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 2012

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 Director:
Mr. KE Shifeng

Independent Non-executive Directors:
Mr. LI Kai Cheong, Samson
Mr. LIU Baojie
Mr. XIE Tao
Mr. ZHU Li

INVESTMENT COMMITTEE

Mr. LI Yinquan
Mr. HONG Xiaoyuan
Mr. CHU Lap Lik, Victor
Ms. ZHOU Linda Lei
Ms. KAN Ka Yee, Elizabeth
(alternate to Mr. CHU Lap Lik, Victor)

AUDIT COMMITTEE

Mr. LI Kai Cheong, Samson
Mr. XIE Tao
Mr. ZHU Li

NOMINATION COMMITTEE

Mr. LI Yinquan
Mr. XIE Tao
Mr. ZHU Li

COMPANY SECRETARY

Mr. LEUNG Chong Shun

INVESTMENT MANAGER

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

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Linklaters
Victor Chu & Co
Woo Kwan Lee & Lo

PRINCIPAL BANKERS

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

SHARE REGISTRAR

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	30 June 2012 (unaudited) US$	31 December 2011 (audited) US$
Non-current assets			
Interests in associates		**22,421,835**	22,890,874
Financial assets at fair value through profit or loss		**234,471,491**	219,725,630
Available-for-sale financial assets		**721,823**	726,698
		257,615,149	243,343,202
Current assets			
Financial assets at fair value through profit or loss		**199,352,274**	215,401,697
Other receivables	8	**5,845,702**	1,612,182
Bank balances and cash		**88,377,936**	95,824,723
		293,575,912	312,838,602
Current liabilities			
Other payables		**21,538,613**	21,050,450
Dividend payable	9	**18,179,884**	–
Taxation payable		**6,563,015**	3,999,297
		46,281,512	25,049,747
Net current assets		**247,294,400**	287,788,855
Total assets less current liabilities		**504,909,549**	531,132,057
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**1,289,546**	1,268,441
Deferred taxation	10	**56,131,741**	52,953,100
		57,421,287	54,221,541
Net assets		**447,488,262**	476,910,516
Capital and reserves			
Share capital	11	**15,149,904**	15,149,904
Share premium and reserves		**226,479,892**	228,287,230
Retained profits		**205,858,466**	233,473,382
Equity attributable to owners of the Company		**447,488,262**	476,910,516
Net asset value per share	12	**2.954**	3.148

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 2012 (audited)	**15,149,904**	**113,574,480**	**107,909,427**	**6,773,764**	**29,559**	**233,473,382**	**476,910,516**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(9,435,032)**	**(9,435,032)**
Exchange difference on translation	**-**	**-**	**(1,715,722)**	**-**	**-**	**-**	**(1,715,722)**
Share of change in translation reserve of associates	**-**	**-**	**(86,741)**	**-**	**-**	**-**	**(86,741)**
Change in fair value of available-for-sale financial assets	**-**	**-**	**-**	**-**	**(4,875)**	**-**	**(4,875)**
Total comprehensive loss for the period	**-**	**-**	**(1,802,463)**	**-**	**(4,875)**	**(9,435,032)**	**(11,242,370)**
2011 final and special dividends declared	**-**	**-**	**-**	**-**	**-**	**(18,179,884)**	**(18,179,884)**
Balance at 30 June 2012 (unaudited)	**15,149,904**	**113,574,480**	**106,106,964**	**6,773,764**	**24,684**	**205,858,466**	**447,488,262**
Balance at 1 January 2011 (audited)	14,914,560	109,493,184	86,492,840	6,139,057	24,865	270,341,735	487,406,241
Profit for the period	–	–	–	–	–	9,147,468	9,147,468
Exchange difference on translation	–	–	9,391,160	–	–	–	9,391,160
Share of change in translation reserve of associates	–	–	(227,449)	–	–	–	(227,449)
Change in fair value of available-for-sale financial assets	–	–	–	–	556	–	556
Total comprehensive income for the period	–	–	9,163,711	–	556	9,147,468	18,311,735
2010 final and special dividends declared	–	–	–	–	–	(16,406,016)	(16,406,016)
Balance at 30 June 2011 (unaudited)	14,914,560	109,493,184	95,656,551	6,139,057	25,421	263,083,187	489,311,960

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	
	2012	2011
	(unaudited)	*(unaudited)*
	US$	*US$*
Net cash (used in) generated from operating activities	**(6,967,268)**	91,202,782
Cash generated from (used in) investing activities		
Advance from (to) associates	**25,741**	(498)
Net (decrease) increase in cash and cash equivalents	**(6,941,527)**	91,202,284
Cash and cash equivalents as at 1 January	**95,824,723**	63,282,735
Effect of foreign exchange rate changes	**(505,260)**	201,933
Cash and cash equivalents as at 30 June	**88,377,936**	154,686,952

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"):

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

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

3. INVESTMENT INCOME

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

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

4. SEGMENTAL INFORMATION

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

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

Information regarding the above segments is reported below:

4. SEGMENTAL INFORMATION (CONTINUED)

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

For the six months ended 30 June 2012

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

4. SEGMENTAL INFORMATION (CONTINUED)

For the six months ended 30 June 2011

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

Segment profit (loss) represents the change in investment value (including change in fair value of financial assets at fair value through profit or loss and share of results of associates) and the corresponding dividend income, interest income and other gains and losses earned by each segment without allocation of central administrative expenses, fees to the Investment Manager, interest income on bank deposits and certain other gains and losses. This is the measure reported to the executive management for the purposes of resources allocation and performance assessment. No separate segment revenue (i.e. investment income) is disclosed as it had been presented in the computation of segment profit (loss).

4. SEGMENTAL INFORMATION (CONTINUED)

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

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

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

All assets are allocated to reportable segments other than certain other receivables, bank balances and cash, and all liabilities are allocated to reportable segments other than other payables, dividend payable, current and deferred tax liabilities.

During the period, the Group was principally involved in investing in companies with significant business involvement in the PRC, hence no geographical information in relation to the investing activities are presented.

5. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2012	2011
	(unaudited)	*(unaudited)*
	US$	*US$*
(Loss) profit before taxation has been arrived at after charging (crediting):		
Investment Manager's management fee	**4,707,947**	5,182,788
Net foreign exchange gains	**(40,573)**	(1,115,140)
Share of tax of associates (included in share of results of associates)	**–**	168,876

6. TAXATION

	Six months ended 30 June	
	2012	2011
	(unaudited)	*(unaudited)*
	US$	*US$*
The tax (charge) credit for the period comprises:		
Current tax:		
PRC Enterprise Income Tax	**(3,070,155)**	(25,230,784)
Deferred taxation (Note 10)	**(3,361,843)**	17,380,929
Total	**(6,431,998)**	(7,849,855)

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

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

7. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

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

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

The diluted effect of potential conversion of scrip shares under dividend payment (Note 9) is not significant as at the end of both reporting periods.

8. OTHER RECEIVABLES

	30 June	31 December
	2012	2011
	(unaudited)	*(audited)*
	US$	*US$*
Consideration receivable on disposal of		
– Listed investment	**1,890,062**	–
– Unlisted investment	**–**	63,102
Dividend receivable	**3,579,631**	224,668
Interest receivable	**336,425**	1,275,398
Other receivables	**39,584**	49,014
Total	**5,845,702**	1,612,182

9. DIVIDEND PAYABLE

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

A dividend payment of US$18,179,884, comprising a final dividend of US$0.04 per share and a special dividend of US$0.08 per share, totalling US$0.12 per share (with scrip option), for the year ended 31 December 2011 was approved by the shareholders on 17 May 2012. A cash dividend of US$9,387,282 was paid and a total number of 6,844,381 scrip shares were allotted and issued at the price of HK$9.956 on 31 July 2012 by the Company.

10. DEFERRED TAXATION

The Group's deferred tax liability comprises deferred taxation of US$8,598,862 related to undistributed earnings of PRC subsidiaries and of US$47,532,879 related to the taxation on capital gains for certain investments in securities in the PRC. The following is the deferred tax liability on capital gains on investments in securities recognised by the Group and movements thereon during the current and prior periods:

	Capital gains on investments in securities *US$*
Balance at 1 January 2011 (audited)	74,094,298
Credit to the profit or loss for the period	(17,380,929)
Exchange differences	1,308,092
Balance at 30 June 2011 (unaudited)	58,021,461
Credit to the profit or loss for the period	(6,453,606)
Exchange differences	1,385,245
Balance at 31 December 2011 (audited)	52,953,100
Credit to the profit or loss for the period	(5,237,019)
Exchange differences	(183,202)
Balance at 30 June 2012 (unaudited)	47,532,879

11. SHARE CAPITAL

	Number of shares	***US$***
Ordinary shares of US$0.10 each		
Authorised:		
At 31 December 2011, 1 January and 30 June 2012	**300,000,000**	**30,000,000**
Issued and fully paid:		
At 31 December 2011, 1 January and 30 June 2012	**151,499,036**	**15,149,904**

A total number of 6,844,381 ordinary shares of US$0.10 each were allotted and issued at the price of HK$9.956 on 31 July 2012 by the Company to satisfy the payment of the 2011 final and special dividends of US$8,792,602.

12. NET ASSET VALUE PER SHARE

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

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

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 2012 *(unaudited)* *US$*	31 December 2011 *(audited)* *US$*
Within one year	**91,668**	89,500
In the second to fifth years inclusive	**299,503**	333,100
	391,171	422,600

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases and rentals are negotiated for a term of five years (2011: Five years).

14. CAPITAL COMMITMENTS

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

(a) On 29 April 2010, the Group entered into an agreement with, among others, China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("**China Media Investment**"), pursuant to which the Group agreed to make a cash injection of RMB200 million (equivalent to approximately US$31.13 million) in total by installments into the capital of China Media Investment, representing 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 RMB53.03 million (equivalent to approximately US$7.89 million) into China Media Investment and classified the investment as a financial asset at fair value through profit or loss under non-current assets.

(b) On 29 August 2011, the Group entered into agreements in relation to NTong Technology Co., Ltd. ("**NTong**"), pursuant to which, among others, the Group agreed to subscribe to convertible bonds of RMB45 million (equivalent to approximately US$7.11 million) from NTong upon request of NTong.

(c) On 2 June 2012, the Group entered into a capital increase agreement in relation to Esurfing Media Co., Ltd. ("**Esurfing**"), pursuant to which the Group agreed to make a cash injection of RMB102 million (equivalent to approximately US$16.13 million) into the capital of Esurfing. Upon completion of the capital increase, the Group will hold a 5.37% equity interest in the enlarged capital of Esurfing.

15. CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group primarily invests directly in high quality investment projects in China. For the period, the loss on the change in fair value of financial assets at fair value through profit or loss was US$10,326,989 (Six months ended 30 June 2011: a gain of US$9,783,205). The general decline in fair values of investment projects was due to the challenging macroeconomic conditions faced by China as well as weak economic growth of the global environment.

16. RELATED PARTY TRANSACTIONS

The Company has appointed China Merchants China Investment Management Limited ("**Investment Manager**") as the investment manager for both listed and unlisted investments. Certain Directors of the Company are also Directors and/or shareholders of the Investment Manager.

During the six months ended 30 June 2012, the Group has incurred the following related party transactions:

(a) Management fees totalling US$4,707,947 (Six months ended 30 June 2011: US$5,182,788) 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 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 2012 was US$2,274,320 (31 December 2011: US$2,342,683). Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

(b) No rental fees in respect of the office properties were paid or payable to a wholly-owned subsidiary of a substantial shareholder who has significant influence over the Company for the six months ended 30 June 2012 (Six months ended 30 June 2011: US$4,930). Since the shareholder of the Company has significant influence over the Company and has control over its subsidiary, the rental fees are considered to be related party transactions.

(c) Securities brokerage commission fees totalling US$3,805 (Six months ended 30 June 2011: US$40,486) were paid or payable to a subsidiary of a substantial shareholder who has significant influence over the Company. Since the shareholder of the Company has significant influence over the Company and has control over its subsidiary, the securities brokerage commission fees are considered to be related party transactions (Note 1).

(d) 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, as at 30 June 2012, were US$102,529, US$144,232 and US$16,345 respectively (31 December 2011: US$99,882, US$143,750 and US$15,228 respectively). Moreover, the financial liability of the Group with Mr. WU Huifeng, a Director of the Investment Manager, was US$123,868 (31 December 2011: US$115,899).

Note 1: These related party transactions also constitute continuing connected transactions and are disclosed in accordance with Chapter 14A of the Listing Rules.

17. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

18. EVENTS AFTER THE REPORTING PERIOD

(a) On 20 July 2012 and 13 August 2012, the Group made a further cash injection of RMB28.82 million (equivalent to approximately US$4.57 million) and RMB3.08 million (equivalent to approximately US$0.48 million) into China Media Investment respectively, which is proportionate to its shareholding.

(b) On 26 July 2012, the Group made an investment of RMB30 million (equivalent to approximately US$4.73 million) in Bazhou Chengtian Cotton Co., Ltd. ("**Chengtian**") for a 6.25% enlarged equity interest in Chengtian.

(c) On 20 August 2012, the Group made a cash injection of RMB102 million into Esurfing, which is proportionate to its shareholding.

Deloitte.
德勤

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the condensed consolidated financial statements of China Merchants China Direct Investments Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 2 to 17, which comprise the condensed consolidated statement of financial position as of 30 June 2012 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 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
29 August 2012

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

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

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

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

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

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

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

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

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

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

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

As of 30 June 2012, the Fund had capital commitments of US$46.48 million (31 December 2011: US$50.58 million) for investments that were approved, but not yet provided for in the financial statements — specifically, for future payments related to the investment in China Media Investment, the investment in Esurfing, and the subscription for the convertible bonds of NTong Technology Co., Ltd., contingent on request.

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 US dollar recorded a decrease of 0.38% in the first half of 2012, which had a minimal impact on the Fund, although the Fund does hold a considerable amount of assets denominated in RMB.

EMPLOYEES

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

THE PORTFOLIO

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

REVIEW OF DIRECT INVESTMENTS

The following table shows the direct investment projects held by the Fund as at 30 June 2012:

Name of projects	Location of headquarters	Business nature	Listed (Stock Exchange)/ unlisted	Carrying value *(US$ million)*	Percentage of total assets *%*
Financial Services:					
1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	Shanghai Stock Exchange	104	18.90
2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	Shanghai Stock Exchange	92	16.63
3. China Credit Trust Co., Ltd.	Beijing	Trust management	Unlisted	105	19.06
4. China Media (Tianjin) Investment Management Co., Ltd.	Tianjin	Fund management	Unlisted	1	0.13
			Sub-total:	302	54.72
Culture and Media:					
5. China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	Shanghai	Media investment	Unlisted	8	1.38
6. NBA China, L.P.	Beijing	Sports marketing	Unlisted	25	4.61
7. Unibank Media Group Inc.	Beijing	Indoor media	Unlisted	4	0.64
8. Guangzhou Digital Media Group Ltd.	Guangzhou, Guangdong	Cable television & broadband access	Unlisted	28	5.14
9. China Business Network	Shanghai	Provision of financial information service	Unlisted	25	4.60
10. Renren Inc.	Beijing	Social networking services	New York Stock Exchange	4	0.64
			Sub-total:	94	17.01
Manufacturing:					
11. Shandong Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	Unlisted	23	4.07
12. Shenzhen Geesun Automation Technology Co., Ltd.	Shenzhen, Guangdong	Production equipment for lithium ion batteries	Unlisted	0	0.06
13. Jiangsu Huaer Optoelectronic Material Co., Ltd.	Yangzhou, Jiangsu	High purity silica crucibles	Unlisted	6	1.03
14. Liaoning Zhenlong Native Produce Holding Company Ltd.	Fuxin, Liaoning	Food processing	Unlisted	3	0.63
15. Guangxi Hwagain Group Co., Ltd.	Nanning, Guangxi	Printing paper & tissue paper	Unlisted	5	0.98
			Sub-total:	37	6.77

Name of projects	Location of headquarters	Business nature	Listed (Stock Exchange)/ unlisted	Carrying value *(US$ million)*	Percentage of total assets *%*
Others:					
(i) Energy & Resources:					
16. Wuhan Rixin Technology Co., Ltd.	Wuhan, Hubei	Solar energy	Unlisted	1	0.26
(ii) Information Technology:					
17. Xi'an Jinpower Electrical Co., Ltd.	Xi'an, Shaanxi	Electrical system related	Unlisted	4	0.76
18. NTong Technology Co., Ltd.	Beijing	Software development	Unlisted	17	3.05
19. Teralane Semiconductor (Shenzhen) Co., Ltd.	Shenzhen, Guangdong	IC design	Unlisted	1	0.20
(iii) Real Estate:					
20. China Merchants Plaza (Shanghai) Property Co., Ltd.	Shanghai	Office & commercial	Unlisted	–	–
			Sub-total:	23	4.27
			Total:	456	82.77

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 910 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, as well as representative offices in both London, the United Kingdom, and Taipei. As of 30 June 2012, the Fund held 60.33 million A shares of CMB, representing an equity interest of 0.28%, with a corresponding investment cost of RMB100.89 million (equivalent to US$11.08 million). In June 2012, the Fund received a cash dividend of RMB27.65 million from CMB for 2011.

In preparing to participate in the share rights issue of CMB and to fulfill the condition of the waiver granted by the Hong Kong Stock Exchange (i.e. to dispose of a minimum of 10.50 million A shares of CMB by the ex-rights date of the share rights issue of CMB), the Fund disposed of 5.50 million shares during the period, plus an additional 6.50 million shares in early July, for a total disposal of 12 million A shares of CMB. Net proceeds from the disposals amounted to RMB129.64 million (equivalent to US$20.49 million).

On 23 July 2012, CMB announced that it will hold a shareholders' meeting on 7 September 2012 to consider a resolution to extend the validity period of the share rights issue for another 12 months, to September 2013.

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 670 branches and offices across China. As of 30 June 2012, the Fund held 44.62 million A shares of IBC, representing an equity interest of 0.41%, with a corresponding investment cost of RMB110.18 million (equivalent to US$11.55 million). In May 2012, the Fund received a cash dividend of RMB14.09 million from IBC for 2011.

In June 2012, the China Banking Regulatory Commission ("**CBRC**") approved the issuance of not more than 1,915 million new shares by IBC to three designated strategic investors, including PICC Asset Management Co., Ltd. at RMB12.73 per share, and raising not more than RMB24.38 billion in order to supplement its core capital. The new share issuance proposal is subject to approval by other relevant regulatory authorities.

During the first half of 2012, the Fund did not dispose of any A shares of IBC.

China Credit Trust Co., Ltd. ("CCT") was established in 1995. The principal activities of CCT are trust management, fund management, investments and loan financing. As of 30 June 2012, the Fund held a 6.94% equity interest in CCT, with a total investment cost of US$50.49 million. In June and August 2012, the Fund received a total cash dividend of US$4.01 million from CCT for 2011.

For the first half of 2012, CCT recorded an unaudited net profit of RMB558 million, representing an increase of 18% over the same period last year, while growth in income from net interest, commissions and handling fees has slowed. Since July 2011, the CBRC has strengthened regulation of real estate trusts, resulting in a significant decrease in the number of new real estate trusts secured by CCT. CCT expects that income from the trust business in 2012 will come primarily from existing trusts. Moreover, CCT expects that many real estate trusts will come due for repayment during this and next years and, in order to manage the risk of repayment, CCT will strengthen the tracking and oversight of these trusts.

CCT made an announcement on 26 June 2012, stating that a collective trust scheme, namely, "2010年中誠 • 誠至金開1號集合信託計劃", was legally established on 1 February 2011 (Note: The expiry of the trust scheme is 13 January 2014, raising trust funds of RMB3.03 billion). All funds of the trust scheme will be used in the capital increase of Zhenfu Energy Group Co., Ltd. (山西振富能源集團有限公司). This company and its affiliates faced three new litigations in the second quarter of 2012, all related to private off-balance-sheet financing. CCT attaches great importance to such extraordinary situations, and has assigned personnel to investigate the matter and to take appropriate steps to manage risk. In addition, CCT immediately reported the situation to the appropriate regulatory authorities. The local government also takes the matter seriously and has organised a dedicated risk management team with members from all relevant departments. Under the central leadership of the team, CCT is participating actively, and it is hoping that the issue can be resolved within a proper legal framework.

A proposal by Southwest Securities Co., Ltd. ("**Southwest Securities**") to acquire Guodu Securities Co. Ltd., in which CCT holds a 15.35% stake, was approved by the shareholders of both parties in early January 2012, but other approval procedures have yet to be completed. On 7 August 2012, Southwest Securities announced that it has terminated the above acquisition for both parties could not come to a compromise on the valuation of securities firms under the prevailing market conditions.

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

China Media Management intends to complete three to four investments for China Media Investment in 2012, which include the investment in and establishment of Shanghai Oriental DreamWorks Co., Ltd. (上海東方夢工廠有限公司), as lead investors with DreamWorks Animation of the United States.

China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("China Media Investment") was established in Shanghai, and is the first fund in the culture and media sector approved for registration by the National Development and Reform Commission. Total capital of RMB5 billion is expected to be raised, with an initial capitalisation of RMB2 billion. China Media Investment has an investment horizon of 10 years. The scope of investments of China Media Investment includes major projects in broadcasting and media, publishing, animation and creative media, as well as in direct investments in the culture and media sector in both China and overseas. China Media Management, in which the Fund has an interest, is the general partner and investment manager of China Media Investment.

In April 2010, the Fund agreed to make a capital investment of RMB200 million by installment in China Media Investment. The first installment of RMB40 million (equivalent to US$5.86 million) was made by the Fund in June 2010. Additional capital investments of RMB6.26 million (equivalent to US$0.95 million), RMB6.77 million (equivalent to US$1.08 million), RMB28.82 million (equivalent to US$4.57 million) and RMB3.08 million (equivalent to US$0.48 million) were made in March 2011, February 2012, July 2012 and August 2012, respectively. Cumulatively, the Fund has invested RMB84.93 million (equivalent to US$12.94 million) in China Media Investment, representing 42.46% of the total investment committed by the Fund.

The incorporation of Shanghai Oriental DreamWorks Co., Ltd. ("**Oriental DreamWorks**"), which will be funded and established by China Media Investment and DreamWorks Animation of the United States as lead investors, is expected to be completed in the third quarter of 2012. Oriental DreamWorks will commence business in areas such as research and development of animation techniques, production of animated movies and television, copyright issues, derivative products, performing arts and entertainment, digital games and theme parks. China Media Investment expects to make two or three additional investments in 2012, and that over 50% of the initial capital of RMB2 billion raised will be invested by the end of the year.

NBA China, L.P. ("NBA China") is a limited liability partnership incorporated in the Cayman Islands in 2007. The Fund invested US$23 million in 2008 for a 1% preferred equity stake 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$144,000 in February 2012.

Due to the delay in reaching a collective bargaining agreement between the NBA League and the National Basketball Players Association until December 2011, the length of the current season was shortened, which affected the income of NBA China and in turn decreased its profit. However, ratings are rising and net income is still on track to meet expectations for the financial year.

NBA China launched the "NBA Nation" initiative in June 2012, which is a travelling basketball event for fans that will visit 20 cities in 15 Chinese provinces and municipalities over a five-month period. NBA Nation will offer a basketball and entertainment playground exceeding 2,000 square metres, featuring a combination of basketball and music activities.

Unibank Media Group Inc. ("Unibank Media") was established in Beijing in 2011 as an operating entity following a merger and reorganisation, and is principally engaged in commercial advertising through its video display network in banking service outlets across China. The Fund made a total investment of RMB75 million (equivalent to US$10.98 million) in one of its predecessors, Inbank Media (China) Co., Ltd. ("**Inbank Media**") in June 2009 and February 2010, and held a 14.51% equity interest in Inbank Media. After the completion of the merger and reorganisation as well as a capital increase of Inbank Media in the fourth quarter of 2011, the Fund holds a 7.62% equity interest in Unibank Media. (Note: The Fund has made a contingent commitment to transfer a 1.14% stake in Unibank Media to the management of Unibank Media, as an incentive earned upon completion of an IPO or sale of the business. The total incentive to the management of Unibank Media is a 15% stake in Unibank Media, to be transferred by all shareholders, and 1.14% is the Fund's pro rata portion of the incentive. Net of this incentive, the Fund's stake in Unibank Media will be 6.48%.)

As at 30 June 2012, Unibank Media has installed about 19,700 advertising display devices in banking service outlets in major cities across China. Following the installation of the advertising display devices, Unibank Media will gradually shift its focus from developing banking network resources to advertising sales, and therefore plans to recruit experienced individuals to strengthen its 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 for a 21% equity interest in Guangzhou Digital. In July 2012, the Fund received a total cash dividend of RMB8.62 million from Guangzhou Digital for 2011.

During the year, Guangzhou Digital increased its promotion efforts for high definition TV (HDTV) and offered various programme packages. At the end of June, Guangzhou Digital had approximately 57,000 HDTV users — adding 32,000 new users in the second quarter alone, and exceeding the 2012 target for a net increase of 40,000 HDTV users for the year.

Guangzhou Digital's conversion into a joint-stock limited company, which was originally scheduled for the fourth quarter of 2011, has yet to be completed, due to delays in the administrative groundwork (e.g. audit, valuation, etc.) for the integration of Guangzhou Digital and Guangdong Broadcasting and Television Network Co., Ltd. ("**Guangdong Network**"). The Fund has expressed, in writing to Guangzhou Digital and orally to Guangdong Network, that if the integration of the Guangdong's network results in a loss of control in Guangzhou Digital by Guangzhou TV Station, the Fund shall initiate the share repurchase procedures as outlined in the Capital Increase Agreement.

China Business Network ("CBN") was established in Shanghai in 2003 and is currently one of the financial information providers with the greatest breadth of media communication channels for financial information in China. CBN's business segments include television (that is, CBN Channel and CBN | Ning Xia Satellite TV), newspapers, radio, magazines, websites, and research institutes. CBN is also actively exploring digital media. The Fund invested RMB120 million (equivalent to US$18.10 million) in December 2010 for a 5.29% equity interest in CBN.

CBN is constantly improving its media business and is accelerating a transition from being a financial media player to a financial information supplier. In the first half of 2012, with the approval of the State Administration of Radio, Film and Television, CBN Channel officially launched in Singapore, expanding its reach to over 500,000 new users in Singapore and becoming the first Chinese channel with a public network overseas. In addition, CBN launched the Lujiazui (《陸家嘴》) magazine, which is the first domestic high-end financial magazine catering to financial professionals and high net worth individuals. Lujiazui intends to become a leading voice in China's financial industry, and to establish itself as a top financial publication with influence commensurate with China's say in financial affairs and Shanghai's future status as an international financial hub.

Renren Inc. ("Renren") is a company incorporated in the Cayman Islands, and its American depositary shares ("**ADS**", each representing three Class A ordinary shares) have been listed on the New York Stock Exchange since 4 May 2011. Renren is a leading real name Internet-based social networking platform in China. In April 2011, the Fund made an investment of US$11 million in Renren, for a holding of 785,714 Renren ADS.

To enhance the user experience, renren.com (which is part of Renren) entered into a strategic partnership with Viki, a global TV site, to launch the "VikiZone", which is expected to launch in early August 2012. Furthermore, renren.com has partnered with Feitian, a leading innovator of security technologies and applications, to introduce an account protection solution based on Intel Identity Protection Technology (IPT) that will provide a secure online experience for the users of renren.com.

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 25.91% as of 30 June 2012.

For the first half of 2012, Jinbao's unaudited revenues decreased significantly, compared to the same period last year, resulting in a net loss (as compared to a net profit for the same period last year). Currently, the electronics raw material industry is extending a run of weakness that began last year — with sluggish demand, weak order growth, and intense competition. Capacity utilisation for copper laminate, a low-end product within the sector, is at very low levels, which in turn has driven down prices by 20-50% and led to difficult market conditions. The market price for copper laminate is still trending downward, and related industries remain in the doldrums.

On balance, Jinbao's results for the first half of 2012 were just slightly worse than for its industry overall. As a manufacturer of basic materials for electronics components, which can be highly cyclical, Jinbao is subject to the prevailing business conditions in its industry. And the finance costs have a relatively large impact on its financial results.

Shenzhen Geesun Automation Technology Co., Ltd. ("Geesun Technology") was established in Shenzhen, Guangdong in 2006 and is a leading manufacturer of equipment and automated production lines for lithium ion batteries and supercapacitors. The Fund invested RMB20 million (equivalent to US$2.93 million) in May 2010, and held a 12.62% stake in Geesun Technology as of 30 June 2012.

Due to a decrease in orders, which resulted from a weak macro environment, and internal management issues, revenues of Geesun Technology dropped significantly and the company recorded a loss for the first half of 2012. Geesun Technology's results have continued to decline for some time, and in the first quarter of 2012 the shareholders demanded a change in management and designated shareholders' representatives to oversee the necessary organisational changes — which include a focus on increasing efficiency, reducing purchasing costs and improving product stability.

Jiangsu Huaer Optoelectronic Material Co., Ltd. ("Huaer Optoelectronic") was established in Yangzhou, Jiangsu and is principally engaged in the research, development and production of high purity silica crucibles. Huaer Optoelectronic is a manufacturer producing silica crucibles with comprehensive specifications, and has the capability to produce 28-inch silica crucibles on a large scale. The silica crucible products manufactured by Huaer Optoelectronic are expendable raw materials required to produce single crystalline silicon ingots, which are used in turn to produce single crystalline silicon solar cells and semiconductor chips. The production of each single crystalline silicon ingot requires one silica crucible. The Fund invested RMB15 million (equivalent to US$2.23 million) in September 2010 for a 7.50% equity interest in Huaer Optoelectronic.

In response to weak downstream demand from the solar photovoltaic industry, Huaer Optoelectronic reduced the selling price of its major products by about 10% in the first quarter of 2012 which, together with relatively high raw material costs, led to a decline of over 50% in its gross margin to approximately 25%. Meanwhile, its sales volume increased from the fourth quarter of 2011, but remained depressed in relation to historical levels. As a result, the unaudited revenues and net profit of Huaer Optoelectronic for the first half of 2012 decreased significantly compared to the same period last year.

The management of Huaer Optoelectronic believes that demand in the solar photovoltaic market is still growing and that the currently difficult market conditions are due primarily to over-production at downstream operators, who will need more time to consume their existing inventory of finished goods on hand. However, as downstream operators gradually cease production and consolidate, and as their inventory of finished goods on hand returns to more normal levels, market conditions are expected to improve, possibly in the second half of the year. In addition, market demand for high quality silica crucibles is expected increase in the future. Therefore, Huaer Optoelectronic plans to further enhance the quality of its products from solar grade to electronics grade, and expand its maximum production capabilities from 28-inch products to 32-inch products in order to pursue overseas orders.

Liaoning Zhenlong Native Produce Holding Company Ltd. ("Liaoning Zhenlong") was established in Fuxin, Liaoning in 2000 and is principally engaged in the acquisition, processing, and export and import of agricultural by products and domestic produce. The company currently offers more than twenty products, including pumpkin seeds, pine nuts, pistachios, almonds and sunflower seeds. The Fund invested a total of RMB19.20 million (equivalent to US$2.97 million) in August 2011 for a 2% equity interest in Liaoning Zhenlong.

In the first half of 2012, the unaudited revenues and net profit of Liaoning Zhenlong both increased, due primarily to the company's active development of the domestic market in China and to increased demand through its expanded sales channels.

As of the end of June 2012, Liaoning Zhenlong is proceeding as scheduled with its listing, which is presently under preliminary review by the China Securities Regulatory Commission.

Guangxi Hwagain Group Co., Ltd. ("Hwagain") was formed by merging two paper manufacturers located in Nanning, Guangxi Zhuang Autonomous Region in 1998. It is principally engaged in the research, development and production of high quality printing paper and tissue paper. The Fund invested RMB119.99 million (equivalent to US$19 million) in January 2012 for a 7.10% equity interest in Hwagain.

The first quarter of 2012 is a seasonally weak quarter for the paper industry due to the Spring Festival and to scheduled maintenance of production facilities. In addition, weak global demand led to excess capacity in the industry and to low prices for imported pulp. Weak market conditions in the printing paper industry first appeared in the fourth quarter of 2011, and extended through the middle of March, negatively impacting financial results during these two quarters, and even causing losses for many printing paper operators, including Hwagain. Business conditions improved in the second quarter of 2012, driven by a rebound in global prices for pulp and by seasonally stronger market demand, primarily due to the printing of educational materials for autumn. Days of inventory decreased to a level near that of previous years' average, and profitability grew sequentially from the first quarter.

For Hwagain, which operates with a "Forest-Pulp-Paper Integration" business strategy, the increase in domestic bamboo and wood prices during the first half of 2012 put temporary pressure on its profit. (Note: Hwagain's forest resources will soon enter a felling cycle, but given that logging and sales of forest products have yet to achieve high volume, and that additional plantings are still underway, the benefit of the increase in bamboo and wood prices has not yet been realised.) In addition, Hwagain is carrying higher debt compared with the same period last year due to the construction of its 150,000 tonnes high-end tissue paper project in Ganzhou, Jiangxi. At the same time, Hwagain has been investing in the development of sales channels, in preparation for new products from the first phase of the Ganzhou high-end tissue paper project, which will commence operations by the end of the year. These factors contributed to a significant increase in the company's financing costs and selling expenses during the first half of 2012.

The first phase of the Ganzhou high-end tissue paper project will be completed and will commence operations in the fourth quarter. Following this increase in capacity, Hwagain's business mix will shift somewhat from printing paper to high-end tissue paper. In addition, its forest resources will enter a felling cycle in the second half of the year. For these reasons, Hwagain is expected to see profit growth over the next few quarters.

Wuhan Rixin Technology Co., Ltd. ("Wuhan Rixin") was incorporated in Wuhan, Hubei in 2001 and is a state-accredited high technology enterprise engaged in the design, production and installation of solar modules and Building Integrated Photovoltaic (BIPV) products, as well as in the operation, maintenance and management of solar powered electric systems. The Fund invested RMB15 million (equivalent to US$2.20 million) in July 2009 for a 5% equity interest in Wuhan Rixin.

Because Wuhan Rixin engages primarily in the construction and operation of BIPV power stations, the downturn in the solar photovoltaic industry since 2011 has in fact benefited the company by reducing the construction and operating costs of power stations, and thereby increasing profitability.

The key projects to be completed by Wuhan Rixin in 2012 include photovoltaic power stations in Wuhan and Huangshi in Hubei, and Dezhou in Shandong. Wuhan Rixin is also endeavouring to secure new Golden Sun projects.

In June 2012, the Wuhan International Convention and Exhibition Centre project, constructed and controlled by Wuhan Rixin, entered into a grid agreement with Hubei Electric Power Company and commenced trial operations. Currently, the daily electricity supplied to the grid is ranging from 50,000 to 60,000 kwh. Although electricity charges are not yet being collected at this stage of trial operations, this is a second public grid project, following the successful grid project at Wuhan Rixin's own industrial park.

Xi'an Jinpower Electrical Co., Ltd. ("Jinpower Electrical") was established in Xi'an, Shaanxi in 2001 and is a high technology enterprise, principally engaged in the research, development and production of intelligent on-line monitoring systems for transmission lines and substation equipment for the power grid. The Fund invested RMB20 million (equivalent to US$3.03 million) in January 2011 for a 5.26% equity interest. Jinpower Electrical completed a capital increase of RMB45.84 million in the first quarter of 2012 and, as a result, the Fund's equity interest in Jinpower Electrical was diluted somewhat from 5.26% to 4.83%.

In 2012, the number of business opportunities increased notably, compared to the same period last year, in the area of intelligent on-line monitoring for the state grid. For the first half of 2012, Jinpower Electrical saw significant increases in both unaudited revenues and net profit, while maintaining its leading market share in the area of on-line monitoring for transmission lines.

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

Although the first half of the year is a seasonally weak period for the software, systems integration and information services industries, NTong achieved remarkable results. NTong recorded double digit growth in its unaudited revenues and net profit for the first half of 2012. Taking into account that the revenues and profit from the e-government network and intelligent city construction orders secured by NTong will be recognised primarily in the third and fourth quarters of 2012, it is expected that the company's full year revenues and net profit will meet their targets for the year.

Teralane Semiconductor (Shenzhen) Co., Ltd. ("Teralane Semiconductor") was established in Shenzhen, Guangdong in 2004 and is principally engaged in the design of integrated circuits (IC), the research and development, manufacturing and sale of related products, and the provision of related systems integration and technical services. Its current principal products and services comprise: liquid crystal display (LCD) driver ICs, light emitting diode (LED) displays and illumination driver ICs, touch screen display driver ICs, battery pack control ICs, audio and sound control ICs and power management applications. Furthermore, its business covers the entire process of IC design. Teralane Semiconductor is a state-accredited high technology enterprise and software enterprise. The development of IC design and applications, on the basis of its proprietary patents and technological research and development, is at an advanced level by national standards. In December 2011, the Fund subscribed to an issuance of convertible bonds by Teralane Semiconductor in the amount of RMB5 million (equivalent to US$0.79 million). The convertible bonds can be converted into an approximately 1.80% equity interest in the enlarged capital of Teralane Semiconductor (per the registered capital at the time of subscription).

In the first half of 2012, the unaudited revenues and net profit of Teralane Semiconductor were essentially in line with its plan. The industry of Teralane Semiconductor experiences some seasonality, typically with a peak season from September to December. The first half has met 30% of the targeted revenues for 2012, as planned.

In order to enhance its financial results and realise its goal of listing, Teralane Semiconductor has adopted more aggressive market strategies. It has increased its capital investment in production with a goal to support a growing market share and, in the near term, this has resulted in a significant increase in inventory and receivables, compared to relatively slow growth in revenues and net profit. Gross margins have also decreased, primarily due to expansion of the business into lower-margin LCM modules. The company expects high growth and has based its investment strategy on an optimistic view of growth in the domestic IC market, at a time when the boom in the electronics industry is in the course of stabilising. And the company's growth trend will need to be confirmed by actual results in the second half.

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, Jing'an District, Shanghai, with a remaining 49,438 square metres available for lease. 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 first half of 2012, China Merchants Plaza recorded an unaudited net profit of RMB4.58 million, representing an increase of 8% over the same period last year. The improvement in profit was primarily due to an increase of revenues and a reduction in management expenses.

REVIEW OF LISTED INVESTMENTS

In the first half of 2012, the A shares market in China began the year with a moderate rally, and then gave back some of these early gains as market volatility increased. The market expected the government to relax monetary policy in the early part of the year, and the SSE Composite Index rose to 2478 in late February. However, market began to soften in the middle of March, as the European debt crisis intensified and economic growth slowed. Although the market rebounded briefly, driven by financial reforms, the market declined persistently through June. At the end of June, the SSE Composite Index stood at 2225, representing a year-to-date increase of 1.2%. The Hong Kong stock market followed a similar path. The Hang Seng Index rose to a peak of 21760 in late February, driven by expectations of an emerging recovery in the US and a more accommodating monetary policy in China. The Hang Seng Index then began to trend downward in response to lower growth expectations in China, deterioration of the European debt crisis, etc. The Hang Seng Index ended the first half of 2012 at 19441, for a year-to-date increase of 5.5%, compared to a year-to-date decrease of 3.6% for the HSCEI.

The Fund primarily invests directly in high quality investment projects in China, and mostly in private enterprises. Given the large quantity of listed shares that the Fund still holds, the Fund intends to not increase its exposure to the stock markets. Therefore, the Fund did not trade any equities in the secondary market during the first half of 2012, except for the disposal of certain CMB shares.

PROSPECTS

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

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

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

SUB-PARTICIPATION SCHEME (THE "SCHEME")

In order to strengthen the investment management process, and to align the interests of management and staff with the interests of the Fund in entering new investment projects, the Investment Manager, with the consent of the Fund, has administered the Scheme since 2009. Under the Scheme, the Fund has entered into sub-participation agreements (the "**Agreements**") with certain executive directors of the Fund, certain directors and employees of the Investment Manager, and persons nominated by shareholders of the Investment Manager (collectively the "**Participants**"), with respect to new investments made by the Fund beginning in 2009.

Pursuant to the Agreements, the Participants will receive a portion of the return (in the form of dividends, interest, or other distributions or proceeds from realisation) from the Fund's investment in the project company that is proportional to the amount provided by the Participants to the Fund as a percentage of the total Fund's investment in the project company. If the Fund suffers a loss from its investment in the project company, the Participants will correspondingly share a loss in the amount they provided to the Fund on a pro rata basis. The Agreements will terminate upon either the realisation of the investment in the project company by the Fund, or upon the Investment Manager, who provides a guarantee to the Participants for the performance of the Fund's obligations under the Agreements, ceasing to be 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 for the preparation and execution of the Agreements, the costs incidental to the implementation of the Scheme, and the relevant portion of the identifiable costs related to the Fund's investment in the project company that corresponds to the amount provided by the Participants to the Fund under the Agreements will be borne by the Investment Manager.

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

As of 30 June 2012, details of aggregate amounts provided by the Participants and their relative proportion to the investment amounts paid by the Fund were as follows:

Name of projects	Original investment amount of the Fund *US$**	Original amounts paid by the Participants *US$**	Relative proportion
Unibank Media (1st round capital injection)	6,585,600	129,000	1.959%
Wuhan Rixin	2,195,500	43,900	2.000%
Guangzhou Digital	30,737,700	175,500	0.571%
Unibank 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%
Huaer Optoelectronic	2,226,200	43,800	1.966%
CBN	18,098,200	235,700	1.302%
Jinpower Electrical	3,033,500	60,300	1.988%
China Media Investment (2nd installment capital contribution)	953,500	6,100	0.638%
Renren	11,000,000	218,500	1.986%
Liaoning Zhenlong	2,974,500	59,000	1.986%
NTong	10,409,700	130,300	1.252%
Teralane Semiconductor	789,500	34,200	4.335%
Hwagain	19,004,900	161,100	0.847%
China Media Investment (3rd installment capital contribution)	1,075,300	6,200	0.575%

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

In addition, as of 30 June 2012, details of the amounts paid by Directors of the Fund as well as a Director of the Investment Manager for the Scheme were as follows:

Name of projects	**Mr. HONG Xiaoyuan** (Note 1) *US$*	**Ms. ZHOU Linda Lei** (Note 2) *US$*	**Mr. TSE Yue Kit** (Note 3) *US$*	**Mr. WU Huifeng** (Note 4) *US$*
Unibank 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
Unibank 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
Huaer Optoelectronic	3,500	4,380	1,290	3,500
CBN	12,850	25,700	1,290	25,700
Jinpower Electrical	4,830	6,030	1,280	4,830
China Media Investment (2nd installment capital contribution)	390	780	40	390
Renren	12,870	21,870	1,290	17,500
Liaoning Zhenlong	4,720	5,900	1,280	4,720
NTong	16,420	12,830	1,280	16,420
Teralane Semiconductor	3,090	3,860	1,290	3,090
Hwagain	12,880	25,770	1,290	19,330
China Media Investment (3rd installment capital contribution)	430	850	40	430

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

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

Hong Kong, 29 August 2012

INTERIM DIVIDEND

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2012, 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 shares
Mr. Victor Lap-Lik CHU	3,224,000	Interest of controlled corporation	2.13%

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 2012, 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 2012.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, 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 shares
China Merchants Group Limited (Note 3)	Long position	Interest of controlled corporation	38,964,319	25.72%
China Merchants Steam Navigation Company Limited (Note 3)	Long position	Interest of controlled corporation	38,964,319	25.72%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Long position	Interest of controlled corporation	38,964,319	25.72%
China Merchants Finance Holdings Company Limited (Note 2)	Long position	Interest of controlled corporation	38,964,319	25.72%
China Merchants Financial Services Limited (Note 3)	Long position	Interest of controlled corporation	36,028,197	23.78%
Good Image Limited	Long position	Beneficial owner	36,028,197	23.78%
Lazard Asset Management LLC	Long position	Investment manager	29,610,100	19.54%
華夏全球精選股票型證券投資基金	Long position	Beneficial owner	9,682,000	6.39%
Kuchanny Christopher Philip Charles (Note 4)	Long position	Interest of controlled corporation	9,039,000	5.97%
Revelation Capital Management Ltd. (formerly known as Osmium Capital Management Limited)	Long position	Investment Manager	9,039,000	5.97%
Revelation Special Situations Fund Ltd. (formerly known as Osmium Special Situations Fund Limited)	Long position	Beneficial owner	9,039,000	5.97%
UBS AG	Long position	Beneficial owner Security interest	34,000 8,971,000	5.94%

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 shares by virtue of its interest 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 condensed consolidated financial statements are unaudited, but have been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, whose independent review report is included in this interim report. The interim report has been reviewed by the Company's Audit Committee.

The Company has complied with all the code provisions contained in Appendix 14 of the Listing Rules (the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (newly effective from 1 April 2012)) throughout the reporting period except as stated below:

The Stock Exchange of Hong Kong Limited has granted a waiver to the Company for establishment of remuneration committee on condition that the Executive Directors and senior management of the Company will not receive any Directors' fee or emolument from the Company. Thus, no remuneration committee has been established by the Company.

Besides, due to business trips and other business engagements, Non-executive Director, namely, Mr. KE Shifeng, and Independent Non-executive Directors, namely, Mr. LIU Baojie, Mr. XIE Tao and Mr. ZHU Li, were unable to attend the annual general meeting of the Company held on 17 May 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted codes of conduct regarding securities transactions by Directors set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 of the Listing Rules. On specific enquiries made, all Directors have confirmed that, in respect of the reporting period, they have complied with the required standard set out in the Model Code regarding Directors' securities transactions.

By Order of the Board
Mr. LI Yinquan
Chairman

Hong Kong, 29 August 2012