorporated entities which incorporated after 15 March 2007, are subject to 25% tax rate for Enterprise Income Tax with effect from 1 January 2008. The applicable tax rate for the Company is 10%.

## 7. BASIC (LOSS) EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***(unaudited)*** | *(unaudited)* |
| (Loss) earnings for the purpose of basic (loss) earnings per share (US$) | **(84,386,326)** | 226,430,535 |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | **149,145,600** | 149,145,600 |
| Basic (loss) earnings per share (US$) | **(0.566)** | 1.518 |

There is no diluted (loss) earnings per share as there has no additional potential shares outstanding.

## 8. OTHER RECEIVABLES

| | **30 June 2010** | 31 December 2009 |
|---|---|---|
| | ***(unaudited)*** | *(audited)* |
| | ***US$*** | *US$* |
| Consideration receivable on disposal of unlisted investments | **12,864,274** | – |
| Dividend receivable | **6,038,923** | – |
| Interest receivable | **36,250** | 295,812 |
| Other receivables | **103,677** | 185,244 |
| Total | **19,043,124** | 481,056 |

## 9. DIVIDEND PAYABLE

A dividend payment of US$14,914,560, comprising a final dividend of US$0.04 per share and a special dividend of US$0.06 per share, totalling US$0.10 per share, for the year ended 31 December 2009 was approved by the shareholders on 19 May 2010.

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2010 (2009: Nil).

**10. DEFERRED TAXATION**

The Group's deferred tax liability relates to the taxation on capital gains for certain investments in securities in the PRC. The following is the deferred tax liability recognised by the Group and movements thereon during the current and prior periods:

| | *US$* |
|---|---:|
| Balance at 1 January 2009 (audited) | 74,360,243 |
| Charge to the profit or loss for the period | 61,029,303 |
| Attributable to a change in expected reversal date of temporary differences | 4,668,903 |
| Exchange differences | 44,714 |
| Balance at 30 June 2009 (unaudited) | 140,103,163 |
| Charge to the profit or loss for the period | 4,135,276 |
| Attributable to a change in expected reversal date of temporary differences | (243,445) |
| Exchange differences | 51,897 |
| Balance at 31 December 2009 (audited) | 144,046,891 |
| Credit to the profit or loss for the period | (47,685,137) |
| Exchange differences | 579,438 |
| Balance at 30 June 2010 (unaudited) | 96,941,192 |

**11. SHARE CAPITAL**

| | **Number of shares** | ***US$*** |
|---|---:|---:|
| Ordinary shares of US$0.10 each | | |
| Authorised: | | |
| At 31 December 2009, 1 January and 30 June 2010 | 300,000,000 | 30,000,000 |
| Issued and fully paid: | | |
| At 31 December 2009, 1 January and 30 June 2010 | 149,145,600 | 14,914,560 |

## 12. NET ASSET VALUE PER SHARE

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

| | **30 June 2010** *(unaudited)* | 31 December 2009 *(audited)* |
|---|---|---|
| Net asset value (US$) | **501,787,913** | 598,070,332 |
| Number of ordinary shares in issue | **149,145,600** | 149,145,600 |
| Net asset value per share (US$) | **3.364** | 4.010 |

## 13. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **30 June 2010** *(unaudited)* ***US$*** | 31 December 2009 *(audited)* *US$* |
|---|---|---|
| Within one year | **7,881** | 9,443 |
| In the second to fifth years inclusive | **–** | 3,148 |
| | **7,881** | 12,591 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases and rentals are negotiated for a term of three years.

## 14. CAPITAL COMMITMENT

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$29.45 million) in total by installments 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 the end of the reporting period, the Group has injected RMB40 million (equivalent to approximately US$5.89 million) into China Media Investment and classified the investment as a financial asset at fair value through profit or loss under non-current assets.

## 15. 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.

On 5 February 2010, the Company announced that it had on 5 February 2010 entered into an Investment Management Agreement (the "**Revised Management Agreement**") with the Investment Manager in relation to the proposed re-appointment of the Investment Manager as the investment manager of the Company immediately following the expiry date of the existing Investment Management Agreement on 14 July 2010.

As the Investment Manager is a connected person of the Company and the transaction contemplated under the Revised Management Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules, the entering into of the Revised Management Agreement was subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. A circular dated 10 March 2010 containing, among others, further details of the Revised Management Agreement, the recommendation of the independent board committee, the advice of the independent financial adviser to the independent board committee and the independent shareholders and a notice convening the extraordinary general meeting to approve the Revised Management Agreement and the proposed annual caps had been despatched to the shareholders of the Company. The independent shareholders of the Company approved the Revised Management Agreement and the proposed annual caps at the extraordinary general meeting held on 25 March 2010.

During the six months ended 30 June 2010, the Group has incurred the following related party transactions:

(a) Management fees totalling US$6,314,758 (30 June 2009: US$5,757,182) were paid or accrued to the Investment Manager. The fee is calculated based on a fixed percentage on the value of the Group's assets as stipulated in the existing Investment Management Agreement (Note 1).

    The amount due to the Investment Manager included in other payables in the condensed consolidated statement of financial position as at 30 June 2010 was US$71,207,643 (31 December 2009: US$71,336,043). Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

(b) No performance fee is provided for the six months ended 30 June 2010 (30 June 2009: US$30,095,868). The fee is estimated based on a fixed percentage on the excess of an agreed increment of the Group's net asset value after certain adjustment as stipulated in the existing Investment Management Agreement (Note 1).

## 15. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Rental fees in respect of the office properties totalling US$4,728 (30 June 2009: US$4,720) were paid or payable to a wholly-owned subsidiary of a substantial shareholder of the Company (Note 1).

(d) Securities brokerage commission fees totalling US$11,219 (30 June 2009: US$52,145) were paid or payable to a subsidiary of a substantial shareholder of the Company (Note 1).

(e) Pursuant to the sub-participation agreements, the financial liabilities of the Group with Mr. HONG Xiaoyuan, Ms. ZHOU Linda Lei and Mr. TSE Yue Kit, who are Directors of both the Company and the Investment Manager, were US$49,144, US$73,479 and US$7,121 respectively (31 December 2009: US$35,002, US$53,430 and US$4,439 respectively). Moreover, the financial liability of the Group with Mr. WU Huifeng, a Director of the Investment Manager, was US$49,144 (31 December 2009: US$35,002) (Note 1).

Note 1: These related party transactions also constitute connected transactions or continuing connected transactions.

## 16. COMPENSATION OF KEY MANAGEMENT PERSONNEL

There is no compensation to key management personnel for both interim periods.

## 17. EVENT AFTER THE REPORTING PERIOD

In July 2010, a confirmation letter had been signed between the Group, another shareholder and the associate of the Group, Langfang Oriental Education Facilities Development Co., Ltd. ("**Oriental**"), pursuant to which, upon receiving an amount of RMB12,664,439 (equivalent to approximately US$1.86 million) as final payment of the capital contribution made by the Group and profit distribution, and as from 1 January 2010, the Group is no longer entitled to any profit distributions from Oriental, and upon cessation of Oriental, the Group shall not be entitled to any proceeds from asset disposition. The carrying amount of investment in Oriental as at 30 June 2010 was approximately US$1.34 million.

Deloitte.
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# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

## Introduction

We have reviewed the interim financial information set out on pages 2 to 16, which comprises the condensed consolidated statement of financial position of China Merchants China Direct Investments Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") as of 30 June 2010 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing 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 ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information consists of making inquiries, 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

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

Hong Kong
30 August 2010

# INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS

## *OVERALL PERFORMANCE*

China Merchants China Direct Investments Limited and its subsidiaries (the "**Fund**") recorded a loss attributable to equity shareholders of US$84.39 million for the six months ended 30 June 2010, compared to a profit attributable to equity shareholders of US$226.43 million for the same period last year. The loss was mainly attributable to a significant decrease in the fair value of financial assets designated at fair value through profit or loss (the "**Financial Assets**"). As of 30 June 2010, the net assets of the Fund were US$501.79 million (31 December 2009: US$598.07 million), with a net asset value per share of US$3.364 (31 December 2009: US$4.010).

For the period, the decrease in fair value of the Financial Assets was US$123.78 million (2009: an increase in fair value of US$346.24 million) and was concentrated in two of the Fund's investments, namely China Merchants Bank Co., Ltd. ("**CMB**") and Industrial Bank Co., Ltd. ("**IBC**"), for which the values decreased by US$52.41 million and US$108.85 million, respectively, compared to the end of the previous year.

Total investment income for the period increased by 95% from the same period last year to US$12.28 million (2009: US$6.29 million), due primarily to a significant increase in dividend income.

## *MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS*

After a thorough exploration of new investment opportunities, the Fund made capital investments in the financial services, culture and media, and manufacturing sectors during the period:

On 8 February 2010, the Fund made an additional capital investment of US$4.39 million in Inbank Media (China) Co., Ltd. ("**Inbank Media**") and, at the same time, converted the convertible bonds already held by the Fund into equity, thereby increasing the Fund's interest in Inbank Media from 9.09% to 14.51%.

On 8 March 2010, the Fund subscribed to 14.40 million A shares of CMB at RMB8.85 per share for a total consideration of US$18.67 million, as entitled under the CMB A Rights Issue and as approved by shareholders of the Fund on 14 December 2009.

On 23 March 2010, the Fund subscribed to a new equity issuance by China Credit Trust Co., Ltd. ("**CCT**") on a pro rata basis for a total consideration of US$35.18 million, in order to maintain the Fund's original percentage interest in CCT.

On 29 April 2010, the Fund entered into an agreement with China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("**China Media Investment**") to make a capital investment of US$29.45 million by installments, collectively representing a 10% interest in the initial capitalisation of China Media Investment. The first installment of US$5.86 million was made on 1 June 2010. Pursuant to a series of agreements, on 30 April 2010, a capital investment of US$0.68 million was made in China Media (Tianjin) Investment Management Co., Ltd. ("**China Media Management**") for a 7.70% enlarged equity interest in China Media Management.

On 12 May 2010, the Fund made a capital investment of US$2.93 million in Shenzhen Geesun Automation Technology Co., Ltd. ("**Geesun Technology**") for a 15.38% enlarged equity interest in Geesun Technology, pursuant to an agreement dated 30 April 2010.

On 26 May 2010, the Fund subscribed to 8.28 million A shares of IBC at RMB18 per share for a total consideration of US$21.83 million, as entitled under the IBC A Rights Issue and as approved by shareholders of the Fund on 5 May 2010.

In addition, the Fund disposed of interests in certain investment projects during the period:

The Fund convened an extraordinary general meeting on 14 December 2009 and received authorisation to dispose of its entire holding of A shares of both CMB and IBC within a year, and at prices of not less than RMB5 per share and RMB12 per share, respectively. During the period, the Fund did not dispose of any shares in CMB, but did dispose of 5.60 million A shares of IBC for a net proceeds of US$22.38 million.

The Fund also disposed of its entire 0.45% interest (representing 8.736 million shares) in Industrial Securities Co., Ltd. ("**Industrial Securities**") for a consideration of US$12.86 million (equivalent to RMB87.36 million) through a sale to an independent third party. The relevant equity exchange contract was entered into on 15 June 2010, and the consideration was received on 8 July 2010. The Fund had acquired its equity interest in Industrial Securities through an investment of RMB8.51 million in 1999. The consideration received for the disposal is equivalent to approximately 10.3 times the original capital contribution, and approximately 3.8 times the audited net asset value of Industrial Securities for the financial year of 2009. The pre-tax internal rate of return of the Fund's investment in Industrial Securities amounts to approximately 27%.

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

The Fund's cash on hand decreased by 68%, from US$129.60 million at the end of last year to US$41.92 million as of 30 June 2010, due primarily to capital investments made during the period.

As of 30 June 2010, the Fund had no outstanding bank loans (31 December 2009: Nil).

As of 30 June 2010, the Fund had a capital commitment of US$23.56 million (31 December 2009: US$35.17 million) for an investment that was approved, but not yet provided for in the financial statements, and for future scheduled installments related to the investment in China Media Investment.

### *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 U.S. dollar recorded a slight increase of 0.55% in the first half of 2010, which had a positive impact on the Fund since it holds a considerable amount of assets denominated in RMB.

### *EMPLOYEES*

Other than a qualified accountant whose remuneration is 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 2010, the Fund's total investments amounted to US$641.46 million, which comprised US$640.74 million in direct investments and US$0.72 million in bonds. The sector distribution of direct investments was US$523.62 million in financial services (representing 74.55% of the Fund's total assets), US$91.42 million in culture and media (13.02%), US$22.46 million in manufacturing (3.20%), and US$3.24 million in other ventures (including real estate, energy and resources, etc.) (0.45%). In addition, cash on hand was US$41.92 million, representing 5.97% of the Fund's total assets as of 30 June 2010.

### *REVIEW OF DIRECT INVESTMENTS*

The following table shows the direct investment projects held by the Fund as at 30 June 2010:

| Name of projects | Location of headquarters | Business nature | Listed (Stock Exchange)/ unlisted | Book value *(US$ million)* | Percentage of total assets % |
|---|---|---|---|---|---|
| ***Financial Services:*** | | | | | |
| 1. China Merchants Bank Co., Ltd. | Shenzhen, Guangdong | Banking | Shanghai Stock Exchange | 240 | 34.09 |
| 2. Industrial Bank Co., Ltd. | Fuzhou, Fujian | Banking | Shanghai Stock Exchange | 168 | 23.98 |
| 3. China Credit Trust Co., Ltd. | Beijing | Trust management | Unlisted | 113 | 16.13 |
| 4. Morgan Stanley Huaxin Fund Management Co., Ltd. | Shenzhen, Guangdong | Fund management | Unlisted | 2 | 0.25 |
| 5. China Media (Tianjin) Investment Management Co., Ltd. | Tianjin | Fund management | Unlisted | 1 | 0.10 |
| | | | **Sub-total:** | 524 | 74.55 |
| ***Culture and Media:*** | | | | | |
| 6. NBA China, L.P. | Beijing | Sports marketing | Unlisted | 28 | 4.00 |
| 7. Inbank Media (China) Co., Ltd. | Beijing | Indoor media | Unlisted | 15 | 2.13 |
| 8. Guangzhou Digital Media Group Ltd. | Guangzhou, Guangdong | Cable television & broadband access | Unlisted | 42 | 6.05 |
| 9. China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) | Shanghai | Media investment | Unlisted | 6 | 0.84 |
| | | | **Sub-total:** | 91 | 13.02 |
| ***Manufacturing:*** | | | | | |
| 10. Shandong Jinbao Electronics Co., Ltd. | Zhaoyuan, Shandong | Copper foil & laminates | Unlisted | 20 | 2.78 |
| 11. Shenzhen Geesun Automation Technology Co., Ltd. | Shenzhen, Guangdong | Production equipment for lithium ion batteries | Unlisted | 3 | 0.42 |
| | | | **Sub-total:** | 23 | 3.20 |

| Name of projects | Location of headquarters | Business nature | Listed (Stock Exchange)/ unlisted | Book value *(US$ million)* | Percentage of total assets *%* |
|---|---|---|---|---|---|
| ***Others:*** | | | | | |
| ***(i) Energy & Resources:*** | | | | | |
| 12. Wuhan Rixin Technology Co., Ltd. | Wuhan, Hubei | Solar energy | Unlisted | 2 | 0.26 |
| ***(ii) Real Estate:*** | | | | | |
| 13. Langfang Oriential Education Facilities Development Co., Ltd. | Langfang, Hebei | Student dormitory | Unlisted | 1 | 0.19 |
| 14. Shenzhen Mankam Square | Shenzhen, Guangdong | Retail shops | Unlisted | – | – |
| 15. China Merchants Plaza (Shanghai) Property Co., Ltd. | Shanghai | Office & commercial | Unlisted | – | – |
| ***(iii) Investment:*** | | | | | |
| 16. Shenzhen Jutian Investment Co., Ltd. | Shenzhen, Guangdong | Investment | Unlisted | – | – |
| | | | **Sub-total:** | 3 | 0.45 |
| | | | **Total:** | 641 | 91.22 |

**China Merchants Bank Co., Ltd. ("CMB")** is China's first joint-stock commercial bank, with shares listed on the Shanghai Stock Exchange since 2002 and on the Hong Kong Stock Exchange since 2006. In addition to its network of over 770 branches and offices across China, CMB also owns 100% of Wing Lung Bank in Hong Kong and has established a branch and a representative office in New York, the United States, and a representative office in London, the United Kingdom. CMB has become one of the top 100 banks worldwide.

On 8 March 2010, the Fund subscribed to 14.40 million A shares of CMB at RMB8.85 per share under the CMB A Rights Issue, for a total consideration of RMB127.44 million (equivalent to US$18.67 million), as approved by shareholders of the Fund on 14 December 2009. As at the end of the reporting period, the Fund held 125.17 million A shares of CMB, representing an equity interest of 0.58%, and with an investment cost of RMB$209.17 million (equivalent to US$27.19 million). The book value of the Fund's holding in CMB was US$239.43 million. In July 2010, the Fund received a cash dividend from CMB of RMB26.29 million for 2009.

In early April 2010, CMB successfully completed its rights issue of A shares and H shares, and raised a net proceeds of RMB21.6 billion in new capital.

During the first half of 2010, the Fund made no disposal of any A shares of CMB.

In accordance with the waiver from strict compliance with Rule 21.04(3)(b) of the Listing Rules, as granted by the Hong Kong Stock Exchange, the Fund will complete a sell-down of its shares in CMB by no later than 18 September 2010, such that its investment in CMB will not exceed 20% of the Fund's net asset value.

**Industrial Bank Co., Ltd. ("IBC")** is a joint-stock commercial bank incorporated in the PRC, with shares listed on the Shanghai Stock Exchange since 2007. IBC has a network of over 530 branches and offices across China, and has become one of the top 100 banks worldwide.

On 26 May 2010, the Fund subscribed to 8.28 million A shares of IBC at RMB18 per share under the IBC A Rights Issue, for a total consideration of RMB149.04 million (equivalent to US$21.83 million), as approved by shareholders of the Fund on 5 May 2010. As at the end of the reporting period, the Fund held 49.68 million A shares of IBC, representing an equity interest of 0.83%, and with an investment cost of RMB220.79 million (equivalent to US$28.61 million). The book value of the Fund's holding in IBC was US$168.41 million. In April 2010, the Fund received a cash dividend from IBC of RMB21.68 million for 2009.

In early June 2010, IBC successfully completed its rights issue of A shares, and raised a net proceeds of RMB17.7 billion in new capital.

During the first half of 2010, the Fund disposed of a total of 5.60 million A shares of IBC, and the net proceeds amounted to RMB152.82 million (equivalent to US$22.38 million).

In accordance with the waiver from strict compliance with Rule 21.04(3)(b) of the Listing Rules, as granted by the Hong Kong Stock Exchange, the Fund will complete a sell-down of its shares in IBC by no later than 30 June 2011, such that its investment in IBC will not exceed 20% of the Fund's net asset value.

**China Credit Trust Co., Ltd. ("CCT")** was established in 1995. The principal activities of CCT are trust management, fund management, investments and loan financing. The Fund invested US$15.31 million in CCT in 2005, and holds a 6.82% stake. In August 2010, the Fund received a cash dividend from CCT of US$2.17 million for 2009.

For the first half of 2010, CCT recorded an unaudited net profit of RMB161 million, representing an increase of 28% over the same period last year. Net interest income for the first half of 2010 was RMB89 million, representing an increase of 332% over the same period last year, due primarily to the fact that certain past-due interest could not be recognised in the same period last year. Net fees and commissions income (derived primarily from the trust management business) was RMB141 million, representing an increase of 74% over the same period last year. And investment income and gains from change in the fair value of investments amounted to RMB52 million, representing a decrease of 50% from the same period last year. Earlier this year, the China Banking Regulatory Commission has started to impose stricter regulatory control over trust products in co-operation with banks, real estate trusts, and structural trust businesses that could constrain the growth of CCT. Moreover, in the face of sluggish performance of the securities market during the first half of the year, CCT has curtailed to a large extent its proprietary securities investment.

Facing the increasing competition in the industry, CCT is now actively exploring expansion into new markets outside Beijing by establishing regional headquarters in Shanghai and Shenzhen that will allow CCT to gradually extend its business network to all major cities throughout China, and to strengthening its sales channels (such as banks) so as to enhance its marketing capabilities.

On 23 March 2010, the Fund subscribed to a new CCT capital increase on a pro rata basis, for a total consideration of RMB240 million (equivalent to US$35.18 million). The capital increase is still pending regulatory approval.

**Morgan Stanley Huaxin Fund Management Co., Ltd. ("Morgan Stanley Fund")** was established in 2003 with registered capital of RMB100 million. The Fund invested RMB10 million (equivalent to US$1.21 million) in 2003 and holds a 10% equity interest in Morgan Stanley Fund.

For the first half of 2010, Morgan Stanley Fund reported an unaudited net profit of RMB7.04 million, compared with a loss of RMB6.08 million for the same period last year. Although, during the first half of the year, Morgan Stanley Fund reported non-operating income of RMB5.63 million from the sale of property, as well as a 226% year-on-year increase in management fees income due to its growth in assets under management, a net loss is expected for the full year as certain marketing expenses related to the introduction of new funds will be recognised in the year after verification of account with the sales channels.

Assets managed by Morgan Stanley Fund recorded a significant increase of 190% to RMB9.46 billion as of the end of June 2010, up from RMB3.26 billion at the end of last year. Furthermore, Morgan Stanley Fund was able to demonstrate its strong growth in spite of challenging business conditions that included a decline of 27% in the SSE Composite Index for the first half of 2010, as well as a reduction in assets under management across the fund sector. Besides, among the assets managed by Morgan Stanley Fund, the Morgan Stanley Huaxin Leading Advantage Equity Securities Investment Fund, which was set up in September 2009, grew to RMB4.19 billion at the end of June 2010 from RMB650 million as at the end of 2009, in large part because of its outstanding performance within its peer group of funds. Morgan Stanley Fund also launched a new fund in May 2010—the Morgan Stanley Huaxin Premier Growth Equity Securities Investment Fund—with initial capital raised of RMB2.26 billion. As of 30 June 2010, Morgan Stanley Fund managed a total of six funds, including four equity funds, one bond fund and one money market fund.

Morgan Stanley Fund is still at a development stage, and additional investments will be required to enhance its IT systems infrastructure and to enable the launch of new funds. Despite the fact that a loss is expected for 2010, the introduction of new funds and a greater scale of assets under management are expected to provide a solid foundation for long-term growth.

**China Media (Tianjin) Investment Management Co., Ltd. ("China Media Management")** is a company established in Tianjin with limited liability. As the general partner and investment manager of China Media Investment, China Media Management is responsible for defining and executing the investment strategy for China Media Investment, as well as for managing their business operations.

On 30 April 2010, the Fund made a capital investment of RMB4.62 million (equivalent to US$0.68 million) for a 7.70% enlarged equity interest in China Media Management.

At present, China Media Management is actively researching investment opportunities for China Media Investment and is expected to make two to three investments by the end of the year.

**NBA China, L.P. ("NBA China")** is a limited liability partnership entity incorporated in the Cayman Islands in 2007. The Fund invested US$23 million in 2008, for a 1% preferred equity stake in NBA China. Other strategic investors hold the remaining 10% of the preferred equity in NBA China. NBA China has exclusive rights to operate the NBA's businesses in the Greater China Region, including television broadcasting rights, advertising, sponsorship, events, digital media, and merchandising, among other new businesses. The Fund received a cash distribution from NBA China of US$0.16 million in March 2010.

At present, NBA China derives most of its revenue from television broadcasting and advertising, sponsorship and digital media – of which television broadcasting and advertising comprises the largest source of total revenues, as this business segment has achieved significant scale due to long-time development, and is expected to maintain steady growth. NBA China welcomed two new partners during the year, namely Visa and Simcere, and sponsorship business is expected to sustain faster growth in the near term.

In May 2010, NBA China opened a NBA store at the Shanghai World Expo Culture Centre, which is the eighth NBA store established in China, as well as the first NBA store built with the new NBA's global retail design. NBA China is now recruiting additional staff to accelerate expansion of the NBA store business. Furthermore, NBA China also cooperates with Boshiwa, a well-known children's clothing retailer in China, to promote the NBA brand in that market.

**Inbank Media (China) Co., Ltd. ("Inbank Media")** was established in Beijing in June 2007 to engage in commercial advertising through its video display network located in banking service outlets in China.

The Fund invested RMB45 million (equivalent to US$6.59 million) in June 2009 and invested another RMB30 million (equivalent to US$4.39 million) in February 2010, for a cumulative investment of RMB75 million (equivalent to US$10.98 million). The Fund also exercised its conversion right on the convertible bonds that it already held in February 2010 and, as a result, the Fund currently holds a 14.51% equity interest in Inbank Media.

As a new media entity, Inbank Media reported its first quarterly profit in the fourth quarter of 2009 and has remained profitable during the first half of 2010. Inbank Media has now become the largest advertising operator in China's banking service outlet sector, with more than 3,000 devices in its video display network in three major cities (namely Beijing, Shanghai and Guangzhou) as well as in ten other cities (including Qingdao, Shenzhen, Nanjing, Chengdu and Suzhou). To consolidate its industry-leading position, Inbank Media will continue to explore opportunities in expanding network and to strengthen its own advertising sales team.

**Guangzhou Digital Media Group Ltd. ("Guangzhou Digital")** was established in Guangzhou, Guangdong in 1993 to engage in the operation of cable television transmission and internet broadband access. The Fund invested RMB210 million (equivalent to US$30.74 million) in August 2009 to acquire a 21% equity interest in Guangzhou Digital. In June 2010, the Fund received a cash dividend from Guangzhou Digital of RMB16.38 million for 2009.

For the first half of 2010, Guangzhou Digital recorded an unaudited operating income of RMB306 million, representing an increase of 22% over the same period last year, and an unaudited net profit of RMB36.67 million, representing an increase of 33% over the same period last year. The growth in net profit was mainly due to an increase in broadband users as well as to an increase in transmission fees received from satellite television stations. At the same time, the company's staff has remained stable, and growth in expenses has been far lower than the growth in revenues.

During the past two years, Guangzhou Digital has been making tremendous efforts in terms of both technical infrastructure and market research in preparation for the formal launch of a new HD interactive TV business in Guangzhou in June 2010. It is expected that new HDTV users with high ARPU will exceed 30,000 by the end of 2010.

**China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("China Media Investment")** is a limited liability partnership entity incorporated in Shanghai, and is the first fund in the culture and media sector approved by the National Development and Reform Commission for registration. Total capital of RMB5 billion is expected to be raised, of which the initial capitalisation amounts to RMB2 billion. Major promoters of and contributors to China Media Investment include Shanghai Dongfang Huijin Culture Industry Investment Co., Ltd., China Development Bank Capital Corporation Ltd., Shanghai Dazhong Capital Investment Co., Ltd. and Wenhui Xinmin United Press Group – all of whom are dominant players in the financial investment and/or culture and media sectors. China Media Investment has an investment horizon of 10 years, and is engaged in the acquisition, restructuring and direct investments in the culture and media sector. The scope of investments will include major projects in broadcasting and media, publishing, animation and creative media, both in China and overseas. China Media Management is the general partner and investment manager of China Media Investment.

On 29 April 2010, the Fund agreed to make a capital investment of RMB200 million (equivalent to US$29.45 million) by installments in China Media Investment, representing a 10% interest in its initial capitalisation. The first installment of RMB40 million (equivalent to US$5.86 million) was made by the Fund on 1 June 2010.

China Media Investment and News Corporation had signed an agreement, pursuant to which China Media Investment will acquire a controlling stake in News Corporation's Xing Kong, Xing Kong International, Channel [V] Mainland China along with its Fortune Star Chinese movie library. This co-operation marks the first step for both parties to develop the business as an international media operator and investor.

It is expected that one to two more investment projects will be completed by China Media Investment during the year.

**Shandong Jinbao Electronics Co., Ltd. ("Jinbao")** was established in Zhaoyuan, Shandong in 1993 to engage in the production and sale of copper-foil and laminate. The Fund's cumulative investment in Jinbao is US$7.85 million, representing an equity interest of 30%.

For the first half of 2010, Jinbao reported faster growth in both sales and net profit compared to the same period last year, due primarily to the sharp reduction in sales precipitated by the global economic crisis in early 2009, followed by a rebound in late 2009 that has continued to gain strength in 2010.

**Shenzhen Geesun Automation Technology Co., Ltd. ("Geesun Technology")** was established in Shenzhen, Guangdong in 2006 and is a leading and professional manufacturer of equipment and automated production lines for lithium ion batteries and super capacitors in China. On 12 May 2010, the Fund made a capital investment of RMB20 million (equivalent to US$2.93 million) in Geesun Technology and holds a 15.38% enlarged equity interest in Geesun Technology.

For the first half of 2010, Geesun Technology reported substantial growth in both sales and net profit compared to the same period last year. The company benefited from a sharp increase in investment in the domestic power battery industry, driven by vigorous governmental support for a new energy policy in China. Geesun Technology, therefore, performed well during the first half of the year.

**Wuhan Rixin Technology Co., Ltd. ("Wuhan Rixin")** was incorporated in Wuhan, Hubei in 2001, and is a government-sponsored technology company 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 Fund invested RMB15 million (equivalent to US$2.20 million) in July 2009 and holds a 5% equity interest in Wuhan Rixin.

With the support provided under the finalised subsidy policies promulgated by the Ministry of Finance and the Ministry of Housing and Urban-Rural Development of the PRC in April 2009, Wuhan Rixin sees favorable developments across all business segments and reported faster than expected growth in both operating income and net profit. Progress has been made in the successful operation of the solar-powered electric systems at Wuhan Rixin Industrial Park Demonstration Power Plant (identified by the Ministry of Science and Technology). Following the completion of the PV power station project for Wuhan-Guangzhou Speed Railway at the new Wuhan Railway Station, Wuhan Rixin has further secured a number of new PV power station projects, including the Wuhan International Convention & Exhibition Centre, Liangzi Lake Scenic Area, etc. that can provide a solid foundation for sustainable growth.

**Langfang Oriental Education Facilities Development Co., Ltd. ("Oriental")** is a Sino-foreign cooperative joint venture established in Langfang, Hebei. The total project cost is US$20 million, with a 20-year contract term. In 2002, the Fund invested US$5 million for an equity interest of 25% in Oriental.

An agreement has been reached between the Fund, Oriental and another shareholder on the conclusion of the Fund's participation in Oriental, pursuant to which the Fund shall receive a concluded amount of RMB12.66 million, and the said amount had been received in late July 2010. The pre-tax internal rate of return of the Fund's investment in Oriental amounts to 7.3%. The above-mentioned parties have also confirmed that, pursuant to the articles of association of Oriental, as from 1 January 2010, the Fund shall no longer share in gains or losses from Oriental, and upon cessation of Oriental, the Fund shall not be entitled to any proceeds from asset disposition.

**Shenzhen Mankam Square ("Mankam")** is a 33-storey business/commercial complex located at North Wen Jin Road, Shenzhen. In 1994, the Fund invested US$4.30 million through Hansen Enterprises Limited, which holds a 35% equity interest in the complex, to purchase 5,262 square metres of retail space on the third floor of Mankam. Due to problems concerning ownership, the first and second floors have not yet commenced operation which has caused great difficulty in leasing or selling the third floor. The Fund made a full provision for this investment in 2005. The Fund is still actively seeking an opportunity to exit the investment.

**China Merchants Plaza (Shanghai) Property Co., Ltd. ("China Merchants Plaza")** was incorporated in Shanghai in 1994 to engage in the development of a commercial and business complex. The Fund invested US$5.685 million in 1994 and holds an effective equity interest of 19.8% in China Merchants Plaza. The commercial complex is a 28-storey office/retail building located at North Chengdu Road, Jingan District, Shanghai, with a total saleable area of 60,217 square metres, of which 49,438 square metres (net of the area sold) remain available for leasing. The Fund made a full provision for this investment in 2000 due to the substantial leverage, high financing costs and significant accumulated losses of China Merchants Plaza.

For the period from January to May 2010, China Merchants Plaza recorded an unaudited net profit of RMB6.65 million, representing an increase of 20% over the same period last year, due mainly to the marked effectiveness of the company's cost control measures, resulting in a year-on-year decrease in selling, management and financial expenses.

**Shenzhen Jutian Investment Co., Ltd. ("Jutian Investment")**. In 2001, the Fund invested RMB35.36 million (equivalent to US$4.27 million) in Jutian Investment, representing an equity interest of 4.66%. The Fund made a full provision for this investment in 2005. Jutian Investment is fully committed to recovering outstanding debts, as well as to settling taxation issues and remaining litigation. The Fund is actively seeking an opportunity to exit the investment.

### *REVIEW OF LISTED INVESTMENTS*

For the first half of 2010, the A share market in China declined sharply, as did the SSE Composite Index, which dropped by 27%, from 3277 points as of 31 December 2009 to 2398 points as of 30 June 2010. The disappointing performance of the China A share market since the beginning of the year is mainly due to IPO and refinancing pressures, as well as to uncertainty about domestic macroeconomic policies. The Hong Kong stock market also declined, but to a lesser extent, with the Hang Seng Index down by 8%, from 21873 points as of 31 December 2009 to 20129 points as of 30 June 2010.

The Fund primarily invests directly in high quality investment projects in China, mostly private enterprises. Given the large quantity of A shares of listed banks the Fund still holds, the Fund intends not to increase exposure to the stock markets. Therefore, the Fund did not trade any equities in the secondary market during the period, except for disposing of certain shares in IBC.

## *PROSPECTS*

For the first half of 2010, China's gross domestic product (GDP) saw year-on-year growth of 11.1%, and the recovery experienced in the second half of 2009 has continued for the Chinese economy as a whole. With a gradual reduction in economic stimulus, as well as the tightening policies (especially in the real estate market) set forth during the first half of 2010 by the Central Government, slower growth can be expected for the second half of 2010 in investment spending, consumer spending and exports, with moderate inflationary pressure. The Central Government will continue to focus on measures to contain inflation and to curb excess liquidity in the second half of the year, but no additional tightening policies are expected to be introduced in the second half of 2010. However, tighter credit, surging production costs and weaker export growth may cause corporate profitability to decline, which in turn could adversely affect the returns of the Fund's projects. Nevertheless, the Fund would be able to secure more direct investment opportunities as a result of tightening corporate funds due to the credit crunch.

The Fund will continue to make every effort to identify promising new investment projects, while maintaining an emphasis on investment opportunities in consumer goods (with particular focus on consumption projects in second-and third-tier cities), financial services, culture and media, pharmaceuticals, and energy and environmental protection. When appropriate, the Fund will also seek to turn over investments in its portfolio in order to create greater shareholder value.

## *CO-INVESTMENT 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 will enter into sub-participation agreements (the "**Agreements**") with certain executive directors of the Fund, certain directors and employees of the Investment Manager, and persons nominated by 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 Participants' investments 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 share in the loss 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 the 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 in respect of 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 will be borne by the Investment Manager.

According to the Scheme, the aggregate investment amount contributed by the Participants in each of the Fund's new investment projects shall not exceed 2% of the Fund's investment in each project.

As of 30 June 2010, details of aggregate co-investment amounts by the Participants and their relative proportion to the investment amounts by the Fund were as follows:

| **Name of projects** | **Original investment amount by the Fund** *US$** | **Original co-investment amounts by the Participants** *US$** | **Relative proportion** |
|---|---|---|---|
| Inbank Media (1st round capital injection) | 6,585,600 | 129,000 | 1.959% |
| Wuhan Rixin | 2,195,500 | 43,900 | 2.000% |
| Guangzhou Digital | 30,737,700 | 175,500 | 0.571% |
| Inbank Media (2nd round capital injection) | 4,394,100 | 87,500 | 1.991% |
| China Media Management | 676,100 | 4,500 | 0.666% |
| Geesun Technology | 2,929,500 | 58,000 | 1.980% |
| China Media Investment (1st installment capital contribution) | 5,858,300 | 38,800 | 0.662% |

* *Calculated with prevalent exchange rates at the time of payment of co-investment amounts*

In addition, as of 30 June 2010, details of the Directors of the Fund as well as a Director of the Investment Manager participated in the Scheme were as follows:

| Name of projects | **Mr. HONG Xiaoyuan** (Note 1) *US$** | **Ms. ZHOU Linda Lei** (Note 2) *US$** | **Mr. TSE Yue Kit** (Note 3) *US$** | **Mr. WU Huifeng** (Note 4) *US$** |
|---|---|---|---|---|
| Inbank Media (1st round capital injection) | 12,900 | 12,900 | 1,290 | 12,900 |
| Wuhan Rixin | 3,510 | 4,390 | 1,290 | 3,510 |
| Guangzhou Digital | 12,900 | 25,810 | 1,290 | 12,900 |
| Inbank Media (2nd round capital injection) | 6,950 | 8,750 | 1,290 | 6,950 |
| China Media Management | 300 | 580 | 30 | 300 |
| Geesun Technology | 4,640 | 5,800 | 1,290 | 4,640 |
| China Media Investment (1st installment capital contribution) | 2,500 | 5,010 | 250 | 2,500 |

Note 1: Director of the Fund and Chairman of the Investment Manager
Note 2: Director of the Fund and Managing Director of the Investment Manager
Note 3: Director of the Fund and Director of the Investment Manager
Note 4: Director of the Investment Manager

* *Stated in original amount*

**Ms. ZHOU Linda Lei**
*Managing Director*
**China Merchants China Investment Management Limited**

Hong Kong, 30 August 2010

## INTERIM DIVIDEND

A dividend payment of US$14,914,560, comprising a final dividend of US$0.04 per share and a special dividend of US$0.06 per share, totalling US$0.10 per share, for the year ended 31 December 2009 was approved by the shareholders on 19 May 2010.

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2010 (2009: Nil).

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

During the six months ended 30 June 2010, 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 2010, the interests of the Directors and their associates in the share capital 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 Companies were as follows:

| Name of Director | Number of shares | Capacity | Percentage of total issued share |
|---|---|---|---|
| Mr. Victor Lap-Lik CHU | 3,224,000 | Interest of controlled corporation | 2.16% |

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 2010, 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 2010.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, the following persons, other than a Director or chief executive 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 | Long/Short position | Capacity | Number of ordinary shares interested | Percentage of total issued share |
|---|---|---|---|---|
| China Merchants Group Limited (Note 3) | Long position | Interest of controlled corporation | 35,859,760 | 24.04% |
| China Merchants Steam Navigation Company Limited (Note 3) | Long position | Interest of controlled corporation | 35,859,760 | 24.04% |
| China Merchants Holdings (Hong Kong) Company Limited (Note 1) | Long position | Interest of controlled corporation | 35,859,760 | 24.04% |
| China Merchants Finance Holdings Company Limited (Note 2) | Long position | Interest of controlled corporation | 35,859,760 | 24.04% |
| China Merchants Financial Services Limited (Note 3) | Long position | Interest of controlled corporation | 33,989,760 | 22.79% |
| Good Image Limited | Long position | Beneficial owner | 33,989,760 | 22.79% |
| Lazard Asset Management LLC | Long position | Investment manager | 31,497,100 | 21.12% |
| UBS AG | Long position | Beneficial owner | 44,000 | 8.08% |
| | | Security interest | 12,000,500 | |
| Kuchanny Christopher Philip Charles (Note 4) | Long position | Interest of controlled corporation | 10,440,191 | 7.00% |
| Osmium Capital Management Limited | Long position | Investment manager | 10,440,191 | 7.00% |
| Osmium Special Situations Fund Limited | Long position | Beneficial owner | 10,440,191 | 7.00% |
| 華夏全球精選股票型證券投資基金 | Long position | Beneficial owner | 9,682,000 | 6.49% |

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.

Note 4: Kuchanny Christopher Philip Charles is deemed to have corporate interests 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 executive 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 interim financial report is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, whose independent review report is included in this interim report. The interim financial report has also been reviewed by the Company's Audit Committee.

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the reporting period except 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. Except the qualified accountant whose remuneration packages are borne by the Investment Manager, the Company has no salaried employees. Thus, no remuneration committee has been established by the Company.

Besides, owing to a business trip, the Chairman, Mr. LI Yinquan, has given an apology for not being able to host the annual general meeting of the Company which was held on 19 May 2010.

## 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.

## DISCLOSURE OF CHANGE OF INFORMATION ON DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information since the issue date of the 2009 Annual Report is as follows:

With effect from 23 July 2010, Mr. LI Kai Cheong, Samson was appointed as a member of the Listing Committee of The Stock Exchange of Hong Kong Limited.

By Order of the Board
**Mr. LI Yinquan**
*Chairman*

Hong Kong, 30 August 2010