



CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED
(Incorporated in Hong Kong with limited liability) (Stock Code: 133)



Annual Report **2006**



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Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Dr. FU Yuning* (*Chairman*)

Dr. HUANG Dazhan*

Mr. CHU Lap Lik, Victor*

Mr. XIE Kuixing*

Mr. TSE Yue Kit

Ms. KAN Ka Yee, Elizabeth*

(*alternate to Mr. CHU Lap Lik, Victor**)

Independent Non-executive Directors:

Dr. The Hon. David, LI Kwok-po

Mr. KUT Ying Hay

Mr. WANG Jincheng

Mr. LI Kai Cheong, Samson

(*alternate to Dr. The Hon. David, LI Kwok-po*)

Non-executive Directors:

Mr. WANG Xingdong*

Mr. GONG Jianzhong*

* *members of Investment Committee*

AUDIT COMMITTEE

Dr. The Hon. David, LI Kwok-po

Mr. KUT Ying Hay

Mr. WANG Xingdong

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

China Merchants Bank Company, Limited

Bank of China (Hong Kong) Limited

Dah Sing Bank, Limited

COMPANY SECRETARY

Mr. Peter Y. W. Lee

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Linklaters

Victor Chu & Co

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

46th 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

Chairman's Statement



Dr. Fu Yuning
Chairman

Chairman's Statement *(continued)*

The Board of Directors (the "Board") announced that the audited consolidated net asset value of China Merchants China Direct Investments Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2006 amounted to US\$262,872,110. The net asset value per share was US\$1.917, compared to US\$1.069 in 2005 – an increase of 79%. The Group's audited consolidated profit after taxation for the year 2006 was US\$115.42 million. This represents an increase of 1,374% from 2005.

In 2006, the central government continued to implement macro-economic control policies, focused on differential treatment under the principle of assisting some industry sectors while suppressing others, and adopted austerity measures by using control over taxation, money supply and land supply so as to manage the fixed asset investment scale and to prevent the real estate sector and property prices from surging too rapidly. At the same time, the central government further increased its investment in weaker segments such as agriculture, energy, transportation and public utilities, in a way to ensure that the national economy continued to grow steadily at a relatively faster pace. China's GDP increased by 10.7% and the resident consumption price index increased by 1.5% in 2006. The national economy has been characterised by a relatively rapid growth with stable consumption prices. Meanwhile, further deepening of system reforms is still underway. Important progress has been made in the reform on transforming state-owned banks into joint-stock commercial banks and on rural credit cooperatives. Share reform has been advancing steadily. Reform on the Renminbi ("RMB") exchange rate regime has been successfully implemented. State-owned enterprises have accelerated their paces to modernise their enterprise management systems. Benefiting from the steady and relatively faster development of the national economy and the deepening of the system reforms, the Group's financial services investment witnessed a significant growth in terms of its net asset value and profit after taxation.

The steady implementation of share reform bodes well for the encouraging performance of the Group's financial services investment. In 2006, China Merchants Bank successfully completed its plans of share reform and issuance of new H shares, and registered a surge in its share price. Industrial Bank was successfully listed on the Shanghai Stock Exchange in early 2007, and its share price performance has been relatively strong. In addition, China's stock market witnessed an exponential growth in 2006, with stock indexes rising substantially. Both the Shanghai Composite Index and Shenzhen Composite Index surged by more than 130% while the total market turnover of the two exchanges increased by approximately 186% when compared with the corresponding period of last year. As such, the Group's securities business investment marked a significant increase in both operating revenue and profit after taxation. The trust management business also benefited much from the booming domestic stock market. As the fund raising function of the domestic stock market has resumed, it does provide an exit channel for the Group's investment projects. Preparation work for the initial public offering of the Group's certain investment projects is in progress. Following the successful implementation of the RMB exchange rate regime reform, the value of RMB rose 3.35% against the US dollar in 2006. The continuing appreciation of the RMB does benefit the Group's performance since most of the Group's assets are denominated in the RMB.

As of the end of 2006, the Group's total investment in unlisted investments was US\$277.48 million, an increase of US\$147.54 million when compared with that of 2005 and accounted for 88.48% of the total asset value. The growth was mainly attributable to the significant increase in the value of the Group's banking assets. Total investment in listed shares was US\$1.69 million and accounted for 0.54% of the total asset value. Investment in bonds and notes was US\$6.67 million and accounted for 2.13% of the total asset value. Cash on hand was US\$27.67 million and accounted for 8.82% of the total asset value.

In January 2007, in order to broaden the shareholder and capital bases, the Company issued 12 million new shares by way of placing and top-up subscription and received overwhelming responses from the market. The Company successfully raised US\$29.17 million, and the funds will be applied for possible investment in the future.



Chairman's Statement *(continued)*

Looking forward into 2007, it is expected that China's macro-economic control policies are still in place, foreign reserves are set to rise, and consumption remains strong, all of which are the important driving forces behind the rapid and steady economic growth. In addition, some of the domestic factors that restrict economic growth such as the bottleneck in power supply have been easing, the global economy remains fairly bright, and reform and opening up is advancing further, all of which enable China's economy to continue its steady growth at a relatively faster pace. The Group will take advantage of this favourable environment brought about by the sustainable, steady and relatively rapid development to keep exploring new investment opportunities in China so as to increase shareholder value.

On behalf of the Board, I wish to express my sincere thanks to the members of the Audit Committee, the Investment Committee and to the staff of the Investment Manager for their dedication and hard work, and to all our shareholders for their support and confidence in the Group.

Dr. Fu Yuning
Chairman

Hong Kong, 20 April 2007

Investment Manager's Discussion and Analysis



Dr. Huang Dazhan

*Chairman of the board of the
Investment Manager*

Investment Manager's Discussion and Analysis *(continued)*

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") recorded a profit attributable to shareholders of US\$115.42 million for the year ended 31 December 2006, representing an increase of 1,374% over the year 2005. This was attributable to a significant increase in the fair value of financial assets at fair value through profit or loss (the "financial assets"). As of 31 December 2006, the net assets of the Fund were US\$262.87 million (31 December 2005: US\$146.67 million), with a net asset value per share of US\$1.917 (31 December 2005: US\$1.069).

Total turnover for the year increased by 74% to US\$5.44 million (2005: US\$3.12 million). This was due mainly to an increase in dividend income from China Merchants Bank.

For the year 2006, the fair value of the financial assets increased by US\$149.76 million (2005: US\$9.98 million). The significant increase in the fair value was attributed to the revaluation of both China Merchants Bank and Industrial Bank whose values increased by US\$116.01 million and US\$31.26 million respectively against the end of 2005.

MATERIAL ACQUISITION AND DISPOSAL OF INVESTMENTS

The Fund has been actively searching for investment opportunities. Lots of studies were done on the projects in financial services sector and manufacturing sector. During the reporting period, the Fund did not have any concluded investment projects.

On 30 June 2006, the Fund entered into a share transfer agreement with China Merchants Financial Services Limited, a connected person of the Fund in relation to the disposal of its 10% equity interest in Houlder China Insurance Brokers Limited at a cash consideration of approximately US\$625,039. The transaction was completed on 31 July 2006. The Fund recorded a loss of approximately US\$26,282 from the transaction.

On 25 July 2006, the Fund entered into a share transfer agreement with two independent third parties in relation to the disposal of its 30% equity interest in Chenzhou Heshang Environmental Protection Company Limited at a total cash consideration of RMB18.5 million. As a part of the transaction, the Fund had received a full repayment of shareholder's loan of RMB10.5 million. The transaction was completed on 21 October 2006. The Fund obtained an internal rate of return of approximately 16% from the project.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

The Fund's cash on hand increased by 60%, from US\$17.35 million as at the end of 2005 to US\$27.67 million as of 31 December 2006, due to disposal of listed, unlisted investments and the interest in an associate.

As of 31 December 2006, the Fund had no outstanding bank loans (2005: Nil).

As of 31 December 2006, the Fund had no capital commitments (2005: Nil).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Group's investments are located in China where the official currency is the Renminbi ("RMB"). Since the People's Bank of China announced the reform of the RMB exchange rate regime in 2005, the RMB against the U.S. dollar appreciated gradually. Such RMB appreciation has a positive impact on the Group since the Group holds considerable amount of assets denominated in the RMB.

Investment Manager's Discussion and Analysis *(continued)*

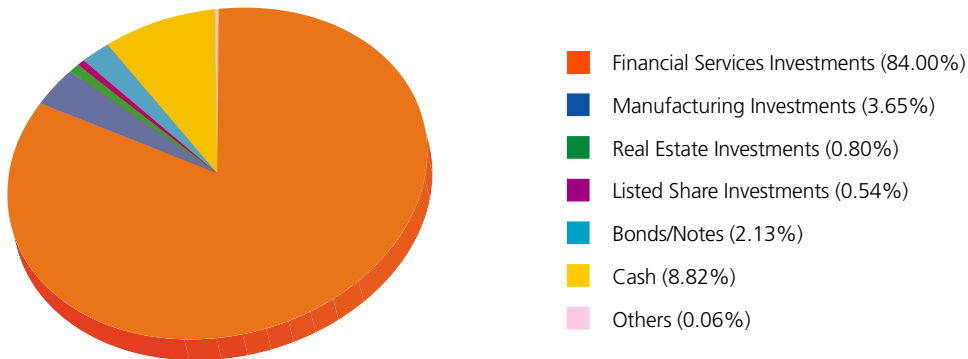
EMPLOYEES

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

THE PORTFOLIO

As of 31 December 2006, the Fund had total investments of US\$285.84 million – US\$277.48 million in unlisted investments, US\$1.69 million in listed investments, and US\$6.67 million in bonds, notes and callable deposits. The major unlisted investment projects were in financial services (84.00% of total assets), manufacturing (3.65%) and real estate (0.80%). In addition, the Fund had cash on hand of US\$27.67 million, accounting for 8.82% of the Fund's total assets.

TOTAL ASSETS DISTRIBUTION *(AS AT 31 DECEMBER 2006)*



Investment Manager's Discussion and Analysis *(continued)*



Mr. Xie Kuixing

*Managing Director of the
Investment Manager*

Investment Manager's Discussion and Analysis *(continued)*

REVIEW OF UNLISTED INVESTMENTS

The following table shows the major unlisted investment projects held by the Fund as at 31 December 2006:

Name of Projects	Location	Business Nature	Net Book Value (US\$ million)	Percentage of Total Assets
Financial Services:				
1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	181	57.86
2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	62	19.69
3. China Credit Trust Co., Ltd.	Beijing	Trust management	18	5.65
4. China Merchants Securities Co., Ltd.	Shenzhen, Guangdong	Securities	1	0.44
5. Industrial Securities Co., Ltd.	Fuzhou, Fujian	Securities	–	–
6. Jutian Securities Co., Ltd.	Shenzhen, Guangdong	Securities	–	–
7. Jutian Fund Management Co., Ltd.	Shenzhen, Guangdong	Fund management	1	0.36
Sub-total			263	84.00
Manufacturing:				
8. Zhaoyuan Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	11	3.65
Sub-total			11	3.65
Real Estate:				
9. Langfang Oriental Education Facilities Development Co., Ltd.	Langfang, Hebei	Student dormitory	3	0.80
10. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retail shops	–	–
11. China Merchants Plaza (Shanghai) Property Co., Ltd.	Shanghai	Office & commercial	–	–
Sub-total			3	0.80
Total			277	88.45

Investment Manager's Discussion and Analysis *(continued)*

China Merchants Bank Company, Limited ("CMB"), a registered commercial bank in the PRC, is the first joint-stock commercial bank established by mainland enterprises and the shares of which were first listed on the Shanghai Stock Exchange in 2002. CMB now has over 400 branches and offices across the country. The Fund invested US\$14.06 million and held a 0.83% stake in CMB at the balance sheet date. After revaluation, the current net book value of investment in CMB was US\$181.45 million, representing an increase of US\$116.01 million from the end of 2005. CMB has announced that its net profit for 2006 was RMB7.11 billion, up 88% over the same period of the previous year. At the end of 2006, the net asset value per share of CMB was RMB3.75. A special cash dividend of RMB0.18 per share was approved by the shareholders meeting held on 19 August 2006. The Fund has thus received from CMB a special cash dividend of RMB22.06 million, giving rise to total dividend of RMB31.87 million received in the year.

Upon completion of the share reform plan in February 2006, all of CMB's non-tradable shares will be available for converting into tradable shares by stages. The shares of CMB held by the Fund will be available for converting into tradable shares in February 2008. In order to increase its capital base, CMB issued 2.42 billion new H Shares and became listed on the Hong Kong Stock Exchange in September 2006.

Industrial Bank Company, Limited ("IBCL") is a joint-stock commercial bank registered in the PRC with over 300 branches and offices throughout the country. Since 1998, the Fund has cumulatively invested RMB146 million (equivalent to US\$17.62 million) in IBCL and held a 2.10% equity interest in IBCL at the balance sheet date. After revaluation, the current net book value of investment in IBCL was US\$61.75 million, representing an increase of US\$31.26 million as compared with the end of 2005. In 2006, IBCL recorded a net profit of RMB3.80 billion, up 54% as compared with the same period of last year. At the end of 2006, the net asset value per share of IBCL was RMB4.05.

IBCL's A Shares were successfully listed on the Shanghai Stock Exchange on 5 February 2007, and a total of 1.001 billion new A Shares were simultaneously issued. The Fund's equity interest in IBCL was thus diluted from 2.10% to 1.68%. As stipulated by the Company Law of the PRC and the articles of association of IBCL, the Fund's equity interest in IBCL is subject to a lock-up period of one year from the date of listing.

China Credit Trust Company, Limited ("CCT") was established in 1995 and formerly known as China Coal Trust Company, Limited. Its principal activities are trust management, fund management, investments and loan financing. The Fund now holds a 6.8167% stake in CCT by investing US\$15.31 million in 2005. During the reporting period, the Fund received a cash dividend from CCT, totaling US\$403,000.

In 2006, CCT recorded a net profit of RMB275 million, representing an increase of 286% as compared with the same period of last year. The increase was mainly due to a substantial contribution from proprietary trading of securities and trust management.

China Merchants Securities Company, Limited ("CMSC") is a comprehensive securities company registered in the PRC. Its businesses include IPO sponsorship, securities underwriting, brokerage, proprietary trading, investment consulting and financial advisory. The Fund invested RMB13.05 million (equivalent to US\$1.58 million) in 2001 and held a 0.28% equity interest in CMSC at the balance sheet date. During the year 2006, the domestic stock market flourished with substantial increase in trading volume, and thus the unaudited brokerage income of CMSC grew tremendously to RMB975 million, representing an increase of 278% over the same period of the previous year. Moreover, unaudited gain from proprietary trading reached the amount of RMB660 million in 2006. CMSC's unaudited net profit in 2006 was RMB1.04 billion, as compared with only RMB52.85 million in the same period of last year. During the reporting period, the Fund received a cash dividend of RMB1.77 million from CMSC.

Investment Manager's Discussion and Analysis *(continued)*

In September 2006, with the approval of the China Securities Regulatory Commission (the "CSRC"), CMSC successfully completed its capital enlargement exercise and its registered capital was increased to RMB3.227 billion. The Fund's equity interest in CMSC was then diluted from 0.52% to 0.28%.

On 1 September 2006, CMSC completed the acquisition of 21 sales offices and 1 services office from Beijing Securities Company Limited. CMSC thus has 54 branches and offices across the country.

At the end of 2006, the total size of composite financial products managed by CMSC amounted to RMB6.98 billion, ranking the first amongst domestic securities firms.

Industrial Securities Company, Limited ("ISCL") is a comprehensive securities company registered in the PRC. Its businesses include IPO sponsorship, securities underwriting, brokerage, proprietary trading and investment consulting. The Fund invested RMB8.51 million (equivalent to US\$1.03 million) in 1999 and now holds a 0.74% equity interest in ISCL. The Fund made a full provision for this investment in 2005. Benefiting from the buoyant domestic stock market, ISCL's net profit in 2006 was RMB307 million while a loss of RMB68.43 million was sustained in the same period of last year. At the end of 2006, ISCL still had an accumulated losses of approximately RMB565 million.

With the approval of a capital enlargement proposal by the shareholders meeting held in March 2007, ISCL will issue 600 million new shares with the hope of applying as an innovative securities firm after the capital enlargement exercise so as to widen its business scope.

Jutian Securities Company, Limited ("Jutian Securities") is one of the earliest comprehensive securities companies established in the PRC. Jutian Securities has 16 offices throughout the country. In 2001, the Fund invested RMB35.36 million (equivalent to US\$4.27 million) in Jutian Securities, representing an equity interest of 4.66%. The Fund made a full provision for this investment in 2005. Benefiting from the buoyant domestic stock market, Jutian Securities' unaudited brokerage income in 2006 increased by 199% as compared with the same period of last year. In 2006, Jutian Securities' unaudited consolidated net profit amounted to RMB36.10 million while a loss of RMB68.17 million was sustained in the same period of last year.

In 2006, although Jutian Securities had made various attempts to raise capital in order to replenish all of its customers' deposits so that its business operations could be kept, it failed to obtain the approval from the CSRC. On 13 October 2006, the CSRC appointed an Administrative Liquidation Working Team to conduct administrative liquidation against Jutian Securities, and simultaneously appointed CMSC to act as custodial body and to exercise the administrative takeover of Jutian Securities' brokerage business and all sales offices.

Jutian Fund Management Company, Limited ("JFM") was set up in 2003 with a registered capital of RMB100 million. The Fund invested RMB10 million (equivalent to US\$1.21 million) in 2003 and now holds a 10% equity interest in JFM. In 2006, JFM's net profit was RMB7.92 million while a loss of RMB5.92 million was sustained in the same period of last year.

Despite their relatively high returns, the two equity investment funds managed by JFM have shrunk in size, with total fund size decreased significantly from RMB1.1 billion at the beginning of the year to RMB285 million at the end of the year. This is due to the negative impact brought about by the reorganisation of its major shareholder – Jutian Securities and the high dividend payout in a way to attract investors. On the other hand, JFM successfully launched the Jutian Money Market Fund with an initial size of RMB1.3 billion in early August 2006. As the domestic stock market was much more robust than the money market, size of the money market fund reduced to RMB214 million at the end of the year.

Investment Manager's Discussion and Analysis *(continued)*

Although the asset under management of JMF reduced and resulted in a drop of management fee income, JFM still made a profit in 2006 since gain from proprietary trading of securities was satisfactory.

In October 2006, JMF's major shareholder – Jutian Securities was forced into administrative liquidation. Although the event has not shown any direct influence on the daily operation of JMF, it has led to a certain number of institutional investors redeeming their fund units, and the application for the launching of new fund products has also been adversely affected.

Zhaoyuan Jinbao Electronics Company, Limited ("Jinbao") was set up in 1993 in Zhaoyuan City of Shandong Province as a manufacturer of copper-foil and laminates. The Fund owns a 30% equity interest in Jinbao and has made a cumulative investment of US\$7.85 million. In 2006, Jinbao's sales revenue amounted to RMB1.14 billion, representing an increase of 54% as compared with the same period of last year. This was attributable to the products selling prices going up in a rate higher than the raw materials costs and the product sales recording a satisfactory growth. Jinbao's net profit in 2006 reached RMB52.83 million, which was increased by 126% as compared with the same period of last year.

The board meeting of Jinbao held on 8 July 2006 resolved to promote the listing of Jinbao on the domestic A share market. The preparation work for listing is now undergoing.

Langfang Oriental Education Facilities Development Company, Limited ("Oriental") is a Sino-foreign cooperative joint venture established in Langfang City of Hebei Province. The total project cost is US\$20 million, with a 20-year contractual period. In June 2002, the Fund invested US\$5 million for an equity interest of 25%.

Oriental is engaged in the operation and management of the Phase 1 dormitories of Oriental University City of Langfang City. Current capacity of the Phase 1 dormitories is about 17,000 students. It accommodated some 16,000 students in the school year of 2006/2007, a remarkable increase over the school year of 2005/2006. Except for those of lower quality, most of the rooms have been occupied.

Increase in number of residents in the school year of 2006/2007 has offset the impact brought by the increase in operating expenses, such as property management fee. Oriental's net profit in 2006 was RMB7.29 million, representing an increase of 68%, as compared with the net profit of RMB4.35 million in 2005.

Shenzhen Mankam Square ("Mankam") is a 33-storey commercial complex on North Wen Jin Road, Shenzhen. In 1994, the Fund invested US\$4.30 million through a 35% holding in Hansen Enterprises Limited to purchase 5,262 square metres of retail space on the third floor of Mankam. The Fund made a full provision for this investment in 2005. The Fund is continuously seeking sales opportunity for Mankam.

China Merchants Plaza (Shanghai) Property Company Limited ("China Merchants Plaza") was established in Shanghai in 1994 to be engaged in the development of a commercial complex. The Fund invested US\$5.685 million in 1994 and now holds an effective equity interest of 19.8% in China Merchants Plaza. The commercial complex developed by China Merchants Plaza is a 28-storey office/shop building located at North Chengdu Road, Qingan District, Shanghai, with a total saleable area of 60,086 square metres, of which 49,438 square metres remaining unsold. The Fund made a full provision for this investment in 2000 due to huge accumulated losses sustained by China Merchants Plaza from the high finance charges incurred in previous years. Despite the robust development of the Shanghai property market in recent years and China Merchants Plaza having profit turnaround in 2006, it is expected that because of still having huge accumulated losses, it is hard for China Merchants Plaza to resume dividend distribution in the near future.

Investment Manager's Discussion and Analysis *(continued)*

REVIEW OF LISTED INVESTMENTS

In 2006, with the resort of the persistent high economic growth of China, increasing profit level of mainland enterprises, gradual appreciation of the RMB, and the strong performance of the peripheral stock markets, the Hong Kong stock market had been on the rise though there was a sudden correction in May 2006. In addition, the IPO upsurge became the focus of Hong Kong stock market during the year, with capital raising activities of new shares, particularly new H shares, reaching a climax. The Fund had participated in the subscription of several new H shares and was placed with a certain number of such shares, enabling the Fund to obtain a satisfactory return from this investment.

For 2006, profit from listed shares amounted to US\$1.38 million, which included US\$43,000 of dividends, US\$668,000 of gain from sales of listed shares and US\$664,000 of unrealised gain. At the end of December 2006, the value of listed shares held by the Fund was US\$1.69 million.

As at 31 December 2006, the Fund's holdings in bank notes and corporate bonds amounted to US\$6.67 million (2005: US\$6.67 million). Details are listed below:

Issuer	Business Nature	Investment Amount (US\$ million)	Net Book Value (US\$ million)	Coupon	Yield to Maturity	Date of Maturity
Corporate Bonds:						
China Insurance International Holdings (BVI) Limited	Insurance Business	0.695	0.696	5.800%	5.887%	12 November 2013
Hutchison Whampoa International Limited	Property, ports, telecommunication and hospitality business	1.004	1.004	6.250%	6.193%	24 January 2014
Citic Ka Wah Bank	Banking	0.998	0.998	4.250%	4.290%	17 November 2009
Notes:						
Lloyds TSB Bank LIBOR Structured note		1.000	0.969	Note 1	–	20 August 2013 if no early redemption
Hang Seng Bank Fixed Rate Callable Deposit		2.000	2.000	Note 2	–	9 December 2008 If not called
Hang Seng Bank Callable Deposit		1.000	1.000	Note 3	–	16 March 2009 If not called
		6.697	6.667			

Investment Manager's Discussion and Analysis *(continued)*

Note 1: Coupon rate for the first year is 10.5% and for subsequent years is 10% – (2 x 6-month LIBOR) per annum.

The note will automatically be redeemed at par when accumulative coupon reaches 13.7%, or on 20 August 2013, whichever is the earlier.

Note 2: Interest rate for the first, second, third and fourth year are 3.55%, 3.85%, 4.15% and 4.45% respectively.

Note 3: Interest rate for the first, second, third, fourth and fifth year are 3.50%, 4.00%, 4.00%, 3 month LIBOR + 4% and 3 month LIBOR + 5%, provided that 3 month LIBOR less than 6% for the first three years and 3 month LIBOR less than 7% for the last two years.

PROSPECTS

Looking forward into 2007, it is expected that the central government continues to implement macro-economic control policies, promote the construction of new rural villages and step up efforts in rationalising industry production, conserving energy and protecting the environment while pushing forward further reforms and opening up. With internal factors that drive the rapid economic growth gathering further momentum and the global economic outlook remaining promising, China is believed to be able to maintain its steady and relatively rapid economic growth in 2007. Meanwhile, the year of 2007 will be a year that witnesses the deepening of system reforms and the further opening up. Both the taxation reforms and the end of the transition period for World Trade Organisation Members will exert pressure on the Fund's operation. However, the long-term steady and coordinated development of the national economy resulted from the system reforms will benefit the Fund's financial services investment that already accounted for a major portion of the Fund's portfolio. In the meantime, it will also bring more business opportunities for the Fund to invest in other industries. As always, the Fund will actively identify investment projects with relatively low risks and stable returns, and focus on investment in financial services sector, while switching projects on a timely basis so as to provide shareholders with more stable returns.

Mr. Xie Kuixing

Managing Director

China Merchants China Investment Management Limited

Hong Kong, 20 April 2007

Investment Manager's Discussion and Analysis *(continued)*

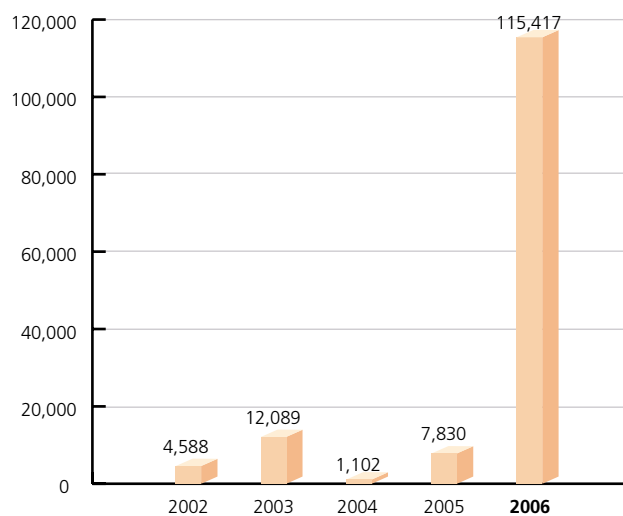


Front row from left:
Mr. Ng Chi Keung, Dr. Huang Dazhan and Mr. Xie Kuixing;
Rear row from left:
Mr. Tse Yue Kit, Mr. Wu Huifeng and Mr. Yam Kam Shing.

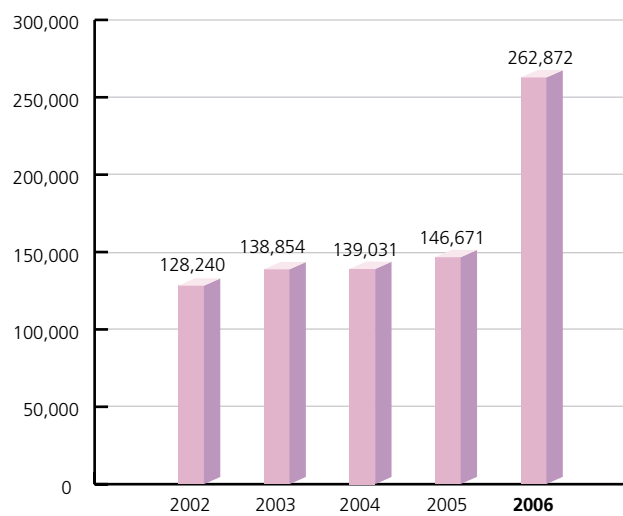
Financial Highlights

YEAR	NET PROFIT (US\$'000)	NET ASSETS (US\$'000)
2006	115,417	262,872
2005	7,830	146,671
2004	1,102	139,031
2003	12,089	138,854
2002	4,588	128,240

NET PROFIT (US\$'000)



NET ASSET (US\$'000)





Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the subsidiaries and associates are set out in notes 27 and 13 respectively to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 35.

The Directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2006.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 21 to the financial statements.

EMOLUMENT POLICY

The emoluments of the Directors of the Company are fixed by the Board of Directors with the authorisation of the shareholders meeting.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

Directors' Report *(continued)*

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Dr. FU Yuning (*Chairman*)

Dr. HUANG Dazhan

Mr. CHU Lap Lik, Victor

Mr. XIE Kuixing

Mr. TSE Yue Kit

Ms. KAN Ka Yee, Elizabeth

(alternate to Mr. CHU Lap Lik, Victor)

Non-executive Directors

Dr. The Hon. David LI Kwok-po*

Mr. KUT Ying Hay*

Mr. WANG Jincheng*

(appointed on 27 March 2007)

Dr. POON Kwok Lim, Steven*

(resigned on 1 January 2007)

Mr. WANG Xingdong

Mr. GONG Jianzhong

Mr. LI Kai Cheong, Samson

(alternate to Dr. The Hon. David LI Kwok-po)*

Mr. MOK Hay Hoi

(resigned on 1 January 2007)

(alternate to Dr. POON Kwok Lim, Steven)*

Mr. PHOON Siew Heng

(resigned on 20 April 2006)

Mr. TAN Cheong Hin

(resigned on 20 April 2006)

(alternate to Mr. PHOON Siew Heng)

* *Independent Non-executive Directors*

In accordance with Article 101 and Article 105 of the Company's Articles of Association, Mr. Chu Lap Lik, Victor, Dr. The Hon. David Li Kwok-po, Mr. Kut Ying Hay, Mr. Wang Xingdong and Mr. Wang Jincheng, retire and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the Independent Non-executive Directors as regards their independence to the Company and considers that each of the Independent Non-executive Directors is independent to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors:



DR. FU YUNING

aged 50, is the Chairman of the Company and has been an Executive Director of the Company since January 1999. He concurrently acts as a Director and the President of China Merchants Group Limited, and the Chairman of China Merchants Finance Holdings Company Limited. He is also the Chairman and Managing Director of China Merchants Holdings (International) Company Limited and an Independent Non-executive Director of Integrated Distribution Services Group Limited and Sino Land Company Limited, all of which are publicly listed on the Hong Kong Stock Exchange. China Merchants Group Limited is a substantial shareholder of the Company. Dr. Fu is also a Director of China Merchants Bank Company, Limited. Besides, Dr. Fu serves as a Director of Hong Kong General Chamber of Commerce and Hong Kong Port Development Council. Dr. Fu graduated from Dalian Institute of Technology of China with a degree in Port and Waterway Engineering. He obtained a doctorate degree in Offshore Engineering at the Brunel University of the United Kingdom where he also worked as a post-doctorate research fellow.



DR. HUANG DAZHAN

aged 49, has been an Executive Director of the Company since March 1999. He is also the Chairman of China Merchants China Investment Management Limited (the "Investment Manager"). Dr. Huang is the Financial Adviser of China Merchants Group Limited, the Managing Director of China Merchants Finance Holdings Company Limited, a Director of China Merchants Holdings (Hong Kong) Company Limited, China Merchants Bank Company, Limited, China Merchants Securities Company, Limited and China Credit Trust Company, Limited. Concurrently, he also holds a number of chairmanships in various other companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest including China Merchants Holdings (UK) Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers Far East Limited and China Merchants Finance Investment Holdings Company Limited. China Merchants Group Limited is a substantial shareholder of the Company. He is also a Director of a subsidiary of the Company. Dr. Huang graduated from Dalian Institute of Technology of China in 1982. In 1988, he was selected by the State Education Commission of China to go to the UK for further studies and was conferred by the University of Manchester a master degree in Economics and followed by a doctorate degree in the same field, and worked as a post-doctorate research fellow.



MR. CHU LAP LIK, VICTOR

aged 49, has been an Executive Director of the Company since June 1993 and holds directorship in a subsidiary of the Company. Mr. Chu is a Director of China Bright Holdings Limited which is a substantial shareholder of the Company. He is also a Director of the Investment Manager, LG China Fund Limited as well as First Eastern Investment Group which is actively involved in direct investments in the PRC. He was a Director of Guangdong Development Fund Limited. Mr. Chu has served on the Central Policy Unit of the Hong Kong Government, the Council of the Hong Kong Stock Exchange, the Takeovers and Mergers Panel and the Advisory Committee of the Securities and Futures Commission. Outside of Hong Kong, Mr. Chu is a Foundation Board Member of the World Economic Forum in Geneva and Chairman of the Paris-based ICC Commission on Financial Services and Insurance. Mr. Chu took his law degree at University College London.



MR. XIE KUIXING

aged 42, has been an Executive Director of the Company since September 2005. He is currently the Managing Director of the Investment Manager. Prior to joining the Investment Manager, he worked with China Merchants Securities Company, Limited, where he held senior posts in various divisions for 13 years. He is also a Director of certain subsidiaries of the Company. Mr. Xie has extensive experience in securities business, corporate finance, risk management as well as investment. Mr. Xie obtained his bachelor degree in Economics from the Hunan Institute of Finance & Economics and master degree in Economics from the Dongbei University of Finance & Economics. Mr. Xie once gave his finance lecture at the Zhongnan University of Finance & Economics.



MR. TSE YUE KIT

aged 45, has been an Executive Director of the Company since November 2000. He is also a Director of the Investment Manager. Mr. Tse is the General Manager in Investment & Development Division of China Merchants Finance Holdings Company Limited which is a substantial shareholder of the Company. Mr. Tse has a number of years extensive experience in accounting, auditing, corporate finance as well as investment. Mr. Tse obtained his bachelor degree with honours in Accountancy from the University of Exeter, UK.

Directors' Report *(continued)*



MS. KAN KA YEE, ELIZABETH (alternate to Mr. CHU Lap Lik, Victor) aged 49, has been an Alternate Director of the Company since May 1999 and holds directorships in certain subsidiaries of the Company. Ms. Kan is a Director of China Bright Holdings Limited which is a substantial shareholder of the Company. She is also Managing Director of FE Group with which she has been associated since its founding in 1988. Ms. Kan is licensed with the Securities and Futures Commission in Hong Kong. She is a Certified Public Accountant (U.S.A.) and a Fellow of the Hong Kong Institute of Certified Public Accountants. Ms. Kan began her professional accounting career with the Hong Kong office of Arthur Andersen in the area of audit and business advisory services. She obtained her Bachelor of Science degree in Business Administration and Accounting and Bachelor of Arts degree in Economics from the University of Minnesota, Minneapolis, USA.



DR. THE HON. DAVID LI KWOK-PO, *GBS, OBE, JP, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur, and Grand Officer of the Order of the Star of Italian Solidarity* aged 68, has been an Independent Non-executive Director of the Company since June 1993. He is also the Chairman of the Audit Committee of the Board of Directors of the Company. Dr. Li is the Chairman and Chief Executive of The Bank of East Asia, Limited whose shares are listed on The Stock Exchange. He is a Member of both the Executive Council and the Legislative Council of Hong Kong. He is the Chairman of The Chinese Banks' Association, Limited and the Hong Kong Management Association. He is also a member of the Banking Advisory Committee and the Council of the Treasury Markets Association. His directorships in listed public companies include PCCW Limited, COSCO Pacific Limited, Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hong Kong and Shanghai Hotels, Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Ltd. and Vitasoy International Holdings Limited. His other directorships include Dow Jones & Company, Inc., and The Hong Kong Mortgage Corporation Limited. He was a Director of AviChina Industry & Technology Company Limited, Chelsfield Plc., Henderson Cyber Limited and Sime Darby Berhad.



MR. KUT YING HAY

aged 52, has been an Independent Non-executive Director of the Company since June 1993. He is also an Independent Non-executive Director of China Merchants Holdings (International) Company Limited whose shares are listed on The Stock Exchange and whose ultimate holding company is a substantial shareholder of the Company and China Merchants Insurance Company Limited. Mr. Kut is a practising solicitor and notary public and the proprietor of Messrs. Kut & Co., a firm of solicitors. He is an attesting officer appointed by the Ministry of Justice of the PRC. He is also a solicitor of the Supreme Courts of England, Victoria of Australia, and Singapore, and an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators & Mediators, Australia. For the period from 1995 to 1998, he was a member of the Board of Review established by the Hong Kong government pursuant to the Inland Revenue Ordinance. Mr. Kut is currently the Chairman of the Professional Development Committee of the Association of Hong Kong Professionals Limited, a non-profit making body dedicated to provide a cross-profession platform for professionals of diverse disciplines to socialize, share knowledge and to create opportunities.



MR. WANG JINCHENG

aged 50, was appointed as an Independent Non-executive Director of the Company on 27 March 2007. He is a Professor and is currently an Assistant to Dean of the School of Electronic and Information Engineering of Dalian University of Technology, a member of the Education Working Committee of Chinese Automation Association, the Automation Profession Committee of the Association for Teaching and Research of China's Higher Educational Institutions and the Advisory Committee on Teaching of Dalian University of Technology, the Officer-in-Charge of Automation Profession of Dalian University of Technology, and a Director of Zhonglian Computer Development Company Limited, a company established in Dalian Economy and Technology Development Zone. Mr. Wang has significant contribution to the research studies of automation in the PRC. He also has a wide connection in the field of automation of metallurgical industry and a rich experience in corporate management. Mr. Wang graduated from Dalian University of Technology with a Bachelor degree in Automatic Control and a Master degree in System Engineering. He was once selected by the State Education Commission of China as a visiting scholar to go to Denmark participating in teaching and research work in Institute of Electronic Systems of Aalborg University, Denmark.

Directors' Report *(continued)*



MR. WANG XINGDONG

aged 46, has been a Non-executive Director of the Company since April 2001. He is an Executive Director and the Managing Director of ONFEM Holdings Limited ("ONFEM") and a Director of China Minmetals H.K. (Holdings) Limited, both were substantial shareholders of the Company previously. Mr. Wang graduated from Xiamen University, PRC in 1982 with a Bachelor of Arts degree. He then continued his studies in business management between 1987 and 1989 in the Faculty of Management of Business Administration of Long Island University in New York, USA. Prior to joining ONFEM, he was the President of Chimei Metals in the USA and the General Manager of Minmetals Germany GmbH. Mr. Wang has extensive experience in international metals trading, investment strategies and corporate management.



MR. GONG JIANZHONG

aged 44, has been a Non-executive Director of the Company since September 2001. Mr. Gong is a Non-executive Director of Phoenix Satellite Television Holdings Limited, and a Non-executive Director and Vice-Chairman of the Board of Directors of Jilin Qifeng Chemical Fiber Co., Ltd.. He is also a Director and Vice-Chairman of the Board of Directors of Shanghai Airlines Co., Ltd.. In addition, Mr. Gong is a Director and Chief Executive Officer of Bank of China Group Investment Limited ("BOCGI") and a Director of a number of companies controlled by BOCGI or in which BOCGI has an interest. BOCGI is a substantial shareholder of the Company. From 2002 to 2005, Mr. Gong was an Alternate Director and Deputy Chief Executive Officer of BOCGI. Mr. Gong has over 15 years of experience in banking, administration and management. He graduated from Dongbei University of Finance and Economics in the People's Republic of China in April 1991 with a master degree in economics.



MR. LI KAI CHEONG, SAMSON (alternate to Dr. The Hon. David Li Kwok-po)

aged 46, has been an Alternate Director of the Company since May 1999. He is the General Manager and Head of Investment Banking Division of The Bank of East Asia, Limited. Mr. Li has more than ten years of experience specialising in fund management and securities dealing. He is also the Managing Director of East Asia Securities Company Limited, a member of the Stock Exchange of Hong Kong, as well as a Director in a number of asset management companies.

Directors' Report *(continued)*

Senior Management:

MR. HO LAP SANG, SUNNY, aged 40, is the qualified accountant of the Company. Mr. Ho joined the Investment Manager as the General Manager of Finance in November 2005. He has extensive experience in finance in several multinational corporations and public listed companies in Hong Kong. He holds a bachelor degree of laws with honours from the University of London and a master degree of business administration specialising in finance and investment from the University of Hull, UK. He is a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants. He is also a member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2006, the interests of the Directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Nature of shares	Capacity	Number of shares	Percentage of total issued share capital
Mr. CHU Lap Lik, Victor	14,400,000	Interest of controlled corporation	Corporate	10.50%

Note: Mr. Chu Lap Lik, Victor is deemed to have an interest in the 14,400,000 shares of the Company in which China Bright Holdings Limited is interested.

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 31 December 2006, 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 year ended 31 December 2006.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company and their associates to acquire benefits by means of the acquisition of shares in or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than the Investment Management Agreement mentioned below, no contracts of significance, to which the Company or any related company or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report *(continued)*

DIRECTORS' SERVICE CONTRACTS

The Directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following persons, other than a Director or chief executive of the Company, have 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	Capacity	Number of ordinary shares interested	Percentage of total issued shares
China Merchants Group Limited <i>(Note 3)</i>	Interest of controlled corporation	34,309,760	25.02%
China Merchants Steam Navigation Company Limited <i>(Note 3)</i>	Interest of controlled corporation	34,309,760	25.02%
China Merchants Holdings (Hong Kong) Company Limited <i>(Note 1)</i>	Interest of controlled corporation	34,309,760	25.02%
China Merchants Finance Holdings Company Limited <i>(Note 2)</i>	Interest of controlled corporation	34,309,760	25.02%
China Merchants Financial Services Limited <i>(Note 3)</i>	Interest of controlled corporation	33,989,760	24.78%
Good Image Limited	Beneficial owner	33,989,760	24.78%
China Bright Holdings Limited	Beneficial owner	14,400,000	10.50%
Temasek Holdings (Private) Limited <i>(Note 3)</i>	Interest of controlled corporation	7,200,000	5.25%
Hong Lim Fund Investments Pte Ltd.	Beneficial owner	7,200,000	5.25%
Central Huijin Investment Company Limited <i>(Note 3)</i>	Interest of controlled corporation	7,200,000	5.25%
Bank of China Limited <i>(Note 3)</i>	Interest of controlled corporation	7,200,000	5.25%
Bank of China Group Investment Limited	Beneficial owner	7,200,000	5.25%
China Minmetals Corporation <i>(Note 3)</i>	Interest of controlled corporation	7,200,000	5.25%
China Minmetals H.K. (Holdings) Limited <i>(Note 3)</i>	Interest of controlled corporation	7,200,000	5.25%
June Glory International Limited <i>(Note 4)</i>	Interest of controlled corporation	7,200,000	5.25%
ONFEM Holdings Limited <i>(Note 3)</i>	Interest of controlled corporation	7,200,000	5.25%
ONFEM Investments Limited	Beneficial owner	7,200,000	5.25%
Swiss Reinsurance Company	Beneficial owner	7,200,000	5.25%

Note 1: The company 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: The company 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: The company is 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: The company is deemed to have corporate interests in the shares by virtue of its controlling shareholding (i.e. 53.95%) in the company whose name is set out immediately under it.



Directors' Report *(continued)*

Save as disclosed above, there was no person, other than a Director or chief executive of the Company, who has 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.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

INVESTMENT MANAGEMENT AGREEMENT

China Merchants China Investment Management Limited, a company incorporated in Hong Kong, continues to be the Investment Manager of the Company for both listed and unlisted investments. Dr. Huang Dazhan, Mr. Chu Lap Lik, Victor, Mr. Xie Kuixing and Mr. Tse Yue Kit are Directors of both the Company and Investment Manager. Mr. Chu Lap Lik, Victor and Ms. Kan Ka Yee, Elizabeth have indirect beneficial interests in the Investment Manager.

The Investment Management Agreement (the "Agreement") became effective on 15 July 1993 and was for an initial term of five years and is thereafter automatically renewed for further periods of three years after the expiry of each fixed term unless the appointment is terminated by the Board either on six months' notice prior to the expiry of each term or with the sanction of shareholders in general meeting at any time if the Company suffers major losses due to the gross negligence of the Investment Manager.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Mr. Xie Kuixing

Director

Hong Kong, 20 April 2007

Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance. The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Listing Rules throughout the year under review, except for the deviations as stated below:

According to the Investment Management Agreement, the portfolio and day-to-day administration of the Company are handled by the Investment Manager. 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.

Further, owing to a business trip, the Chairman, Dr. Fu Yuning, has given an apology for not hosting the annual general meeting of the Company which was held on 30 May 2006.

THE BOARD OF DIRECTORS

As at 31 December 2006, the Board consisted of five Executive Directors and five Non-executive Directors of whom three are independent as defined by the Listing Rules. The biography of the Directors are set out on pages 20 to 25 of this Annual Report.

The Company has appointed an Investment Manager to manage its investment portfolio and day-to-day management of the Company. According to the Investment Management Agreement entered into between the Company and the Investment Manager, the Investment Manager is responsible for identifying and researching prospective investments for the Company. The Board is responsible for formulating the Company's overall investment strategy and guidelines that the Investment Manager shall follow to make the investment.

For the regular Board meetings, at least 14 days' notice is given for all Directors to attend. Directors are also consulted to include matters in the agenda for every Board meeting. The Board held four meetings during the year under review. The attendance of each of the Director and Alternate Director is as follows:

	Attendance/ Number of Meetings
Executive Directors:	
Dr. FU Yuning (<i>Chairman</i>)	0/4
Dr. HUANG Dazhan	0/4
Mr. CHU Lap Lik, Victor	0/4
Mr. XIE Kuixing	4/4
Mr. TSE Yue Kit	4/4
Non-executive Directors:	
Mr. WANG Xingdong	2/4
Mr. GONG Jianzhong	0/4
Mr. PHOON Siew Heng (resigned on 20 April 2006)	0/1

Corporate Governance Report *(continued)*

THE BOARD OF DIRECTORS *(continued)*

	Attendance/ Number of Meetings
Independent Non-executive Directors:	
Dr. The Hon. David LI Kwok-po	0/4
Mr. KUT Ying Hay	2/4
Dr. POON Kwok Lim, Steven	0/4
Alternate Directors:	
Ms. KAN Ka Yee, Elizabeth <i>(alternate to Mr. CHU Lap Lik, Victor)</i>	3/4
Mr. LI Kai Cheong, Samson <i>(alternate to Dr. The Hon. David LI Kwok-po)</i>	3/4
Mr. TAN Cheong Hin <i>(alternate to Mr. PHOON Siew Heng)</i> <i>(resigned on 20 April 2006)</i>	0/1
Mr. MOK Hay Hoi <i>(alternate to Dr. POON Kwok Lim, Steven)</i>	3/4

All Directors have access to the services of the Company Secretary or his assistant who regularly updates the Board on governance and regulatory matters so as to ensure that all applicable rules and regulations are followed. Any Director, any member of the Audit Committee or the Investment Committee may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

The Board has established two committees, namely the Audit Committee and the Investment Committee, to monitor the management of the Company. The details of the Committees are as below:

The Audit Committee

The Board has established an Audit Committee with specific written terms of reference which follows the guidelines set out by the Hong Kong Institute of Certified Public Accountants and the requirements of the Code. The terms of reference of the Audit Committee are available on the Company's website. All Committee members are Non-executive Directors and two of them including the Chairman are independent. The functions of the Audit Committee include but not limited to the following:

- considering and reviewing the appointment, resignation and removal of external auditors;
- considering the audit fees;
- reviewing the interim and annual results;
- reviewing internal control and risk management systems;
- discussing the potential audit issues with the auditors.

Corporate Governance Report *(continued)*

THE BOARD OF DIRECTORS *(continued)*

The Committee held meetings twice during the year under review. The attendance of individual members of the Audit Committee is as follows:

	Attendance/ Number of Meetings
Directors:	
Dr. The Hon. David LI Kwok-po <i>(Chairman of the Audit Committee)</i>	0/2
Mr. KUT Ying Hay	1/2
Mr. WANG Xingdong	2/2
Alternate Director:	
Mr. LI Kai Cheong, Samson <i>(alternate to Dr. The Hon. David LI Kwok-po)</i>	2/2

The scope of work done by the Audit Committee during the year under review includes the following:

- Reviewed and recommended the Board to approve the audit fee proposal for year 2006;
- Reviewed the interim report and the interim results announcement for the six months ended 30 June 2006;
- Reviewed the audit plan for year 2006 to assess the general scope of audit work;
- Reviewed the audited accounts and final results announcement for year 2005;
- Considered the internal control review reports prepared by the Company's auditors.

The Audit Committee has been provided with sufficient resources to discharge its duties.

The Investment Committee

The Board has established an Investment Committee of seven members to approve transactions (investments or realisations) of over US\$5 million each and to supervise the day-to-day management functions of the Investment Manager.

No meetings were held during the year under review as there were no transactions submitted for its approval.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. FU Yuning is appointed as the Chairman of the Company. The functions of the Chief Executive Officer have been undertaken by the Investment Manager. The Managing Director of the Investment Manager is Mr. Xie Kuixing, who is also a Director of the Company. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

NON-EXECUTIVE DIRECTORS

Non-executive Directors of the Company were not appointed for a specific term but were subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Associations of the Company. On 21 April 2005, the Board resolved to fix the terms of appointment of Non-executive Directors to a specific term of three years.

DIRECTORS' SECURITIES TRANSACTIONS

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

REMUNERATION OF DIRECTORS

The Company does not have a Remuneration Committee since the Company has no salaried employees, except the qualified accountant whose remuneration packages are borne by the Investment Manager. The remuneration of Directors is determined by the shareholders at the annual general meeting of the Company. At the annual general meeting of the Company held on 30 May 2006, it was resolved that the remuneration of the Directors for the year ending 31 December 2006 be fixed by the Board. The total remuneration payable to the Directors for the year ended 31 December 2006 is stated in note 8 to the financial statements.

NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors. The Board will consider and assess the qualification, ability and potential contribution of candidates for directorships on the Board.

According to the Articles of Association of the Company, those Directors appointed by the Board shall hold office until the next following annual general meeting and shall then be eligible for re-election.

According to the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three nor a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

AUDITORS' REMUNERATION

The Company has appointed Deloitte Touche Tohmatsu as the Company's auditors. During the year under review, the fees paid or payable to the Company's auditors for audit services provided is US\$65,531.

FINANCIAL REPORTING

The Directors acknowledge their responsibility to prepare financial statements in accordance with generally accepted accounting principles in Hong Kong for each financial year which give a true and fair view of the state of affairs of the Company and in presenting the interim results, annual financial statements, and announcement to shareholders.



Corporate Governance Report *(continued)*

FINANCIAL REPORTING *(continued)*

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Report of the Auditors on page 33.

INTERNAL CONTROL

The Board recognises its responsibility for maintaining an adequate system of internal control for the Company. The Board has regularly reviewed the internal control policy so as to safeguard the Company's assets. In addition, the Board has appointed an independent accountancy firm to review the internal control systems of the Company on an on-going basis. The review covered all material controls, including financial, operational and compliance controls, and risk management functions. The Board has discussed and considered the review report and its recommendations. The Board also requires the Investment Manager to establish an internal control system setting out the policies and procedures on investments, securities dealing, and financial reporting. The Investment Manager is required to regularly update such policies and procedures.

Independent Auditor's Report

Deloitte. 德勤

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

We have audited the 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 35 to 59, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report *(continued)*

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
20 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 US\$	2005 US\$
Turnover	5	5,443,293	3,118,649
Increase in fair value of financial assets at fair value through profit or loss		149,763,178	9,976,994
Net gain on disposal of financial assets at fair value through profit or loss		637,302	262,380
Net gain on disposal of an associate		1,019,051	–
Other income		1,434,878	976,529
Administrative expenses		(21,744,834)	(3,182,117)
Share of results of associates		1,203,233	(1,301,764)
Profit before taxation	7	137,756,101	9,850,671
Taxation	10	(22,338,826)	(2,020,645)
Profit attributable to equity shareholders		115,417,275	7,830,026
Earnings per share	11	0.842	0.057

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 US\$	2005 US\$
Non-current assets			
Interests in associates	13	13,983,895	16,062,662
Financial assets at fair value through profit or loss	14	266,160,877	118,263,568
Other investments in financial assets	15	5,698,563	5,698,157
		285,843,335	140,024,387
Current assets			
Other receivables	17	106,766	81,143
Cash and bank balances	18	27,672,116	17,354,211
		27,778,882	17,435,354
Current liabilities			
Other payables	19	19,036,410	1,302,222
Taxation payable		51,533	65,477
		19,087,943	1,367,699
Net current assets		8,690,939	16,067,655
Total assets less current liabilities		294,534,274	156,092,042
Non-current liability			
Deferred taxation	20	31,662,164	9,421,080
Net assets		262,872,110	146,670,962
Capital and reserves			
Share capital	21	13,714,560	13,714,560
Reserves		249,157,550	132,956,402
Total capital and reserves		262,872,110	146,670,962
Net asset value per share	23	1.917	1.069

The consolidated financial statements on pages 35 to 59 were approved and authorised for issue by the Board of Directors on 20 April 2007 and are signed on its behalf by:

Dr. Huang Dazhan
Director

Mr. Xie Kuixing
Director

Balance Sheet

At 31 December 2006

	Notes	2006 US\$	2005 US\$
Non-current assets			
Investments in subsidiaries	12	10,000,006	10,000,006
Financial assets at fair value through profit or loss	14	17,725,455	14,958,416
Amounts due from subsidiaries	16	9,548,141	–
		37,273,602	24,958,422
Current assets			
Amounts due from subsidiaries	16	53,496,742	66,762,638
Other receivables	17	28,618	21,837
Tax recoverable		118	–
Cash and bank balances	18	10,575,663	2,844,216
		64,101,141	69,628,691
Current liabilities			
Amount due to a subsidiary	16	1,073,393	–
Other payables	19	19,036,067	900,526
		20,109,460	900,526
Net current assets		43,991,681	68,728,165
Total assets less current liabilities		81,265,283	93,686,587
Non-current liability			
Deferred taxation	20	242,672	–
Net assets		81,022,611	93,686,587
Capital and reserves			
Share capital	21	13,714,560	13,714,560
Reserves	22	67,308,051	79,972,027
Total capital and reserves		81,022,611	93,686,587

Dr. Huang Dazhan
Director

Mr. Xie Kuixing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital US\$	Share premium US\$	Exchange reserve US\$	General reserve US\$	Retained profits US\$	Total US\$
Balance at 1 January 2005	13,714,560	81,525,984	617,622	1,091,885	42,080,487	139,030,538
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	-	-	365,958	-	-	365,958
Share of changes in reserve of associates	-	-	404,459	-	-	404,459
Net income recognised directly in equity Profit for the year	-	-	770,417	-	-	770,417
	-	-	-	-	7,830,026	7,830,026
Total recognised income for the year	-	-	770,417	-	7,830,026	8,600,443
Final dividend paid for 2004	-	-	-	-	(960,019)	(960,019)
Transfer to general reserve	-	-	-	184,979	(184,979)	-
Balance at 1 January 2006	13,714,560	81,525,984	1,388,039	1,276,864	48,765,515	146,670,962
Exchange difference on translation of financial statements of foreign entities not recognised in the income statement	-	-	309,836	-	-	309,836
Share of changes in reserve of associates	-	-	474,037	-	-	474,037
Net recognised income directly in equity Profit for the year	-	-	783,873	-	-	783,873
	-	-	-	-	115,417,275	115,417,275
Total income recognised for the year	-	-	783,873	-	115,417,275	116,201,148
Transfer to general reserve	-	-	-	277,387	(277,387)	-
Balance at 31 December 2006	13,714,560	81,525,984	2,171,912	1,554,251	163,905,403	262,872,110

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

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 US\$	2005 US\$
OPERATING ACTIVITIES		
Profit before taxation	137,756,101	9,850,671
Adjustments for:		
Share of results of associates	(1,203,233)	1,301,764
Interest income	(774,778)	(810,203)
Dividend income	(4,668,515)	(2,308,466)
Increase in fair value of financial assets at fair value through profit or loss	(149,763,178)	(9,976,994)
Net gain on disposal of financial assets at fair value through profit or loss	(637,302)	(262,380)
Net gain on disposal of an associate	(1,019,051)	–
Operating cash flows before movements in working capital	(20,309,956)	(2,205,608)
(Increase) decrease in other receivables	(536)	3,119
Increase in other payables	17,734,188	381,760
Cash used in operations	(2,576,304)	(1,820,729)
Interest received	749,285	849,468
Dividend received	4,668,515	2,308,466
Income taxes (paid) refunded	(113,521)	1,484
NET CASH FROM OPERATING ACTIVITIES	2,727,975	1,338,689
INVESTING ACTIVITIES		
Dividends received from associates	445,762	251,342
Repayment from associates	1,268,600	8,412
Repayment of capital from associates	740,453	717,703
Acquisition of financial assets at fair value through profit or loss	(1,411,991)	(19,325,883)
Proceeds from disposal of financial assets at fair value through profit or loss	5,089,649	2,136,930
Net proceeds from disposal of an associate	2,320,273	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	8,452,746	(16,211,496)
CASH USED IN FINANCING ACTIVITIES		
Dividend paid	–	(960,019)
NET INCREASE (DECREASE) IN CASH AND BANK BALANCES	11,180,721	(15,832,826)
CASH AND BANK BALANCES AS AT 1 JANUARY	17,354,211	33,879,726
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(862,816)	(692,689)
CASH AND BANK BALANCES AS AT 31 DECEMBER	27,672,116	17,354,211

Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company acts as an investment holding company. The activities of the subsidiaries and associates are set out in notes 27 and 13 respectively.

The functional currency of the Group entities is Renminbi ("RMB"), the currency of the primary economic environment in which the respective Group entities operate. For the purpose of conveniences of the consolidated financial statements users, the consolidated financial statements are presented in United States dollars.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the Group's results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective for the year ended 31 December 2006. The Group considers that it is not yet in a position to reasonably ascertain how the following new standards, amendment and interpretations may affect the preparation and presentation of the results of operations and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segments ⁸
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁵
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury shares transactions ⁶
HK(IFRIC) – INT 12	Service concession arrangements ⁷

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

⁵ Effective for annual periods beginning on or after 1 November 2006.

⁶ Effective for annual periods beginning on or after 1 March 2007.

⁷ Effective for annual periods beginning on or after 1 January 2008.

⁸ Effective for annual periods beginning on or after 1 January 2009.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”). In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company’s balance sheet at cost, less any identified impairment loss.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group’s share of the net assets of the associate, less any identified impairment loss. When the Group’s share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and held-to-maturity financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are those designated at fair value through profit or loss on initial recognition. They comprise a group of financial assets which is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loans and receivables (see note 15), other receivables, and bank balances) are carried at amortised cost using the effective interest method, less any impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and are not quoted in an active market. At each balance sheet date subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities

Financial liabilities including other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in income statement.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such exchange differences are recognised in the consolidated income statement in the period which the foreign operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as a parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include held-to-maturity financial assets, financial assets at fair value through profit or loss, other investments in financial assets, and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short term bank deposits at market rates and certain debt securities (see note 14). Since the bank deposits are all short term in nature, any future variations in interest rates will not have a significant impact on the results of the Group.

The Group is also exposed to fair value interest rate risk which results from the timing difference in the repricing of fixed rate on certain debt securities (see note 15). The Group manages such interest rate exposure through the investment manager, which would consider interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility, and formulating a cash management policy, which sets out certain investment guidelines to limit the risks on investing such financial assets. In addition, the Group has intention and ability to hold such financial assets to maturity. Hence, the Group considers that there is no significant impact on the financial position of the Group arising from the volatility of interest rates.

(iii) Price risk

The Group is exposed to equity securities price risk through its investments in equity securities designated as fair value through profit or loss. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's financial assets include debt and equity investments, other receivables and bank balances.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets stated in the balance sheet.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with good credit ratings assigned by international credit rating agencies.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

5. TURNOVER

Turnover represents the amounts received and receivable on investments during the year as follows:

	THE GROUP	
	2006	2005
	US\$	US\$
Interest income	774,778	810,203
Dividend income	4,668,515	2,308,446
	5,443,293	3,118,649

6. SEGMENTAL INFORMATION

During the year, the Group was principally involved in investing in companies with significant business involvement in the PRC. Accordingly, no analysis of segmental information by principal activity is presented. The Group's turnover, contribution to operating profit, assets and liabilities for the year ended 31 December 2006, analysed by geographical locations of the investee companies, were as follows:

For the year ended 31 December 2006

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
TURNOVER				
Group turnover	406,326	4,889,449	147,518	5,443,293
RESULT				
Segment result	1,546,536	155,168,770	147,518	156,862,824
Other income				1,434,878
Unallocated corporate expenses				(21,744,834)
Share of results of associates	–	1,203,233	–	1,203,233
Profit before taxation				137,756,101
Taxation	774	(22,339,600)	–	(22,338,826)
Profit attributable to equity shareholders				115,417,275

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

6. SEGMENTAL INFORMATION *(continued)*

For the year ended 31 December 2006 *(continued)*

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
BALANCE SHEET				
At 31 December 2006				
ASSETS				
Segment assets	10,659,430	17,081,617	37,835	27,778,882
Interests in associates	–	13,983,895	–	13,983,895
Financial assets at fair value through profit or loss	1,395,118	263,754,452	1,011,307	266,160,877
Other investments in financial assets	3,000,000	–	2,698,563	5,698,563
Consolidated total assets	15,054,548	294,819,964	3,747,705	313,622,217
LIABILITIES				
Segment liabilities	19,036,067	343	–	19,036,410
Taxation payable and deferred taxation	(118)	31,713,815	–	31,713,697
Consolidated total liabilities	19,035,949	31,714,158	–	50,750,107
For the year ended 31 December 2005				
	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
TURNOVER				
Group turnover	346,427	2,598,890	173,332	3,118,649
RESULT				
Segment result	300,857	12,883,834	173,332	13,358,023
Other income				976,529
Unallocated corporate expenses				(3,182,117)
Share of results of associates	–	(1,301,764)	–	(1,301,764)
Profit before taxation				9,850,671
Taxation	328	(2,020,973)	–	(2,020,645)
Profit attributable to equity shareholders				7,830,026

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

6. SEGMENTAL INFORMATION *(continued)*

For the year ended 31 December 2005 *(continued)*

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
BALANCE SHEET				
At 31 December 2005				
ASSETS				
Segment assets	2,879,080	14,518,439	37,835	17,435,354
Interests in associates	–	16,062,662	–	16,062,662
Financial assets at fair value through profit or loss	3,307,529	113,944,732	1,011,307	118,263,568
Other investments in financial assets	3,000,000	–	2,698,157	5,698,157
Consolidated total assets	9,186,609	144,525,833	3,747,299	157,459,741
LIABILITIES				
Segment liabilities	900,526	401,696	–	1,302,222
Taxation payable and deferred taxation	–	9,486,557	–	9,486,557
Consolidated total liabilities	900,526	9,888,253	–	10,788,779

7. PROFIT BEFORE TAXATION

	THE GROUP	
	2006 US\$	2005 US\$
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	65,531	56,861
Net foreign exchange gain	(1,419,700)	(966,443)
Investment manager's management fee	3,969,821	2,869,994
Investment manager's performance fee	17,324,174	–
Directors' fees	32,166	34,732
Share of tax of associates (included in share of results of associates)	476,868	193,531

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

8. DIRECTORS' EMOLUMENTS

The Directors' fees paid or payable to each of the 15 (2005: 17) Directors were as follows:

	2006 US\$	2005 US\$
Executive Directors:		
Dr. FU Yuning	5,148	5,144
Dr. HUANG Dazhan	2,573	2,573
Mr. CHU Lap Lik, Victor	2,573	2,573
Mr. XIE Kuixing	2,573	2,573
Mr. TSE Yue Kit	2,573	2,573
Ms. KAN Ka Yee, Elizabeth (<i>Alternate Director</i>)	–	–
Ms. ZHOU Linda L.*	N/A	–
	15,440	15,436
Non-executive Directors:		
Mr. WANG Xingdong	3,860	3,859
Mr. GONG Jianzhong	2,573	2,573
Mr. PHOON Siew Heng	–	2,573
Mr. TAN Cheong Hin (<i>Alternate Director</i>)	–	–
Mr. HIEW Yoon Khong*	N/A	–
	6,433	9,005
Independent Non-executive Directors:		
Dr. The Hon. David LI Kwok-po	3,860	3,859
Mr. KUT Ying Hay	3,860	3,859
Dr. POON Kwok Lim, Steven	2,573	2,573
Mr. LI Kai Cheong, Samson (<i>Alternate Director</i>)	–	–
Mr. MOK Hay Hoi (<i>Alternate Director</i>)	–	–
	10,293	10,291
	32,166	34,732

* The Directors resigned during the year 2005.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2006 and 2005 were all Directors of the Company and details of their emoluments are included in note 8 above.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

10. TAXATION

The profits tax charge for the year comprises:

	THE GROUP	
	2006	2005
	US\$	US\$
The Company and its subsidiaries		
Current tax:		
Other regions in the PRC	98,516	50,432
	98,516	50,432
Overprovision in prior year		
Hong Kong	(774)	(328)
	97,742	50,104
Deferred taxation (Note 20)	22,241,084	1,970,541
	22,338,826	2,020,645

Hong Kong profits tax is calculated at 17.5% on the estimated assessable profits for both years. Taxation arising in other regions in the PRC is calculated at the rates prevailing in the relevant regions.

The profits tax charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	2006	2005
	US\$	US\$
Profit before taxation	137,756,101	9,850,671
Share of results of associates	(1,203,233)	1,301,764
Profit before taxation attributable to the Company and its subsidiaries	136,552,868	11,152,435
Tax at the domestic income tax rate of 15% (Note)	20,482,931	1,672,865
Tax effect of expenses not deductible for tax purpose	3,242,014	359,195
Tax effect of income not taxable for tax purpose	(1,153,168)	(436,011)
Tax effect of tax losses/deductible temporary differences not recognised	1,915	556,097
Utilisation of tax losses previously not recognised	(161,513)	(28,102)
Effect of different tax rates of subsidiaries operating in other regions in the PRC	(72,579)	(95,108)
Overprovision in prior year	(774)	(328)
Others	–	(7,963)
Taxation	22,338,826	2,020,645

Note: The domestic tax rate (which is PRC Enterprise Income Tax rate applicable to the Company's subsidiary in the PRC) in the jurisdiction where the investments of the Group are substantially located.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

11. EARNINGS PER SHARE

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

	THE GROUP 2006	2005
Earnings for the purpose of basic earnings per share (US\$)	115,417,275	7,830,026
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2006 US\$	2005 US\$
Unlisted shares, at cost	10,000,006	10,000,006

Particulars of the Company's subsidiaries at 31 December 2006 are set out in note 27.

13. INTERESTS IN ASSOCIATES

	THE GROUP 2006 US\$	2005 US\$
Cost of unlisted investments in associates	14,499,075	16,508,147
Share of post-acquisition results, net of dividends received	(1,507,066)	(2,265,093)
Share of exchange reserve	991,886	551,008
	13,983,895	14,794,062
Amounts due from associates	6,545,995	7,814,595
Allowance on amounts due from associates	(6,545,995)	(6,545,995)
	–	1,268,600
Total	13,983,895	16,062,662

The amounts due from associates are unsecured, interest free and repayable on demand.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

13. INTERESTS IN ASSOCIATES

As at 31 December 2006, the Group had investments in the following associates:

Name of company	Place of incorporation/ registration and operation	Class of share held	Principal activities	Proportion of nominal value of issued capital/ registered capital held by the Group
Daily on Property Limited	HK/PRC	Ordinary	Property development	22%
Hansen Enterprises Limited	British Virgin Islands ("BVI")/PRC	Ordinary	Property investment	35%
Zhaoyuan Jinbao Electronics Company Limited	PRC/PRC	Registered capital	Manufacturing electronics products	30%
Langfang Oriental Education Facilities Development Company Limited	PRC/PRC	Registered capital	Dormitories investment	25%

The summarised financial information in respect of the Group's associates is set out below:

	2006 US\$	2005 US\$
Total assets	254,897,276	239,342,547
Total liabilities	(204,302,663)	(187,939,335)
Net assets	50,594,613	51,403,212
Group's share of net assets of associates	13,983,895	16,062,662
Turnover	154,212,732	99,735,831
Profit (loss) for the year	8,309,222	(3,293,879)
Group's share of results of associates for the year (exclude unrecognised share of profits of associates)	1,203,233	(1,301,764)

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

13. INTERESTS IN ASSOCIATES *(continued)*

The Group has discontinued recognition of its share of profits of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant audited/management accounts of associates, both for the year and cumulatively, are as follows:

	2006 US\$	2005 US\$
Unrecognised share of profits for the year	(168,769)	(75,409)
Accumulated unrecognised share of losses of associates	3,801,761	3,970,530

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	2006 US\$	2005 US\$
Equity securities:		
— listed in Hong Kong (note a)	1,395,118	3,307,529
— listed elsewhere (note a)	297,880	104,762
— non-circulating (note b)	181,449,790	64,957,430
— unlisted (note c)	82,049,089	48,924,847
	265,191,877	117,294,568
Debt securities:		
— unlisted (note d)	969,000	969,000
Total	266,160,877	118,263,568

	THE COMPANY	
	2006 US\$	2005 US\$
Equity securities:		
— unlisted (note c)	17,725,455	14,958,416

The above financial assets are designated by the Group and the Company as financial assets at fair value through profit or loss at initial recognition.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

Notes:

- (a) The fair values of the above listed securities are determined based on the quoted market bid prices available on the relevant exchanges.
- (b) The non-circulating equity securities represented the Group's interest held in China Merchants Bank Company, Limited ("CMB"). The fair value of the investment is estimated by reference to the market prices of CMB's circulating shares after adjusting the marketability factor due to its non-circulation.
- (c) The fair values are determined by reference to recent transaction prices.
- (d) The unlisted debt securities carry floating interest rate and will mature on 20 August 2013 unless triggered by automatic early redemption. The fair value is obtained from the issuer.

Particulars of the Group's non-circulating and unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2006 disclosed pursuant to Section 129(2) of the Companies Ordinance are as follows:

Name of company	Place of registration	Class of share capital	Percentage of equity held by the Group
China Merchants Bank Company, Limited	PRC	Equity	0.83%
Industrial Bank Company, Limited	PRC	Equity	2.10%

15. OTHER INVESTMENTS IN FINANCIAL ASSETS

	THE GROUP 2006 US\$	2005 US\$
Listed debt securities – held-to-maturity financial assets (note a)	2,698,563	2,698,157
Loans and receivables – long term callable deposits (note b)	3,000,000	3,000,000
Total	5,698,563	5,698,157

Notes:

- (a) The maturity of the debt securities which carry effective interest rates ranged from 4.29% to 6.19% falls into:

	THE GROUP 2006 US\$	2005 US\$
Over one year but less than five years	998,909	998,566
Over five years	1,699,654	1,699,591
	2,698,563	2,698,157

- (b) The long term callable deposits carry fixed interest rates and have maturity dates at 9 December 2008 and 16 March 2009, respectively. The fair value of the long term callable deposits at 31 December 2006 was approximate to the corresponding carrying amount.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

16. AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2006 US\$	2005 US\$
Amounts due from subsidiaries	73,927,275	77,692,030
Less: Allowance on amounts due from subsidiaries	(10,882,392)	(10,929,392)
	63,044,883	66,762,638
Amount due to a subsidiary	(1,073,393)	–
Analysed of amount due from subsidiaries		
Current	53,496,742	66,762,638
Non-current	9,548,141	–
	63,044,883	66,762,638

The amounts due from (to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

The Directors consider the carrying amounts of amounts due from (to) subsidiaries were approximate to their fair values.

17. OTHER RECEIVABLES

	THE GROUP	
	2006 US\$	2005 US\$
Interest receivable	83,450	58,363
Other receivables	23,316	22,780
	106,766	81,143
	THE COMPANY	
	2006 US\$	2005 US\$
Interest receivable	7,619	2,391
Other receivables	20,999	19,446
	28,618	21,837

The fair value of the Group's and the Company's interest and other receivables at 31 December 2006 were approximate to the corresponding carrying amounts.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

18. CASH AND BANK BALANCES

The Group and the Company

Bank balances comprised short-term bank deposits at prevailing market interest rates. The fair value of these assets at 31 December 2006 was approximate to the corresponding carrying amount.

The Group's cash and bank balances were denominated in the following currencies other than the functional currency of the relevant group entities.

	As of 31 December	
	2006	2005
	US\$	US\$
US dollar	6,983,409	866,354
HK dollar	3,640,527	1,985,066

19. OTHER PAYABLES

The Group and the Company

Other payables mainly comprise of amount due to the Investment Manager.

The fair value of other payables at 31 December 2006 was approximate to the corresponding carrying amount.

20. DEFERRED TAXATION

The Group

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 years:

	THE GROUP	
	2006	2005
	US\$	US\$
Balance at 1 January	9,421,080	7,450,539
Charge to income statement for the year	22,241,084	1,970,541
Balance at 31 December	31,662,164	9,421,080

At the balance sheet date, the Group had deductible temporary differences and estimated unused tax losses available for offsetting against future taxable profits of US\$5,856,387 (2005: US\$6,134,480) and US\$2,828,174 (2005: US\$3,016,108) respectively. The losses can be carried forward indefinitely.

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

20. DEFERRED TAXATION *(continued)*

The Company

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

	THE COMPANY	
	2006	2005
	US\$	US\$
Balance at 1 January	–	–
Charge to income statement for the year	242,672	–
Balance at 31 December	242,672	–

At the balance sheet date, the Company had estimated unused tax losses available for offsetting against future taxable profits of US\$12,763 (2005: Nil). The losses can be carried forward indefinitely.

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

21. SHARE CAPITAL

	2006 & 2005
	US\$
Authorised:	
150,000,000 ordinary shares of US\$0.10 each	15,000,000
Issued and fully paid:	
137,145,600 ordinary shares of US\$0.10 each	13,714,560

22. RESERVES

	Share premium	THE COMPANY Retained profits (accumulated loss)	Total
	US\$	US\$	US\$
Balance at 1 January 2005	81,525,984	1,005,339	82,531,323
Loss for the year	–	(1,599,277)	(1,599,277)
Final dividend paid for 2004	–	(960,019)	(960,019)
Balance at 1 January 2006	81,525,984	(1,553,957)	79,972,027
Loss for the year	–	(12,663,976)	(12,663,976)
Balance at 31 December 2006	81,525,984	(14,217,933)	67,308,051

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

23. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$262,872,110 (2005: US\$146,670,962) and 137,145,600 ordinary shares (2005: 137,145,600 ordinary shares) of US\$0.10 each in issue.

24. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 US\$	2005 US\$
Within one year	6,693	–

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

25. EVENT AFTER BALANCE SHEET DATE

On 23 January 2007, a substantial shareholder of the Company and the Company entered into a placing and subscription agreement with a placing agent. Under the placing and subscription agreement, the placing agent would procure, on a fully underwritten basis, purchasers to acquire, and the substantial shareholder would sell, 12,000,000 existing shares at the placing price of HK\$20.40 per share. After deduction of the commissions and other expenses of the placing and the subscription, the aggregate net proceeds of the placing was approximately HK\$226.82 million (or US\$29.17 million), equivalent to the net price of HK\$18.90 per share. The Company would then issue 12,000,000 new shares to the substantial shareholder. The subscription was completed on 6 February 2007.

26. RELATED PARTY TRANSACTIONS

- (a) 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 year, management fees totalling US\$3,969,821 (2005: US\$2,869,994) and performance fee totaling US\$17,324,174 (2005: nil) were paid or payable to the Investment Manager, which are calculated based on a fixed percentage on the value of the Group's assets as stipulated in the investment management agreement. The amount due to the Investment Manager included in other payables at 31 December 2006 was US\$18,933,294 (2005: US\$789,099).

Amount due to the Investment Manager is unsecured, interest free and repayable on demand. The fair value of amount due to the Investment Manager at the balance sheet date was approximate to the corresponding carrying amount.

- (b) During the year, the Group entered into an agreement with China Merchants Financial Services Limited, a substantial shareholder of the Company, to dispose of its 10% equity interest in Houlder China Insurance Brokers Limited at a cash consideration of US\$625,039. The Group recorded a loss of approximately US\$26,282 from the transaction.
- (c) During the year, rental fees in respect of the office properties totalling US\$6,558 (2005: nil) were paid or payable to a wholly-owned subsidiary of a substantial shareholder of the Company.
- (d) Details of compensation of the Directors are set out in note 8.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

27. PARTICULARS OF SUBSIDIARIES

Particulars of all subsidiaries at 31 December 2006, which are all wholly-owned and directly held by the Company, are as follows:

Name	Place of incorporation/ registration and operation	Principal activities	Particulars of issued share capital
CMCDI Zhaoyuan Limited	BVI/PRC	Investment holding	1 share of US\$1 each (Limited liability company)
China Merchants Industry Development (Shenzhen) Limited	PRC/PRC	Investment holding	Paid up capital of US\$10,000,000 (Wholly owned foreign enterprise)
Everich Dynamic Investments Limited	BVI/PRC	Investment holding	1 share of US\$1 each (Limited liability company)
Ryan Pacific Limited	BVI/PRC	Investment holding	1 share of US\$1 each (Limited liability company)
Star Group Limited	HK/HK	Investment holding	2 ordinary shares of HK\$1 each (Limited liability company)
Sinovest Limited	BVI/PRC	Investment holding	1 share of US\$1 each (Limited liability company)
Wheaton International Limited	BVI/PRC	Investment holding	1 share of US\$1 each (Limited liability company)
Wisetech Limited	BVI/PRC	Dormant	1 share of US\$1 each (Limited liability company)

None of the subsidiaries had any debt securities subsisting at 31 December 2006 or at any time during the year.

Financial Summary

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2002 US\$ (restated)	2003 US\$	2004 US\$ (restated)	2005 US\$	2006 US\$
Turnover	2,443,946	2,906,501	2,670,343	3,118,649	5,443,293
Profit from operations after finance costs	5,979,199	13,748,045	433,886	11,152,435	136,552,868
Share of results of associates	407,410	261,272	785,508	(1,301,764)	1,203,233
Taxation	(1,798,974)	(1,920,493)	(116,917)	(2,020,645)	(22,338,826)
Profit attributable to equity shareholders	4,587,635	12,088,824	1,102,477	7,830,026	115,417,275

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2002 US\$ (restated)	2003 US\$	2004 US\$	2005 US\$	2006 US\$
Total assets	134,934,098	146,920,961	147,415,428	157,459,741	313,622,217
Total liabilities	(6,693,966)	(8,067,076)	(8,384,890)	(10,788,779)	(50,750,107)
Shareholders' funds	128,240,132	138,853,885	139,030,538	146,670,962	262,872,110